IMAGINE A BETTER PLACE

2011 ANNUAL REPORT

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.

STRONG RESULTS

STRONG AND CONSISTENT EARNINGS GROWTH, WHILE STRENGTHENING MARKET LEADERSHIP POSITIONS AND CONTINUING TO INVEST FOR LONG TERM GROWTH.

Consistent earnings growth

$996.4M

Sales revenue increased by 3.4% to $996.4 million.

$134.7M

Earnings before interest and tax (EBIT) was $139.2 million. Excluding the $4.5 million insurance uplift, EBIT was $134.7M, up 9.1% over 2010 pro forma EBIT.

$93.2M

Statutory NPAT of $93.2 million.

$77.6M

NPAT was $77.6M excluding a one-off tax consolidation adjustment of $12.5 million and a $4.5 million ($3.1 million after tax) uplift relating to insurance income associated with the Rocklea flood. This is an increase of 8.5% over the 2010 pro forma NPAT, before one-off demerger costs, of $71.5 million.

15.0 cents

Final dividend of 7.5 cents per share fully franked. Taking the full year dividend to 15.0 cents, which represents a 70% payout ratio on NPAT before the tax consolidation adjustment and flood insurance uplift.

Resilience shines through

- Strong operating result, with earnings increasing despite challenges of Queensland flood and mixed market conditions
- Sales growth achieved despite an estimated 2% sales lost as a result of loss of production at Rocklea following the Queensland flood
- Rapid and effective supply recovery following the flood at Rocklea
- Australian market leadership position enhanced, with strong momentum across all major categories and both retail and trade channels
- The resilience of the home maintenance and improvement sector has again been demonstrated, in contrast to more cyclical new construction and discretionary retail sectors

Investment for growth

- Reinforced and built upon DuluxGroup's market leading positions
- Continued year on year increases in marketing investment
- Ongoing investment in research and technology
- Significant capital program completed, including the New Zealand paint factory upgrade, the new Melbourne protective coatings factory and post-flood Rocklea rebuild activity
- China platform enhanced through merger with Camelpaint

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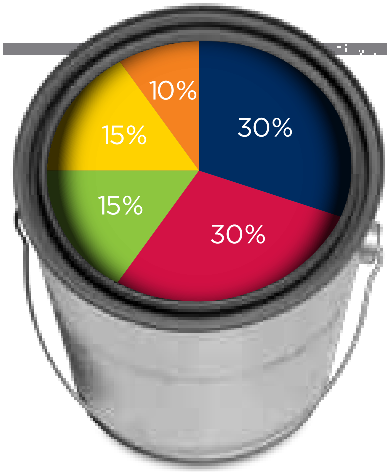
About DuluxGroup

DULUXGROUP IS A MARKETER AND MANUFACTURER OF PREMIUM BRANDED PRODUCTS THAT ENHANCE, PROTECT AND MAINTAIN THE PLACES AND SPACES IN WHICH PEOPLE LIVE AND WORK.



2011 SALES BY PRODUCT SECTORS

- **30%** Retail Paints
- **30%** Trade Paints
- **15%** Other Coatings
- **15%** Preparation and Home Care
- **10%** Garden Care

FROM HOUSEHOLD ROOMS TRANSFORMED BY COLOUR AND TEXTURE, TO THE GARDEN BURSTING WITH SPRING FLOWERS AND KITCHEN TILES REPAIRED TO SPARKLING CONDITION, TO THE COATINGS THAT PROTECT LANDMARKS, SUCH AS THE SYDNEY HARBOUR BRIDGE, DULUXGROUP PRODUCTS ARE AT WORK. OUR PRODUCTS HAVE BEEN WOVEN INTO THE FABRIC OF THE COMMUNITIES WHERE WE OPERATE, TO ENHANCE CONSUMERS' LIVES.

Consisting of four business segments, DuluxGroup employs approximately 2,800 people in Australia, New Zealand, Papua New Guinea, South-East Asia and China.

OUR BUSINESSES

Paints Australia

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

Paints New Zealand

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

Selleys Yates

Australia and New Zealand's leading marketer and manufacturer of home improvement and garden care products. Selleys makes products for the decorating, household, cleaning, building and construction, and auto care markets, including adhesives, sealants, fillers and paint brushes. Yates' portfolio contains a vast range of garden products, including fertilisers, plant protection products, garden accessories, lawn seeds and potting mixes.

Offshore and other

Home to Australia and New Zealand's leading marketer and manufacturer of powder, refinish, and industrial coatings, Dulux paints in Papua New Guinea and DuluxGroup's China and South-East Asia businesses known as DGL International.

OUR BRANDS

DuluxGroup's brands date back more than 100 years. Brands such as Dulux, Selleys, Yates and Cabot's have become household names and have the highest consumer awareness in their respective markets. Our brands are trusted and relied upon for their quality.

Our Iconic brands

OUR LOCATIONS

DuluxGroup has 13 main manufacturing sites and a comprehensive supply chain network that spans Australia, New Zealand, PNG, China and South-East Asia.

- 13 Main Manufacturing Sites
- 13 Distribution Centres
- 72 Dulux Trade Centres

OUR CORE PURPOSE

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

OUR STRENGTHS

Our people and culture

DuluxGroup's people span many geographies and cultural backgrounds. They have developed industry leading expertise and deep experience in areas as diverse as marketing, chemistry, colour trends, finance, horticulture, sales, engineering and materials handling. Yet they have united to develop a common set of values that guide them in delivering our core purpose. Those values, which underpin DuluxGroup's success, 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

Driven by these values, DuluxGroup's people continue to find smarter, market leading solutions for consumers and our retail and trade customers. This quest to improve – our standards, our products, our services – is supported by an entrenched culture of operating with integrity, strong financial discipline and a commitment to care for the safety of colleagues and the communities within which we operate.

Proven business fundamentals

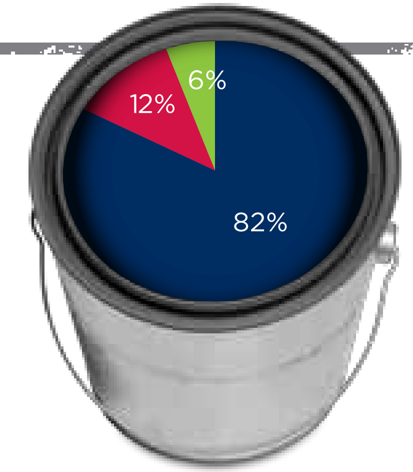
DuluxGroup has established market leading positions by building a strong relationship with consumers who know and trust our brands.

Our world-class research and technology centres take inspiration from consumers and a global knowledge base to develop product innovations that surprise and delight. We invest in world-class manufacturing plants where those innovations are brought to life in products that are rigorously tested to ensure they are worthy of bearing the badge of our iconic brands.

Our sales force – the biggest and most effective in the business – supports an enviable network of trade professionals and our important retail customers in meeting the needs of our consumers in store.

All of those elements work seamlessly to ensure not only a strong and sustainable competitive advantage and stable earnings but also a platform for compelling growth options.

DuluxGroup's strengths

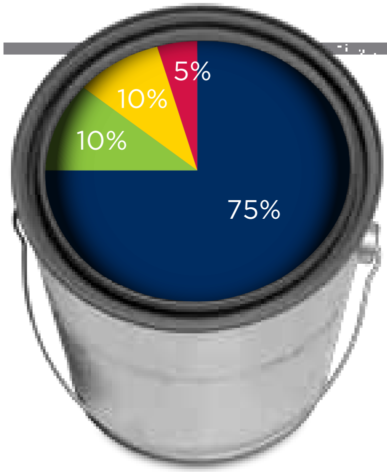


2011 SALES BY GEOGRAPHY

- **82%** Australia
- **12%** New Zealand
- **6%** Asia & PNG

DuluxGroup holds market leading positions in Australia, New Zealand and PNG with exposure to the higher growth regions of Asia.

About DuluxGroup



2011 SALES BY END MARKET

- **75%** Maintenance and home improvement
- **10%** New Residential Housing
- **10%** Commercial Construction
- **5%** Industrial

DuluxGroup is deliberately leveraged to home improvement and renovations, rather than new housing. Earnings have consistently proven to be relatively resilient even in challenging market conditions.

STRATEGY AND GROWTH

DuluxGroup's brands have been developed over more than a century to achieve market leadership positions in Australia, New Zealand and Papua New Guinea (PNG) and strong footholds in targeted segments of high growth Asian markets. DuluxGroup's strategy is clear.

1. Continue to grow leading positions in domestic markets

In our existing core markets of Australia and New Zealand we continue to invest in key capabilities including innovation, marketing and customer service to achieve growth across product categories.

Our focus is on stimulating greater consumer demand for our products and services, growing the market and profitably growing market share.

- We seek leadership positions in premium, higher margin segments.
- We build those positions by investing in our key capabilities to ensure sustainable competitive advantage and to stimulate growth.
- We maintain a relentless focus on financial discipline and productivity improvement.
- We continue to reinvest in the right assets to enable growth.

2. Logical Australian and New Zealand additions

We seek opportunities to grow our Australian and New Zealand position in premium product categories adjacent to our paints, home improvement and garden care businesses, including through bolt-on acquisitions where logical. In doing so, we look for opportunities where we can leverage our key capabilities, achieve cost synergies and increase our scale to compete.

3. Continued measured growth in targeted segments of Asia

Our DGL International business will continue to develop existing positions in targeted segments of high growth markets in Asia in a low risk manner – for the medium to long term.

We will build on our foothold position in China, established through our Opel wood coatings business in Shanghai, and on the Selleys position developed in South-East Asia over the past decade. In doing so we will target new business opportunities, including acquisitions, that are strategically sound and allow DuluxGroup to leverage its existing capabilities and expertise.

The merger between DGL International and Hong Kong based Camelpaint, expected to complete in late 2011, will strengthen our growth platform in China and Hong Kong. DuluxGroup holds the majority interest in this merger and has worked with Camel since 2004 in the Camel Powders joint venture. Camel is a good strategic complement to the DGL International business in terms of its product and geographic markets and technical expertise. The merger provides measurable cost synergies, increased scale to compete and local market expertise and capability.

Our growth strategy

DULUXGROUP AIMS TO CONTINUE TO DELIVER SOLID GROWTH AND STRONG CASH FLOWS FROM EXISTING BUSINESSES AND DEVELOP FURTHER GROWTH OPTIONS IN A MEASURED, LOW RISK MANNER.

Grow our Australian and New Zealand position in premium product categories adjacent to our businesses, including through bolt-on acquisitions, where logical	**Build on our market leading positions in Australia, New Zealand and PNG**	Build on our foothold positions in Asia, in a measured way, for medium to long-term growth

DuluxGroup has a clear core purpose, a proven growth strategy and people who are inspired and rewarded by a performance-based culture to achieve value for our customers, consumers, shareholders and our communities.

Chairman's report

Peter Kirby Chairman

Dear fellow shareholders

It has been an eventful first full year for DuluxGroup as a stand-alone company. Our Company achieved further improvement in profits, despite conditions being patchy in some geographic markets. The business also faced the challenge of its major Australian paint factory at Rocklea in Queensland being unable to manufacture for two months and not fully operational for six months because of significant damage from the floods in January.

We continued to see positive growth in Australian coatings and home improvement, across both the retail and trade segments. This contrasts with New Zealand where those markets continued to be weak, particularly the retail segment. The Australian and New Zealand garden care markets benefited from improved weather conditions. Earnings in our offshore markets generally were negatively impacted by the translation effects to a strong Australian dollar. Increasing commodity input costs are impacting paint markets globally.

Despite those relatively tough conditions this year, DuluxGroup continued to grow and achieve very good results.

DuluxGroup's premium brands are deliberately targeted at the improvement and renovations sector of existing homes, which has consistently proven to be relatively resilient and deliver stable earnings through economic cycles. Only 10 per cent of our business is derived from the more cyclical new housing segment, which continued to slow-down in Australia and New Zealand this year.

That strategy, combined with effective risk mitigation and disaster recovery planning, underpins this year's result.

Excluding the benefit of a one-off tax consolidation adjustment of $12.5 million and an insurance uplift of $4.5 million ($3.1 million after tax), net profit after tax (NPAT) was $77.6 million, an increase of 8.5% over 2010 pro forma NPAT.

Earnings before interest and tax (EBIT) increased 12.7% to $139.2 million, including an insurance uplift of $4.5 million. Excluding the insurance gain, EBIT was up by 9.1%. Sales revenue increased by 3.4% to $996.4 million.

The Board has declared a final dividend of 7.5 cents per share, fully franked, representing a 70 per cent payout ratio.

Our balance sheet has a conservative level of debt. DuluxGroup's recently extended bank facilities are multi-currency and in three tranches with maturation dates of three, four and five years respectively from November 2011. This provides a solid level of liquidity and the confidence to fund prudent growth opportunities as they arise.

In our existing core markets of Australia and New Zealand we continue to invest in key capabilities, including technical innovation, marketing and customer service to achieve organic growth across product categories. At the same time, we are seeking opportunities to grow in premium product categories adjacent to our paints, Selleys and Yates businesses, where we can leverage our capabilities and achieve cost synergies. This includes through bolt-on acquisitions, where logical.

An important part of our growth strategy is investing in the right assets. During 2011 the significant upgrade of our 70 year old water-based paints factory in Wellington was completed and officially opened by the New Zealand Prime Minister. During the year, a new Protective Coatings plant at Dandenong in Victoria was commissioned. We also purchased a smaller scale paint factory at Glen Waverley in Victoria, which will provide greater flexibility and risk mitigation in our manufacturing and supply chain.

For the medium to long term we are continuing to invest in opportunities to grow our foothold positions in China and South-East Asia, where strong market growth is forecast. The DGL International business in China experienced a challenging trading environment this year, particularly in its core Shanghai woodcare market. This was largely due to government constraints being imposed to regulate growth within the residential property sector.

Towards the end of 2011, DuluxGroup reached agreement to merge the DGL International business in Hong Kong and mainland China with Hong Kong based Camelpaint Chemicals Company to create joint venture company DGL Camel International. DuluxGroup holds the majority interest in DGL Camel. Camelpaint is a family owned business dating back 80 years and the third generation will continue to play an active role in DGL Camel. We have a sound history of working together, having been joint venture partners in DGL Camel Powder Coatings in mainland China since 2004.

This new joint venture is a low risk growth option, providing increased scale and greater geographic reach into Hong Kong and Southern China. There are opportunities to leverage the expertise and customer relationships in each company's respective markets. In addition to this we are also seeking other small growth opportunities, including the Selleys position developed in South-East Asia over the past decade.

During the year we made good progress towards our sustainability goal of 'A future without harm'. DuluxGroup is not liable to pay the recently introduced carbon tax, based on the low level of direct emissions from its operational sites. Nonetheless, we continue to implement a number of initiatives to reduce the impact of our operations on the environment. The Company improved its performance in relation to water consumption, however, waste generation increased as a result of additional flood recovery related works.

Despite some challenging conditions this year, including natural disasters in our core Australian and New Zealand markets, the Company continued to deliver resilient earnings and profit growth. On behalf of the Board and our shareholders, I would like to thank Patrick Houlihan and all employees for their efforts this year. I would particularly like to recognise the tremendous work undertaken to respond to, and recover from, the temporary shutdown of our Rocklea paint factory earlier in the year. There has been no material impact on earnings and, importantly, we do not anticipate any long-term loss of market share. This very pleasing result reflects a combination of very well managed disaster response and effective risk mitigation, which includes having appropriate insurance coverage. Our customers have also been most patient and helpful.

DuluxGroup employs about 2,800 people spanning a number of different geographies and backgrounds. A priority for the Board this year has been ensuring that the Company values and benefits from the diversity of its employees. A diversity policy has been agreed and a number of steps are already in place, including the establishment of a Diversity Council chaired by Patrick Houlihan, which will regularly report to the Company's Remuneration and Nominations Committee.

In 2011 the Board has continued the same remuneration structure for senior executives, which has worked well for shareholders. The components of fixed annual salary with short and long-term incentives continue to be independently reviewed and benchmarked against peers. I refer shareholders to the remuneration report enclosed for more details.

During the year we welcomed Judith Swales and Andrew Larke to the DuluxGroup Board, as non-executive directors. Judith and Andrew's respective expertise and background are a good complement to those of fellow Board members.

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

I am confident DuluxGroup will continue to perform and grow in the year ahead. We have the right strategy in place and a team of high calibre and committed employees to deliver it. I look forward to the next opportunity to update you on your Company's success.

"DuluxGroup's premium brands are deliberately targeted at the improvement and renovations sector of existing homes, which has consistently proven to be relatively resilient and deliver stable earnings through economic cycles."

Note: Comparisons to prior year are made to 2010 pro forma. Refer to explanation of 2010 pro forma set out on pages 10–15.

Managing Director's report

Patrick Houlihan
Managing Director and CEO

Dear Shareholder

I am pleased to report another successful year at DuluxGroup in which the business improved performance and strengthened its platform for ongoing profitable growth.

To deliver an 8.5% increase in underlying profits, despite some significant challenges this year, reflects the resilience of our strategy and sound financial discipline.

Our largest operating segment, the Australian Paints business, achieved a record result with sales up 4.3% and underlying earnings up 11.4% to $102.4 million. Sales growth was achieved despite an estimated 3% loss of sales as a result of our main paint factory not being fully operational for six months due to damage from the Queensland floods in January. Importantly, there has been no material impact on earnings or on long-term market share. This is a reflection of very effective risk management and disaster recovery, combined with the consistent long-term investment in the fundamentals of iconic brands, innovation and customer service. This investment underpinned range review wins with major retail customers for both paints and wood coatings during the year. The trade segment also achieved strong results, reinforcing the importance of our broad distribution and extensive network of customer relationships.

The New Zealand Paints business was heavily impacted by the continued slow-down in consumer spending generally across the economy. Negative consumer sentiment was further exacerbated by the Christchurch earthquakes earlier in the year. While sales revenue increased 3.9% to $82.5 million and earnings declined 5.8% to $9.7 million, this was boosted by increased production to support the Paints Australia business while the Rocklea factory was offline. Earnings were also negatively affected by increased costs and depreciation associated with the significant upgrade of the 70 year old paint factory in Wellington and the transfer of protective coatings to the new Dandenong manufacturing site in Australia.

The Selleys Yates business delivered earnings of $30.5 million, up 5.5%. The positive result reflects profitable market share growth supported by continued investment in marketing and new product development, along with the benefits of ongoing productivity initiatives. Selleys sales were assisted by range review gains with key customers in Australia. Favourable gardening conditions in Australia and New Zealand saw revenue increases for the Yates business.

DuluxGroup's Offshore and Other business segment – comprising Dulux Powder, Refinish and Industrial Coatings, Dulux Papua New Guinea (PNG), and the South-East Asia and China businesses (known as DGL International) – delivered earnings of $7.7 million, down $2.2 million or 22.2%. Volumes in the core Shanghai wood coatings market were impacted by government constraints being imposed to regulate growth within the residential property sector. However, there were signs of improvement in the final 2011 quarter, with revenue above the prior year. The Powders, Refinish and Industrial Coatings business was impacted by the slow-down in new housing and commercial construction in both Australia and New Zealand. Our PNG business grew earnings in local currency, however the quantum of growth was lower on translation due to the strong Australian dollar.

Overall, this year's result was supported by sound financial discipline which saw resilience in earnings margins, despite rising input costs. Trade working capital was also effectively managed, despite the need to build higher than normal stock levels to recover from the Queensland flood impact.

I would particularly like to thank DuluxGroup's employees for their contribution to another successful year. One of the most critical elements working in our favour is the calibre of our people and the strong values that guide them. In this regard, a significant activity for the year was to refresh our stated Values and Behaviours to ensure that they remain relevant for DuluxGroup and its strategic growth path as a stand-alone company. Our employees from around the world collectively agreed upon four clear values to guide them in their day-to-day decision making and behaviour. Those 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

These values guide all of us at DuluxGroup to operate with integrity and in line with the expectations of our colleagues, our customers, shareholders and the communities within which we operate.

The refreshed culture reinforces DuluxGroup's long standing commitment to caring for the safety and well-being of our employees and the community. Although we improved on most measures of workplace safety compared to last year, a particular focus in the year ahead will be to reduce the number of employee and contractor minor injuries such as strains and sprains. Pleasingly, many of our employees made a positive difference in addressing some of the need in their local communities by volunteering their time and donating to a number of causes during the year.

This year also saw a number of changes to the DuluxGroup Executive team. Julia Myers was promoted to the role of General Manager of the Paints New Zealand business, replacing Patrick Jones who took up the position of General Manager of the Paints Australia business. Alan Preston, who has significant Asian paint industry experience, was appointed as General Manager of the DGL Camel International business. Finally, Michael McMullen joined DuluxGroup as the General Manager of Human Resources.

I would like to thank the DuluxGroup Board, particularly for their decisiveness and support of management in responding to the Queensland floods earlier in the year.

This year DuluxGroup has continued to deliver strong results in the face of unforseen challenges. The strength of the Company's strategic leadership position has it well placed for the future.

"To deliver an 8.5% increase in underlying profits, despite some significant challenges this year, reflects the resilience of our strategy and sound financial discipline."

Note: Comparisons to prior year are made to 2010 pro forma. Refer to explanation of 2010 pro forma set out on pages 10–15.

Review of operations and financial performance

PLEASE NOTE:

1. **The 2011 result has been impacted by the supply disruption at our Rocklea decorative paint factory due to the Queensland floods in January 2011.**
2. **The results for the prior period (2010) as outlined in the Financial Report are impacted by the restructuring activities in preparation for the demerger from Orica. In general, the prior year figures in this report are 'pro forma' to present a full 12 months performance of the businesses regardless of when they were acquired as part of this restructuring.**

RESULT HIGHLIGHTS

- **Sales revenue** of $996.4M increased by $32.5M (+3.4%). This growth was achieved despite the loss of production at Rocklea following the Queensland floods, which we estimate adversely impacted sales by approximately 2%.
- **EBIT** of $139.2M, inclusive of a $4.5M uplift from insurance following the Queensland floods (refer page 11). Excluding this amount, EBIT increased 9.1% to $134.7M.
- **Net Profit after Tax (NPAT)** was $93.2M, inclusive of a one-off tax consolidation benefit of $12.5M and the $4.5M insurance uplift ($3.1M after tax). Excluding these items, NPAT was $77.6M, an increase of $6.1M (8.5%) over pro forma 2010 NPAT (excluding one-off demerger costs) of $71.5M.
- **Operating Cash Flow** (before tax, interest and dividends) of $137.3M, decreased by $12.0M (8.1%), adversely impacted by timing of insurance recoveries and post-flood stock build.
- **Net Debt** at $222.1M, up from $204.9M at September 2010.

OUTLOOK

Subject to economic conditions, we expect 2012 DuluxGroup underlying net profit after tax to be higher than that reported in 2011 ($77.6M).

Results summary			
Year ended 30 September			
A$M	2011 Actual	2010 Pro forma	% Change
Sales revenue	996.4	963.9	3.4
EBIT before insurance uplift	134.7	123.5	9.1
Total EBIT	**139.2**	**123.5**	**12.7**
Net interest expense	(23.1)	(22.1)	(4.5)
Tax expense	(22.9)	(29.9)	23.4
NPAT	**93.2**	**68.7**	**35.7**
NPAT before one-off items *	77.6	71.5	8.5
Operating cash flow, excl. tax and interest	137.3	149.3	(8.1)
Net debt (closing)	222.1	204.9	(8.4)
Diluted earnings per ordinary share (cents)	25.7	19.7	30.4
Final dividend per share (cents)	**7.5**	**3.0**	**nm**

* The one-off items in 2011 consist of a tax consolidation adjustment ($12.5M) and insurance uplift ($3.1M net of tax); the one-off item in 2010 consists of demerger costs ($2.8M net of tax).

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

PROFIT AND LOSS

Sales revenue of $996.4M increased by $32.5M (+3.4%) on last year. The sales result was driven by:

- Continued momentum in Paints Australia across both retail and trade businesses; and
- Strong growth in Selleys Yates due to market share gains within Selleys following success in new product development, positive outcomes from major retailer range reviews and growth in Yates, largely due to a stronger start to the financial year and improved gardening conditions in both Australia and New Zealand.

Partly offset by:

- Lost sales as a result of the loss of production at Rocklea following the Queensland floods (estimated at approximately 2% of DuluxGroup sales);
- Continued poor market conditions in New Zealand;
- Challenging conditions in our core Shanghai woodcare market; and
- Adverse impact on translation of foreign revenue to A$ (approximately $8M).

EBIT of $134.7M (before the flood insurance uplift) increased by $11.2M (+9.1%) on the previous year's pro forma EBIT, due to:

- Flow through effects of sales revenue variances in all businesses; and
- Disciplined cost and margin management, despite input cost pressures, particularly in paint, and ongoing investment in marketing, innovation and sales initiatives.

Queensland Flood Impact

We estimate sales lost as a result of the loss of production at Rocklea following the Queensland flood was approximately 2% of DuluxGroup sales. These lost sales impacted the Paints Australia segment.

The table below summarises the key flood impacts and insurance recovery amounts.

The estimated profit and loss impact of the flood in 2011 was approximately $60.5M, of which approximately 85% related to direct costs (e.g. tolling costs, stock and asset write-off, clean-up and repair costs) and approximately 15% related to the profit impact of the lost sales. However, the profit and loss impact alone does not capture the entire loss, as the insurance policy replaces assets at replacement cost, which is typically higher than the written down value. The replacement cost spent in 2011 on replacing damaged assets at Rocklea was $17.5M, an excess of $10.9M over profit and loss cost, being the written off book value of $6.6M. The total flood-related loss for the 2011 year was, therefore, approximately $71.4M ($60.5M profit and loss impact plus $10.9M difference between replacement cost and written down value for replaced assets).

The profit result for 2011 includes insurance income of $65M (recognised as other income). Of the $65M, $53.5M was received in cash at year end, with the remainder of $11.5M recognised as a receivable.

The recognition of $65M of insurance income results in an uplift of $4.5M over the estimated profit and loss impact of $60.5M. In assessing the underlying performance of DuluxGroup and the Paints Australia business, this $4.5M uplift has been deducted.

The overall cash flow impact is estimated at $34.8M for 2011. This is discussed later in this report.

Whilst the flood-related recovery activity was largely complete at year end, we expect a modest amount of further expenditure to impact 2012, mainly due to the completion and final payment of capital-related items.

Our insurance processes are well advanced, and we remain confident that the total claim will be satisfactorily finalised in the first half of 2012.

Queensland Flood Impact	$M
Flood Loss recognised in 2011 (before insurance income)	
2011 Profit and Loss impact (P&L costs + profit on lost sales)	60.5
less ... Fixed asset write-off (non cash)	(6.6)
add... 2011 Capital expenditure on replaced assets	17.5
Total 2011 Loss	**71.4**
Insurance Income recognised in 2011	
Insurance Income received in cash	53.5
add ... Insurance receivable	11.5
Insurance Income recognised in 2011 Profit and Loss	65.0
Insurance uplift calculation	
Insurance Income recognised in 2011 Profit and Loss	65.0
less ... 2011 Profit and Loss impact	60.5
Net Profit and Loss Insurance uplift	4.5
Estimated 2011 net cash flow impact	(34.8)

Additional insurance income is expected to be booked in 2012 to cover the difference between the final total loss and the $65M booked in 2011. Importantly, from a cash flow perspective, we expect that this additional income plus the $11.5M receivable will be received in cash in the first half of 2012.

OTHER ITEMS

Corporate Costs, at $15.6M, were $1.9M lower than pro forma 2010 costs ($17.5M). This favourable variance reflects savings achieved throughout the year, some minor favourable non-recurring variances, as well as differences between our estimate of $13M incremental stand-alone costs and actual costs incurred (partially timing-driven). We expect that on an ongoing basis, full year total corporate costs will be approximately $17M.

Net interest expense of $23.1M reflects an average cost of debt of approximately 9%. Interest expense was $1.0M higher than the 2010 pro forma net interest expense, due to higher average debt levels throughout the year caused by the adverse cash flow impact of the Rocklea flood.

Income tax expense of $22.9M includes a one-off tax consolidation benefit of $12.5M (an increase of $3.1M over the $9.4M recognised in the first half), which relates to the tax effect of recognising a deferred tax asset on the formation of the Australian tax consolidated group upon demerger. Excluding this amount, the effective tax rate was 30.5%.

Net Profit after Tax (NPAT) was $93.2M. Excluding the one-off tax consolidation adjustment of $12.5M benefit and uplift from flood insurance of $4.5M ($3.1M after tax), NPAT was $77.6M, which was $6.1M or 8.5% higher than 2010 pro forma NPAT (excluding one-off demerger costs) of $71.5M.

Final Dividend of 7.5 cents per share fully franked, taking the full year total to 15.0 cents, which represents a 70% payout ratio on NPAT before the tax consolidation adjustment and flood insurance uplift.

This report should be read in conjunction with the notes regarding the impact of the Queensland floods and the restructuring and demerger of DuluxGroup on page 10.

Review of operations and financial performance

BALANCE SHEET

Key movements in the Balance Sheet since September 2010 are:

- **Trade working capital** (TWC) has increased by $18.9M, largely as a result of the recovery activity following the Rocklea flood:
  - Inventory increased by $22.3M from September 2010, primarily due to additional stock built as part of the Rocklea flood recovery program and the impact of having to hold inventory of a wider range of products to support recent range review successes; and
  - Trade Debtors and Creditors movements largely reflected business growth.
- **Rolling TWC to rolling sales** (on a 12 month basis) at 12.1%, was consistent with September 2010 (12.0%).
- **Non-trade debtors** increased by $10.1M, largely due to the recognition of the $11.5M insurance receivable relating to the Queensland floods.
- **Tax balances** as a whole have increased by $5.9M, mainly due to the tax consolidation adjustment.
- **Net property, plant and equipment** increased by $42.5M from last year, largely due to spend on the New Zealand factory upgrade, the new protective coatings factory in Melbourne, replacement assets at Rocklea as a result of the flood and sustenance capital expenditure, offset by depreciation and assets written off at the Rocklea site in Queensland following the flood.
- **Non-trade creditors** were down by $7.1M, mainly due to the utilisation of the final earn out payments attributable to the acquisition of SOPEL in China in November 2008 and Envirosolutions in March 2008; and the timing of interest payments.
- **Defined benefit fund liability** has increased by $9.3M due to actuarial adjustments to the fund liability at September 2011.
- **Net debt** has increased by $17.2M (refer cash flow for explanation).

Balance Sheet A$M	Sept 2011 Actual	March 2011 Actual	Sept 2010 Actual
Inventories	135.7	121.2	113.4
Trade debtors	155.9	126.3	137.8
Trade creditors	(159.5)	(141.3)	(138.0)
Total trade working capital	132.1	106.2	113.2
Non trade debtors	16.8	20.8	6.7
Tax balances (DTA, ITP and DTL)	24.2	23.0	18.3
Net property, plant and equipment	196.4	159.9	153.9
Intangible assets	87.0	86.3	89.0
Non trade creditors	(34.2)	(35.2)	(41.3)
Defined benefit fund liability	(22.6)	(10.4)	(13.3)
Provisions (excluding tax)	(42.5)	(40.3)	(40.1)
Net debt	(222.1)	(190.6)	(204.9)
Net other assets	3.4	3.5	3.5
Net assets	**138.5**	**123.2**	**85.0**
Shareholders' Equity	**138.5**	**123.2**	**85.0**

This report should be read in conjunction with the notes regarding the impact of the Queensland floods and the restructuring and demerger of DuluxGroup on page 10.

CASH FLOW

- Net operating cash flows before interest and tax payments decreased by $12.0M (-8.1%):
  - EBITDA increased by $16.2M, reflecting the continued growth in cash profit;
  - Trade and non-trade working capital movements reflect the Balance Sheet movements discussed earlier; and
  - Other non cash primarily represents the write-off ($6.6M) of flood damaged fixed assets included within the EBITDA result.
- Total capital expenditure of $62M consisted of:
  - Minor capital expenditure ($13.5M);
  - Major capital expenditure ($23.1M), relating to the New Zealand upgrade and new Protective Coatings factory. Final payments totalling $4M will occur in 2012;
  - Acquisition of the Glen Waverley site ($7.9M); and
  - Replacement of flood-damaged assets at Rocklea ($17.5M).
- Acquisition/disposals of $4.3M in 2011. This mainly relates to the final earn out payment attributable to the 2008 acquisition of SOPEL in China.
- Cash conversion has dropped from the prior year level of 92.3%, predominantly due to the flood related items (refer to Statement of Cash Flows).
- We estimate that the cash flow impact due to the flood is $34.8M (adverse), per the flood impact schedule (right):
- The expected finalisation of our insurance claim in 2012 will have a positive cash flow impact.

Statement of cash flows*	Year ended 30 September		
A$M	2011 Actual	2010 Pro forma	% Change
Net operating cash flows			
EBIT	139.2	123.5	12.7
Add: Depreciation	18.1	17.5	3.4
Add: Amortisation	1.9	2.0	(7.3)
EBITDA	159.2	143.0	11.3
Trade working capital movement	(18.9)	(0.6)	nm
Non-trade working capital movement	(10.6)	5.4	nm
Other non cash	7.5	1.5	nm
Operating cash flows (excl. tax and interest)	**137.3**	**149.3**	**(8.1)**
Income taxes paid	(25.6)	*	
Net interest paid	(25.6)	*	
Operating cash flows	**86.1**	*	
Net investing cash flows			
Capital expenditure	(62.0)	(33.6)	(84.6)
Acquisitions/disposals	(4.3)	–	nm
Dividends from associates	0.5	0.5	–
Investing cash flows	**(65.9)**	**(33.1)**	**(99.0)**
Net financing cash flows			
Proceeds from issue of ordinary shares	1.3	*	
Dividends paid	(38.6)	*	
Financing cash flows before debt movement	**(37.3)**	*	
Total cash flow before debt movement	**(17.1)**		
Cash conversion [1]	**77.7%**	**92.3%**	

* Due to the demerger in the second half of 2010, the prior year (2010) cash flow only includes operating items presented on a pro forma basis. A comparison of the key line items between the prior year (2010) pro forma cash flows and the statutory cash flow statement is included as an appendix on page 17 of this report.

1 Cash conversion is calculated as EBITDA add/less movement in working capital and other non cash, less minor capital spend (excluding flood-related capital spend), as a percentage of EBITDA.

Queensland flood impact on cash flow	A$M	
EBITDA	4.5	Insurance uplift
Trade working capital	(9.0)	Additional inventory build
Non-trade working capital	(11.5)	Insurance receivable
Other non cash	6.6	Fixed asset write-off
Subtotal – operating cash	(9.4)	
Capital expenditure	(25.4)	Rocklea capital ($17.5M) + Glen Waverley ($7.9M)
Total	**(34.8)**	

This report should be read in conjunction with the notes regarding the impact of the Queensland floods and the restructuring and demerger of DuluxGroup on page 10.

Review of business segment performance

Paints Australia

EBIT
$106.9M

EBIT up
11.4% to $102.4M
excluding flood insurance uplift

Very strong result, despite the impact of the Queensland flood

Paints Australia	Year ended 30 September		
A$M	2011 Actual	2010 Pro forma	% Change
Sales revenue	580.6	556.5	4.3
EBIT	106.9	91.9	16.3
EBIT before flood insurance uplift	102.4	91.9	11.4
Normalised EBIT % Sales*	~17.0	16.5	

* Normalised EBIT % Sales has been calculated by taking the EBIT before insurance uplift, divided by Actual Sales revenue plus the estimated lost sales due to the flood. This provides a more accurate assessment of underlying margin performance because it removes the distortion effect of flood insurance accounting.

SALES REVENUE UP $24.1M (+4.3%)

- Underlying decorative paint market showed resilience, with market volumes growing over prior year (slightly faster than the long term average growth rate).
- Share gains over the year achieved despite flood impacts, with strong performances across all retail (decorative paint and woodcare) and trade (decorative paint, texture coatings and protective coatings) parts of the business.
- Lost sales due to the flood damage at Rocklea estimated at approximately 2% of DuluxGroup sales, which equates to approximately 3% within Paints Australia.
- The business has maintained broad distribution with good ranging across all major retail channels and through our trade network.

EBIT GROWTH OF $10.5M (+11.4%) BEFORE FLOOD INSURANCE UPLIFT

- Continued pressure on input costs, with double digit titanium dioxide increases the most significant. However, after taking account of the positive effect from the strong Australian dollar and cost saving initiatives, overall input cost increases were slightly greater than inflation.
- Pricing discipline, innovation, cost control and productivity assisted in maintaining overall EBIT margins.
- Marketing investment increased, particularly in the second half once Rocklea supply was restored.

FLOOD RECOVERY

- Rocklea is now fully operational. Some minor non-operational works (e.g. offices) are in final stages of completion.
- Our flood related third party tolling arrangements have now all been completed. We acquired the Freeworld site in Glen Waverley, which will add greater flexibility to our supply recovery in the event of a future Rocklea incident.

PAINTS AUSTRALIA – OUTLOOK

- Modest market growth expected in 2012.
- Raw material prices are expected to further increase, with 2011 'exit rates' above prior year. Further double digit increases in titanium dioxide are expected, but initiatives to mitigate (including cost savings) are well underway.
- Depreciation charge is expected to increase by approximately $3M due to the new protective coatings factory and the replaced assets at Rocklea.
- We continue to see opportunities for profitable share growth within this business.

This report should be read in conjunction with the notes regarding the impact of the Queensland floods and the restructuring and demerger of DuluxGroup on page 10.

Paints New Zealand

EBIT down
5.8% to $9.7M

Weak market conditions and input cost increases affect underlying result, partially offset by revenue and EBIT from manufacture to support Australian operations post Queensland flood

Paints New Zealand	Year ended 30 September		
A$M	2011 Actual	2010 Pro forma	% Change
Sales revenue	82.5	79.4	3.9
EBIT	9.7	10.3	(5.8)
EBIT % Sales	11.8	13.0	

SALES REVENUE UP $3.1M (+3.9%)

- Sales revenue was boosted by the New Zealand business providing production support for Paints Australia following the Queensland floods and adversely impacted by transfer of protective coatings manufacture to the new factory in Australia and foreign exchange translation.
- The New Zealand decorative paint market remained weak and is estimated to have declined approximately 4% in volume terms during the financial year. Most of the market decline has been experienced in the retail segment where discretionary spend remains weak in the face of rising cost of living. The Christchurch earthquakes in September 2010 and February 2011 have also contributed to the market weakness.
- Our business held share in this weak market and underlying revenue (excluding production for Australia and protective coatings exports) was flat.

EBIT DECLINE OF $0.6M (-5.8%)

- EBIT was impacted positively by the flood-related production for Australia, and adversely by the transfer of protective coatings manufacture to Australia, higher depreciation and non-recurring fixed costs due to the factory upgrade, costs associated with the Christchurch earthquake and on translation due to the stronger Australian dollar. Excluding these effects, like-for-like EBITDA declined by approximately 8%.
- Underlying margins contracted as net input cost increases (driven by titanium dioxide) were greater than in Australia, due to a lesser foreign exchange offset. Price increases were realised across all major sectors. Fixed costs increased modestly due largely to the investment in two new trade stores, with other costs well-contained. Margins were also adversely impacted by increased depreciation following the completion of the factory upgrade.

PAINTS NEW ZEALAND – OUTLOOK

- Weak market conditions are expected to continue for the remainder of calendar 2011 with some improvement expected in early 2012.
- The reconstruction activity in Christchurch is moving quite slowly given continued aftershocks, though a positive 2012 impact is expected.
- As per the Paints Australia outlook, input costs are expected to come under continued pressure.
- Excluding the revenue associated with manufacture for Australia (flood recovery and protective coatings), which will not form part of the business in 2012, the 2011 like for like sales base is approximately A$70M. This is a reasonable base from which to build 2012 projections.

Selleys Yates

EBIT up
5.5% to $30.5M

Growth driven by market share gains in Selleys and ongoing improvement in Yates business performance

Selleys Yates	Year ended 30 September		
A$M	2011 Actual	2010 Pro forma	% Change
Sales revenue	248.9	230.8	7.8
EBIT	30.5	28.9	5.5
EBIT % Sales	12.3	12.5	

SALES REVENUE UP $18.2M (+7.8%)

- Sales revenue for Selleys grew as a result of a strong new product development program and market share gains with key customers in Australia.
- Yates revenue grew and was supported by improved gardening conditions and a strong marketing campaign.

EBIT GROWTH OF $1.6M (+5.5%)

- Earnings growth in both Selleys and Yates. Slight overall margin contraction was predominantly due to sales mix following range reviews.
- Return on sales declined in Selleys as a result of one-off costs associated with new customer ranging and a mix effect, as this extended range now includes lower priced 'entry level' products.
- Yates profit growth continued to be supported by ongoing improvement initiatives.

SELLEYS YATES – OUTLOOK

- Further moderate market growth is expected in Australia, while the New Zealand market is expected to begin to recover during 2012.
- Focus will remain on stimulating consumer demand and growing profitable market share through increased new product development and customer share growth activity.
- We will continue to seek adjacent bolt- on acquisition opportunities to support organic growth plans for both Selleys and Yates.

Offshore and other

EBIT down
22.2% to $7.7M

Softness in China and Powder Coatings dilutes earnings

Offshore and Other	Year ended 30 September		
A$M	2011 Actual	2010 Pro forma	% Change
Sales revenue	113.8	123.5	(7.9)
EBIT	7.7	9.9	(22.2)
EBIT% Sales	6.8	8.0	

The Offshore and Other segment consists of the Dulux Powder, Refinish and Industrial Coatings Australia and New Zealand business ('Powder Coatings') the Dulux Papua New Guinea business and the South-East Asia and China businesses (known as DGL International).

SALES REVENUE DOWN $9.7M (-7.9%)

- The DGL International Asia business in China experienced a challenging trading environment during the year, particularly in the core Shanghai woodcare market:
  - Volumes impacted by government constraints being imposed to regulate growth within the residential property sector, increased price competition and Shanghai Expo (which increased the previous corresponding period); and
  - Signs of improvement in the last quarter of 2011, with revenue growth above prior year.
- PNG revenue continued to grow in local currency, largely due to market growth driven by investment in the gas, oil and mining sectors.
- Powder Coatings declined marginally, given its exposure to the new housing sector.
- Total segment revenue was adversely impacted by the translation of foreign revenue to A$ (approximately $5M).

EBIT DECLINE OF $2.2M (-22.2%)

- A weaker result in China, driven by revenue softness, raw material price increases and ongoing investment in capability for longer term growth.
- PNG earnings grew in local currency, though the quantum of growth was lower on translation due to the strong Australian dollar.
- A weaker result for Powder Coatings, largely attributable to the decline in sales.

CHINA STRATEGY UPDATE

- DuluxGroup announced on 2 November 2011 the merger of the DGL International business in China and Hong Kong with Camelpaint of Hong Kong to create DGL Camel International Limited. Refer page 16 for further details.

OFFSHORE AND OTHER – OUTLOOK

- Market conditions are expected to improve moderately in 2012. We have seen signs of improvement in China in the last quarter of 2011.
- We continue to seek opportunities to build on our Selleys positions in South-East Asia.

Review of business segment performance

OTHER ITEMS

China Merger

DuluxGroup Limited announced on 2 November 2011 the merger of its DGL International business in China and Hong Kong with Camelpaint of Hong Kong to create DGL Camel International Limited.

Camelpaint was established in Hong Kong in 1932. It is a leading manufacturer and marketer of a range of coatings products in Hong Kong and mainland China, mainly focused on the trade painter and industrial markets. DuluxGroup and Camelpaint have a successful history of working together, having been joint venture partners in DGL Camel Powder Coatings in mainland China since 2004.

DuluxGroup will hold 51% of DGL Camel International and the current General Manager of DGL International, Alan Preston, will be the General Manager of DGL Camel International. Kerwin Yan, current CEO of Camelpaint, will continue as a full-time employee and Director of DGL Camel International.

The newly formed company will manufacture, market and distribute coatings and associated products, including the Opel, Levene, Selleys, AcraTex and Camel product ranges.

The transaction involves a payment by DuluxGroup to Camelpaint to secure board and management control of the new company. The amount is not material to DuluxGroup. There are a number of conditions to be met prior to completion of the transaction, which is expected to occur by the end of the 2011 calendar year.

Debt Facility Renewal

DuluxGroup has recently renewed its $400M syndicated debt facility. Whilst the existing facility did not expire until April 2013 ($300M) and April 2015 ($100M), the Company felt that it was appropriate to capitalise on favourable borrowing conditions and renew early. The borrowing rate will be more than 1% lower than under the previous facility. In addition, the tenure of the facility is now more evenly spread with $100M expiring in one year (but with a DuluxGroup option to extend for a further three years), $150M expiring in three years and $150M in five years.

Depreciation

Due to the capital expenditure program in 2011 (including Rocklea post-flood renewal), depreciation and amortisation will increase in 2012 by approximately $3-4M.

This report should be read in conjunction with the notes regarding the impact of the Queensland floods and the restructuring and demerger of DuluxGroup on page 10.

APPENDIX: PRIOR YEAR COMPARISON BETWEEN FINANCIAL REPORT AND PRO FORMA FIGURES

As stated earlier, the 2010 results in the Financial Report include the progressive transfer of DuluxGroup's operations into the DuluxGroup Limited ownership structure, and therefore do not reflect a full 12 month operating result. The Australian and New Zealand businesses were transferred in on 1 December 2009 and the others were progressively transferred over the remainder of the year, as outlined at the front of this report. Therefore, for revenue and EBIT, the variation between Financial Report numbers and the pro forma numbers is predominantly due to the trading results before the businesses were transferred (e.g. October and November results for Australian and New Zealand businesses). In relation to net interest expense, the Financial Report figures include a blend of inter-company interest (pre-demerger) and external interest (post-demerger). The pro forma figures reflect management's estimate of the net external interest expense that would have been incurred if DuluxGroup had been a stand-alone listed company with external borrowings for the full 12 months.The Financial Report tax expense reflects the lower income (for the reasons outlined above) plus various demerger related one-off adjustments. The effective tax rate per the Financial Report is 28.5%. Pro forma Tax has been calculated using an effective tax rate of 29.5%.

The table at the right is provided to compare key line items between the statutory cash flow in the Financial Report and the abbreviated pro forma cash flow.

The abbreviated pro forma cash flow has been based on the underlying operating figures of the DuluxGroup businesses as if they were owned by DuluxGroup Limited for the full 12 months. However, the pro forma cash flow has not been adjusted to reflect the impact of a capital structure. Therefore, interest, tax, debt and equity movements (including dividends) have not been included. In addition, one-off demerger costs and ongoing stand-alone costs have been excluded. For any other items where there is a value in the Financial Report cash flow and no corresponding value in the pro forma cash flow, this typically reflects demerger related transactions.

Profit and Loss comparison (A$M)

A$M	2010 Financial Report	2010 Pro forma	%
Revenue	775.7	963.9	80.5
EBIT	103.1	123.5	83.5
Net Interest	(13.4)	(22.1)	60.8
Tax expense (pre one-off demerger cost)	(25.6)	(29.9)	85.7
NPAT pre one-off demerger cost	64.1	71.5	89.7
One-off demerger costs (net of tax)	(2.8)	(2.8)	100.0
NPAT post one-off demerger costs	61.3	68.7	89.2

Cash flow comparison (A$M)

A$M	2010 Financial Report	2010 Pro forma
EBITDA	119.5	143.0
Movement in trade working capital	(81.9)	(0.6)
Movement in non-trade working capital	7.1	5.4
Interest received	0.2	*
Interest paid	(9.2)	*
Income taxes paid	(81.9)	*
Other	–	1.5
Net cash inflow from operating activities	**10.7**	**149.3**
Cash flows from investing activities		
Payments for property, plant and equipment	(29.8)	(33.6)
Payments for intangibles	(0.7)	*
Payments for purchase of businesses and controlled entities	(310.7)	*
Proceeds from joint venture distributions	0.5	0.5
Proceeds from sale of property, plant and equipment	0.7	*
Net cash outflow from investing activities	**(340.1)**	**(33.1)**
Net cash inflow from financing activities	**371.9**	*

* Not calculated in 2010 for pro forma.

The EBITDA difference is due to the same drivers as outlined in the profit and loss comparison on the previous page. The significant adverse trade working capital movement in the statutory cash flow reflects the structuring within the demerger itself, predominantly relating to the transfer of working capital balances for the Australian businesses in December 2009.

For all other items where there is a comparison, the differences primarily relate to the progressive transfer of the assets from Orica to DuluxGroup.

DuluxGroup Safety and Sustainability Report 2011

WELCOME TO THE 2011 DULUXGROUP LIMITED SAFETY AND SUSTAINABILITY REPORT. THROUGHOUT THE YEAR DULUXGROUP CONTINUED TO IMPROVE ITS MANAGEMENT OF SIGNIFICANT RISKS VIA OUR KEY IMPROVEMENT STRATEGIES, AS OUTLINED IN OUR 2010 REPORT. WHILE PROGRESS WAS MADE ON THE MAJORITY OF MEASURES, FURTHER IMPROVEMENT IS NEEDED ON OTHERS.

SAFETY AND SUSTAINABILITY STRATEGY

An integrated approach to management of risks associated with the activities of our people, operations and products means that all DuluxGroup businesses operate within a common safety and sustainability strategic framework. In order to achieve DuluxGroup's vision of "A Future Without Harm", our priorities are focused on the following areas:

- People: Fatality Prevention, Personal Safety, Health and Well-being, and Community Engagement.
- Operations: Process Safety, Waste Generation, and Water Consumption.
- Products: Solvents (VOCs), Chemicals of Concern, Non-renewable Resources, Carbon Footprint and Post-consumer Waste.

Achievement of our vision is enabled by four specific improvement strategies comprising multi-year action plans:

- Process Safety Strategy: focused on management of manufacturing process hazards that could result in low probability, high consequence incidents such as a major fire or multiple fatalities.
- Fatality Prevention Strategy: focused on management of significant risks that are known common causes of single fatality incidents across many industries such as driving vehicles and forklifts.
- Personal Safety Strategy: focused on management of common workplace risks that can result in recordable injuries such as strains and cuts.
- Sustainability Strategy: focused on management of other material social or environmental aspects associated with our business activities (e.g. product stewardship, waste to landfill, employee health and well-being).

This strategy is linked to a continuous improvement culture, reinforced by targeted improvement plans and measurable performance indicators.

SAFETY AND SUSTAINABILITY GOVERNANCE

Safety and Sustainability governance across DuluxGroup is achieved via a combination of regular management reviews and established due diligence processes. The key elements include:

- A Safety and Sustainability Board Committee. The committee meets quarterly to review performance, objectives and strategies.
- A Safety and Sustainability Council comprising Group Executive representatives. The Council meets quarterly to review performance, approve strategy, monitor implementation, and review findings.
- An annual Safety and Sustainability Letter of Assurance (LoA) process whereby all sites and businesses report on performance against Company standards.
- A corporate audit program involving auditing of sites and businesses to assess compliance with Company standards and progress on improvement actions.

All line managers are responsible for managing safety and sustainability risks, supported by a number of dedicated specialists.

SAFETY AND SUSTAINABILITY PERFORMANCE

1. People

Fatality Prevention

During 2011 we developed our first Fatality Prevention Protocol for Driver Safety, with implementation to be completed during 2012. Employees driving vehicles for work related purposes is one of our most significant fatality risks and the protocol mandates the minimum standards required of all employees in order to reduce their overall risk exposure while driving.

Personal Safety

The Lost Workday Case Rate (per 200,000 hours) decreased to 0.95 from 1.03 in 2010. While it is encouraging that we achieved an 8% reduction in our most severe injuries, it was disappointing that our total Recordable Case Rate (per 200,000 hours) increased to 1.96 compared to 1.81 in 2010, reflecting an increase in the numbers of less severe recordable injuries. Analysis shows that the most common injuries were strains associated with manual handling (43%) and minor cuts, typically to hands (20%). The increased numbers of injuries were largely associated with two of our coatings manufacturing plants, where major capital project activities were undertaken (including the Dulux Rocklea flood recovery). While it is very pleasing that no low frequency-high consequence outcomes (e.g. fatalities) occurred, reviews are being conducted to identify lessons for management of future major projects.

We encourage our employees to report all incidents which have the potential to cause harm. Total General Learning Incidents ("near misses") reported per employee increased from 1.32 in 2010 to 1.92. This continued improvement in proactive reporting reflected the strong focus developed in recent years on identifying hazards that could cause injury or other types of incidents before harm occurs.

Hygiene monitoring programs to measure employee exposure to hazardous substances were conducted at our manufacturing sites, and 99.4% of results were below the relevant occupational exposure limit (OEL). Health assessment monitoring programs to monitor employees working with particular hazardous substances or agents were fully completed to plan.

Health and Well-being

Dulux Australia launched a new "Fit for Life" program that was rolled out across the Paint Specialists business, including all trade store employees. This education program focuses on personal health and well-being, proactive injury management, and workplace hazard identification. Selleys Yates Padstow and Dulux New Zealand continued with their existing health and well-being programs, introduced in prior years.

Community Engagement

DuluxGroup continued to work with our local communities during the year. Some examples from 2011 include:

- DuluxGroup PNG established a sponsorship with the Port Moresby Botanical Gardens to assist with their restoration.
- Selleys, Yates and Dulux employees from Padstow participated in the Clean Up Australia program for the 12th consecutive year.
- DuluxGroup employees donated to the Queensland Premier's Disaster Relief Appeal following the devastating Queensland floods, with the Company matching that amount.
- Dulux New Zealand donated paint to assist Lower Hutt Council with a graffiti paint out day involving 80 members of the public.

2. Operations

Process Safety

Our focus on improved process safety management to prevent low frequency-high consequence incidents (e.g. fire or explosion) at our manufacturing sites continued during 2011, with successful commencement of the Periodic Hazard Study process at Dulux Powders Glenfield. This involves an analysis of hazards over a number of months and a review of the effectiveness of relevant critical risk controls. Our Dulux Rocklea, Selleys Padstow and Yates Wyee sites all made good progress towards completing improvement actions following completion of their Periodic Hazard Studies in prior years. There were no serious process safety incidents or near misses (e.g. fire or spill) across the business during 2011.

Acquisition Integration

Integration of acquisitions remained an important priority during 2011, especially for operating sites with significant process safety and fatality risks. Our DGL International Shanghai manufacturing site continued to make strong progress against their integration plan, with the majority of actions now nearing completion. The recently acquired Dulux Australia Glen Waverley manufacturing site has commenced implementation of improvement actions following completion of a significant risks audit immediately after acquisition.

Resources and Environment

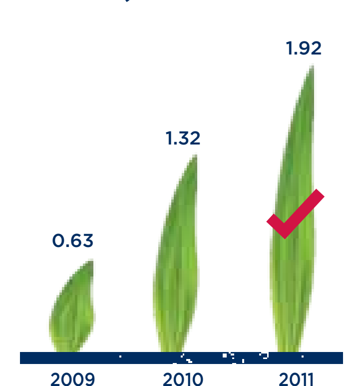
Water consumption (kilolitres per tonne of production) decreased 4% to 0.53 kL/t. This decrease was largely associated with reduced water consumption at Yates Wyee following decommissioning of the site process water dam in late 2010.

Waste generation (kilograms per tonne of production) increased by 14% to 18.9 kg/t. This significant increase was due to Rocklea flood recovery works. Improvements in waste reduction were achieved at a number of sites. Our Dulux Powders Dandenong and Glenfield manufacturing sites achieved a combined 44% reduction in waste to landfill (a reduction of >200 tonnes per year) through identification of recycling opportunities.

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 Recordable Case Rate for 2011 was 1.96 compared with 1.81 in 2010.

TOTAL GENERAL LEARNING INCIDENTS (PER EMPLOYEE, PER YEAR)



We encourage our employees to report all incidents which have the potential to cause harm. General Learning Incidents are near miss incidents and hazards that allow the Company to identify and correct potential hazards before harm occurs. Total General Learning Incidents reported per employee improved to 1.92 in 2011 compared with 1.32 in 2010.

DuluxGroup Safety and Sustainability Report 2011

Total operational energy consumption (gigajoules per tonne of production) decreased by 1% to 0.77 GJ/t. Carbon dioxide emissions (tonnes per tonne of production) decreased by 6% to 0.15 t/t. These decreases were largely associated with a 12% reduction in energy use at Yates Wyee due to variations in product mix.

DuluxGroup meets the criteria for reporting under the Australian National Greenhouse and Energy Reporting System (NGERS), primarily due to use of solvents as raw materials. This is reflective of our business carbon life cycle analysis, where raw materials and their supply (Scope 3) comprise the majority of our carbon exposure, and operational energy use represents only a minor component. Operational energy consumption and greenhouse gas emissions from our Australian activities (e.g. facility electricity consumption, fleet car fuel consumption) are both below the NGERS reporting and proposed carbon tax thresholds. Our operational total greenhouse gas emissions (Scope 1 and 2) from DuluxGroup's Australian sites and business activities were 26,813 tonnes (CO_2-e or equivalent carbon dioxide emissions). Total energy consumed was 424,627 GJ.

Dulux Acratex Beverley achieved certification to ISO 14001 Environmental Management Systems in 2011, the first Dulux Australia business to achieve this accreditation. This follows the achievement of certification by Dulux New Zealand Gracefield in 2009.

Regulatory Compliance

DuluxGroup received six penalty infringement notices and one regulatory warning for breaches of regulatory compliance conditions during 2011, compared with two non-compliances in 2010. Each of these non-compliances has been fully investigated and appropriate corrective actions implemented to prevent a recurrence.

Legacy Issues

The Company has undertaken a number of investigations in prior years to identify potential soil and groundwater contamination issues. Selleys Padstow commenced remediation of an identified area of polychlorinated biphenyl (PCB) soil contamination in 2011, with works to be completed early in 2012. While the contamination was contained and posed no identifiable risks during continued site operation, the opportunity to excavate and remediate the area presented itself, during the required repair of a concrete surfaced drum storage area.

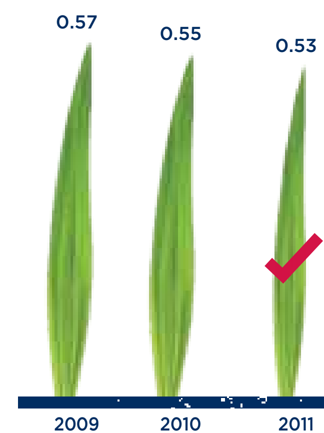
3. Products

Product Stewardship

Our product stewardship processes continued to deliver further improvements in the material safety and sustainability aspects of our products during 2011. Innovation represents a key enabler to our success in continuing to develop a product portfolio with lower risks to people, the environment and our community. Some examples from 2011 include:

- Solvents (VOCs): Selleys launched 3 in 1 Adhesive Sealant and Gap Filler, a multi-purpose product based on an innovative silicone based technology that is both isocyanate and solvent free.
- Community Safety: Dulux Australia received the 2011 Aerosol Association of Australia award for Corporate Social Responsibility in recognition of the development of Dulux Spraypak aerosol paints that discourage chroming due to low levels of aromatic solvents.
- Consumer Safety: Yates released new Ratsak rodenticide packaging with child resistant closures to enable safe storage of larger packages in the consumer's home.

WATER CONSUMPTION (kL/t)



Water consumption (kilolitres per tonne of production) across company operating sites decreased to 0.53 kL/t in 2011 from 0.55 kL/t in 2010. Approximately 44% of all water consumed is used in formulation of water based products and does not contribute to waste or effluent discharged.

WASTE GENERATION (kg/t)

Waste generation to landfill (kilograms per tonne of production) across company operating sites increased to 18.9 kg/t in 2011 from 16.6 kg/t in 2010.

This significant increase was due to Rocklea flood recovery works.

Excluding the additional flood recovery works, waste generation decreased.

- Post Consumer Waste: Dulux New Zealand continued to run the "Take Back" program for waste paint and packaging, whereby trade customers can return waste materials for recycling. More than 43,000 litres of paint and 70,000 used packaging containers have now been collected for recycling since the scheme commenced in October 2009.
- Carbon Footprint: Dulux Powder and Industrial Coatings Australia continued work on an exciting two year collaboration project with CSIRO and GMH, with funding from EPA Victoria, to commercialise powder coated automotive plastics that will eliminate waste and solvent (VOC) emissions associated with current liquid coatings.

Community Safety

The Company's Emergency Response Service responded to 554 calls during 2011 involving incidents with our products, primarily during consumer use (e.g. inadvertent exposures, spills). This compared with 323 calls in 2010 and reflects increased use of the emergency number on product packaging, particularly, Ratsak rodenticide packaging. This service provides immediate emergency support to our consumers 24 hours a day.

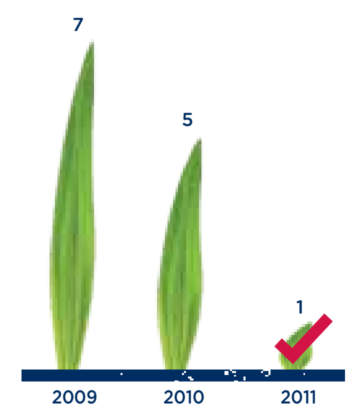
Serious incidents during distribution of our products to customers (Category 2+ Distribution Incidents) decreased from 5 in 2010 to 1 in 2011. This pleasing result represents a continued decline in numbers of these incidents over the last three years and reflects a number of improvement initiatives implemented with our distribution carriers during that time .

SAFETY AND SUSTAINABILITY KEY FOCUS AREAS 2012

DuluxGroup's key priorities during 2012 will be the continued implementation of our four primary improvement strategies and their supporting elements. Significant planned actions include:

- Process Safety: Completion of Periodic Hazard Studies at additional sites.
- Fatality Prevention: Full implementation of our new Driver Safety Fatality Prevention Protocol and development of protocols for other risks.
- Personal Safety: Identification of ergonomic risk reduction opportunities associated with manual handling of our finished products, together with continued focus on job safety analysis, standard operating procedures, and training.
- Sustainability: Improvement of our product stewardship processes to continue driving improvement in the material aspects of our products.
- Leadership: Delivery of our new safety leadership development program.
- Systems: Improvement and development of fit-for-purpose systems following demerger.

DISTRIBUTION INCIDENTS (CATEGORY 2+)



Serious distribution incidents are incidents involving DuluxGroup products during transport or storage, prior to delivery to the customer. For 2011 the number was 1, compared with 5 in 2010.

Board members

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.

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.

Director of Foster's Group Limited since May 2011 and Managing Director of Heinz Australia since September 2011. Judith has more than 20 years experience in high profile, global, consumer facing companies. Prior to joining DuluxGroup, Judith was the 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.

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

Non-Executive Director since October 2010.

Andrew has spent approximately 20 years in corporate strategy, mergers, acquisitions, legal and commercial roles in global companies including Orica Limited, where he is currently General Manager, Merger and Acquisitions, Strategy and Technology. Previously, Andrew was General Manager, Mergers, Acquisitions and Strategy at North Limited.

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.

Director of Macquarie Group Limited since August 2007 (and of Macquarie Bank since June 2003). Former Chairman of Medibank Private. Former director of Orica Limited from July 2003 to July 2010, Managing Director and Chief Executive Officer of CSR Limited from 1998 to March 2003, member of the Board of the Business Council of Australia from 2001 to 2003 and former Chairman/CEO of ICI Paints and member of the Executive Board of ICI plc. Peter is also a director of the Beacon Foundation.

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 former Yates General Manager, Dulux Marketing Director and Selleys Sales Director. Employee of DuluxGroup since 1989.

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 former CFO of Southern Cross Broadcasting (Australia) Limited and held various senior strategy and finance roles at Village Roadshow Limited and LEK Consulting.

Gaik Hean Chew
BPharm (Hons)

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

Director of CPS Color Group of Finland and KCA International. Gaik Hean has more than 30 years experience in the paints and chemicals sectors, most recently as Chief Executive of ICI Paints Asia from 1995 until 2008 and also as the former Managing Director of ICI Singapore.

Garry Hounsell
BBus (Accounting) FCA, CPA, FAICD

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, Nufarm Limited since October 2004 and Orica Limited since September 2004. Garry was a director of Mitchell Communication Group Limited from 2006 until 2010 and is a former Senior Partner of Ernst & Young and Chief Executive Officer and Country Managing Partner of Arthur Andersen.

Group Executive team

Patrick Jones
BBus (Hons), CPA

General Manager
– Dulux Paints Australia

Patrick joined DuluxGroup in 1999 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.

Julia Myers
BSc (Hons)

General Manager
– Dulux Paints 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, most recently, Cabot's Business Manager. Julia was appointed to her current role in May 2011.

Michael McMullen
BA, Grad Dip (Applied Finance & Investment)

Group General Manager
– Human Resources

Michael joined DuluxGroup in October 2011. Immediately prior to that he was General Manager Group Human Resources for AWB Limited and Agrium. For 15 years prior to that he held numerous senior HR roles at BHP Billiton including, Vice President HR of Group Functions, VP HR Development, and VP HR of the Commercial businesses. Michael has more than 20 years Australian and international experience in strategic human resources leadership through major company structural and cultural change.

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 Dulux Marketing Director, Selleys Sales 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.

Graeme Doyle
BEc, LLB, MBA

General Manager
– Selleys Yates

Graeme joined the Berger British business in 1983 which became part of DuluxGroup in 1988. Graeme has performed various senior roles including Business Manager for the Industrial Coatings business of Dulux Paints Australia before being seconded to the UK to become the International Planning Manager for the ICI Paints global business. Graeme then left the business and became the General Manager for CSR PGH Bricks & Pavers and then Executive General Manager for CSR Gyprock, Fibre Cement & Hebel.

Graeme rejoined the business in 2005 as General Manager Selleys and was appointed to his current role in 2007.

Brad Hordern
BEng (Hons)

Group General Manager
– 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).

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.

Alan Preston
BBus (Marketing), MBA

General Manager
– DGL Camel International

Alan has over 15 years paints industry experience and has held a number of domestic and international roles with the DuluxGroup business including General Manager of Paints New Zealand, Cabot's General Manager, CEO of ICI Paints Philippines, and General Manager 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.

Corporate Governance Statement

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 ALSO RECOGNISE THAT THE WAY WE DO BUSINESS IS CRITICAL IN EARNING AND MAINTAINING THE RESPECT AND TRUST OF ALL STAKEHOLDERS, INCLUDING OUR EMPLOYEES, CUSTOMERS, SUPPLIERS, SHAREHOLDERS AND THE COMMUNITY.

OUR COMMITMENT

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 all countries in which the Company operates.

This commitment is underpinned by a corporate governance framework established by the Board and documented through a number of policies and charters under which the Company and its employees operate, including a well established Code of Conduct. These charters and policies can be viewed on the Company's website at www.duluxgroup.com.au.

This commitment is also underpinned by the Company's adherence to, and belief in, the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (**ASX Principles**). The Board believes, and is committed to ensure, that DuluxGroup's governance policies and practices are consistent with the ASX Principles in all substantial respects except as otherwise set out in this Statement.

1. Role and composition of the Board

Role

In the context of this corporate governance commitment, 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 and 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, 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.

Composition

Since the Company's listing on 12 July 2010, the Board has continued to focus on building the composition of the Board and identifying new directors with appropriate experience and skill sets to complement the strategic aims of DuluxGroup.

The Board appointed Ms Judith Swales as a non-executive director with effect from 11 April 2011. Ms Swales will offer herself for election at the Company's 2011 Annual General Meeting. Accordingly, the Board is currently comprised of seven directors with five non-executive directors (including the Chairman) and two executive directors.

The Board is of the view that its current composition is appropriately diverse and the non-executive directors have a broad range of skills and experience to enable the Board to discharge its responsibilities and deliver the Company's corporate objectives.

Details of the skills, experience and expertise of each director (as well as the period for which each director has held office and their independence status) are set out on pages 22–23 of this Annual Report.

Independence

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

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

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 Chairman and all non-executive directors are independent of executive management and free of any business or other relationship that could materially interfere with the exercise of unfettered and independent judgement or compromise their ability to act in the best interests of the Company.

The Board assessed the independence of its new directors upon appointment and will review all directors' independence annually or otherwise as appropriate.

Selection and Appointment of Directors

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.

Nominations for appointment to the Board are considered by the Remuneration and Nominations Committee and approved by the Board as a whole. 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.

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, together with the performance of the Board as a whole, will be 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.

The Board's induction program includes site visits, one-on-one meetings with relevant members of management, as appropriate, and provision of relevant policies, charters and other materials. Following her appointment to the Board, Ms Swales participated in this induction program, including site visits to various Company sites, including Padstow, Rocklea, Glen Waverley, as well as Gracefield and Glenfield in New Zealand. The Board, as a whole, intends to conduct further site visits during 2012.

2. Operation of the Board

Board Meetings

The Board has at least eight meetings scheduled for 2011–2012. Additional meetings will be held as the business of the Company may require. 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 business plans and Company strategy. Directors also receive regular updates in relation to key issues facing DuluxGroup's businesses from time to time. As noted above, the Board calendar will also include site visits to a range of DuluxGroup operations to meet with employees, customers and other stakeholders.

The Board recognises the importance of the non-executive directors meeting without the presence of management to discuss Company matters and it is the Board's practice that the non-executive directors meet separately 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 approved a Board Evaluation Policy in March 2011. Under this policy, the Board will carry out an evaluation of its performance against agreed Board objectives each year under the direction of the Chairman. The Board reviewed its performance against its 2010–2011 objectives during the year.

A further review was undertaken at the Board's meeting in November 2011 at which time the Board also set a series of goals to guide their activity over the coming year. The review focused on Board composition and structure, information before the Board, interaction between the Board and management and between Board members, and the Board's role in developing strategy and overseeing business performance. In addition, the directors standing for re-election at the Company's 2011 Annual General Meeting were subject to a performance review prior to the Board endorsing their nomination for re-election.

Each Board Committee will also review its performance annually against the responsibilities set out in the committee's charter and these reviews have been scheduled in the 2012 program for each committee. 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 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.

Directors Fees and Executive Remuneration

The remuneration report on page 39 sets out details regarding the Company's remuneration policy, fees paid to directors and specific details of executive remuneration.

Corporate Governance Statement

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

	Audit and Risk Committee	Remuneration and Nominations Committee	Safety and Sustainability Committee
Members	Mr Garry Hounsell (Chair) Mr Peter Kirby Ms Judith Swales	Mr Peter Kirby (Chair) Mr Garry Hounsell Ms Gaik Hean Chew	Ms Gaik Hean Chew (Chair) Mr Patrick Houlihan Ms Judith Swales
	Details of qualifications and experience of each member are set out on pages 22 and 23 of this Annual Report.		
Composition	The committee is to comprise of three non-executive directors, all of whom satisfy the criteria for independence and who have relevant financial, commercial and risk management experience.	The committee is to comprise of at least three non-executive directors, all of whom satisfy the criteria for independence.	The committee is to comprise of at least two directors including at least one non-executive director and the managing director.

Key responsibilities	– Reviewing the financial reports of the group which require approval of the Board
	– Monitoring and assessing the adequacy of the systems for financial and operating controls, risk management and legal compliance
	– Overseeing the scope and conduct of external and internal audits (including internal and external audit programs, independence of external auditor, and auditor performance)
	– Reviewing and assessing guidelines for non-audit services to be provided by the external auditor
	– Reviewing the accounting policies and practices of the group, as an integral part of reviewing the financial accounts of the group
	– Making recommendations to the Board on the appointment, performance and remuneration of the external auditor
		– Reviewing and making recommendations to the Board on:
		  – the total level of remuneration of non-executive directors (including individual fees, travel and other benefits)
		  – the remuneration arrangements of executive directors and direct reports to the Managing Director (including short-term and long-term incentive arrangements and performance targets)
		– Approving the policies and structure of the remuneration of other senior executives
		– Overseeing the group's policies on recruitment, organisational and people development; succession planning, and reviewing workplace capabilities
		– Reviewing Board and committee composition and recommending new appointments (or the removal of members) to the Board and the committees
		– Ensuring an effective induction program for directors and reviewing succession plans for the Board and senior executives
		– Overseeing the development of the Company's diversity program, and the establishment of appropriate objectives and measurement of performance against those objectives
			– Considering safety and sustainability issues that may have strategic, financial and reputational implications for the group (including identifying key risks and appropriate mitigation strategies)
			– Reviewing the effectiveness of the group's safety and sustainability objectives, targets and strategies
			– Overseeing compliance with legal and regulatory safety and sustainability requirements
			– Reviewing significant safety incident reports and making recommendations to the Board on necessary changes to procedures
			– Ensuring the Board is periodically updated in relation to compliance with best practice safety standards

Attendance	Details of meeting attendance for members of each committee are set out in the Directors' Report on page 36 of this Annual Report.		

3. Board Committees

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 Board annually reviews the Charter for each committee together with the objectives set for each committee.

The materials and the minutes of committee meetings are circulated to the Board members. Additionally, any director is welcome to attend any committee meeting and the committee chair periodically reports to the Board as required.

Details of the membership, composition and responsibilities of each committee are on page 28:

4. Diversity

The Company is committed to address diversity across all levels of its business. The Company recognises that building a diverse leadership and employee group is important to:

- drive innovation and step change growth through diversity of thought;
- enable a better understanding of the DuluxGroup consumer and customer base; and
- enable the Company to attract and retain top talent from the widest possible talent pool.

The Company also recognises the importance of diversity within the cultural fabric of the organisation. In 2011, the Company refreshed its core Values and Behaviours, one of which specifically includes a focus on valuing people and embracing diversity.

DuluxGroup will be required to comprehensively report against the amended ASX Principles on diversity in its 2012 Annual Report and has already taken significant steps to positively manage diversity within the business.

One of these key steps has been the establishment of a Diversity Council in April 2011. The Diversity Council, chaired by the Chief Executive Officer, is responsible for developing, communicating and implementing a diversity and inclusion strategy and specific objectives addressing gender, age and cultural background. Initially, objectives will cover gender related areas such as attracting females to the applicant pool, early development of high potential female employees and dealing with employment related policy hurdles to flexible working arrangements. The Council will provide regular reports to the Company's Remuneration and Nominations Committee on progress towards achievement of the diversity objectives covering activities and initiatives as well as statistical measures. The Remuneration and Nominations Committee is charged with responsibility for ensuring that the Company is taking appropriate steps to positively manage diversity and to ensure that appropriate objectives are set and performance is measured.

The Board also recognises the need to balance its diversity imperative with the need to always identify the best people with the necessary qualifications and skill sets for the relevant positions. It is in this context that the Company is very pleased with the appointments of Ms Judith Swales as a non-executive director in April 2011, and the appointment of Ms Julia Myers to the DuluxGroup executive team in her new role as General Manager of the Company's Paints New Zealand business.

5. Board Governance Policies

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.

6. DuluxGroup Governance Policies

Code of Conduct

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 a Code of Conduct which applies to its employees in all countries in which DuluxGroup operates. The Code of Conduct sets out the standards of business conduct required of all employees and contractors of the Company. It is aimed at ensuring the Company maximises its good reputation and that its business is conducted with integrity and in an environment of openness.

Corporate Governance Statement

The Code of Conduct provides clear direction and guidance with regard to expected standards of behaviour and conduct in relation to various matters, including conflicts of interest, protection of Company information and prevention of fraud. The Code of Conduct can be viewed in detail on the Company's website at www.duluxgroup.com.au

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, including the General Manager, Human Resources, the General Counsel & Company Secretary and the General Manager, Supply Chain, monitor and review the effectiveness of the Speak Up line on a periodic basis.

Share Trading by Directors and Employees

The Company's Share Trading Policy reinforces the requirements of the *Corporations Act 2001* in relation to the prohibition against insider trading. The policy states that all directors, employees, contractors and consultants of the Company (and their associates) are prohibited from trading in the Company's securities if they are in possession of 'inside information'.

Under the policy, directors and employees are permitted to buy and sell DuluxGroup shares during the Company's 'trading windows' provided they are not in possession of 'inside information'.

Directors and employees must seek the consent of the Chairman or Company Secretary, respectively, for any proposed dealing in DuluxGroup shares outside of a trading window. The policy also sets 'blackout periods' prior to the periodic results announcements during which consent will not ordinarily be given.

Directors and employees must not deal in DuluxGroup securities on a short-term basis or enter into short-term derivative arrangements except in circumstances of special hardship with the approval of the Chairman.

Directors and other participants in the Company's long-term equity incentive plan are prohibited from entering into any margin lending or other security arrangement in relation to shares which are unvested. Other employees are also prohibited from entering into any margin lending arrangements in relation to DuluxGroup securities without the prior consent of the Company Secretary.

Continuous Disclosure and Keeping Shareholders Informed

The Company is committed to ensuring it provides relevant and timely information to its shareholders and to fulfilling its obligations to the broader market for continuous disclosure and enabling equal access to material information about the Company.

To this end, the Board has adopted a Continuous Disclosure Policy 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.

Under the policy, the Company Secretary will, in consultation with the executive directors, and other members of the Group Executive as appropriate, assess any information which may be regarded as 'price sensitive' and determine whether an announcement to the ASX is required.

Information provided to, and discussions with, analysts are also subject to the Continuous Disclosure Policy.

A training program has been implemented for senior managers to ensure appropriate awareness of how the continuous disclosure obligations apply to DuluxGroup, including consideration of materiality guidelines relevant to the Company. Advice in relation to the Company's continuous disclosure obligations is also cascaded to the broader organisation on a periodic basis.

DuluxGroup has adopted a Shareholder Communication Policy that sets out the Company's commitment to communicating with shareholders in a way that enables them to exercise their rights as shareholders in an informed manner.

In addition to the Company's obligations to disclose information to the ASX and to distribute information to shareholders, the Company proposes to publish its Annual Reports, annual and half-year results presentations, media releases and other investor relations publications on its website.

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 Company's financial reports represent a true and fair view of the group's financial condition and operational results 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.

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 to achieve high standards of performance and compliance; and
- that business transactions are properly authorised and executed.

The Company has appointed 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 will also review the Company's half-yearly financial statements. The Audit and Risk Committee oversees this process on behalf of the Board.

Risk Identification and Management

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.

The Board has established policies for the oversight and management of material business risks and internal control. The Audit and Risk Committee oversees the internal controls, policies and procedures which the Company will use 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 and Group Executive on (at least) an annual basis;
- risk assessments are also performed for individual material projects, capital expenditure, products and country risks;
- 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.

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".

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 pages 18–21 of this Annual Report.

Financial Report

Financial Report

2011 - Queensland flood

On 12 January 2011, DuluxGroup Limited announced that its main Australian manufacturing plant at Rocklea in Queensland was being temporarily shutdown in light of the flood conditions, and subsequently confirmed that the production facility, distribution centre and office building located at the Rocklea facility had been subject to significant flooding. DuluxGroup has insurance arrangements in place in respect of flood damage and business interruption, which are subject to a deductible amount that is not material to the Group. Claims made under the insurance arrangements are subject to an insurance assessment and recovery process.

The consolidated financial results presented for DuluxGroup for the financial year ended 30 September 2011 include the impacts of the Queensland flood. Impacts include recognition of impairment for assets damaged in the flood, increased costs of production, one off costs for clean up and repairs related to the flood, and recognition of insurance income to reimburse for costs relating to repairs and replacement of assets, increased costs of production, site cleaning costs and lost sales. Not all amounts expected to be recovered through insurance are able to be recognised in the Income Statement and Balance Sheet of DuluxGroup at 30 September 2011 on the basis that the recognition criteria set out in the Australian Accounting Standards has not yet been satisfied. Instead these amounts are considered to be a contingent asset dependent on the outcome of the insurance assessment and recovery process.

Shareholders wanting analysis on the performance of the DuluxGroup business and the impact of the Queensland flood are encouraged to refer to the Review of Operations and Financial Performance and Review of Business Segment Performance as set out on pages 10 to 17. We note that the Review of Operations and Financial Performance and Review of Business Segment Performance has not been subject to review or audit.

2010 - Demerger

On 21 July 2008, Orica Limited announced its intention to demerge the DuluxGroup business (formerly known as the Consumer Products business). This demerger was approved by the Supreme Court of Victoria on 9 July 2010 and effective at the close of business on the same day for accounting purposes.

Owing to the activities undertaken by Orica Limited in preparation for demerger of its DuluxGroup business, the consolidated financial results presented for DuluxGroup for the financial year ended 30 September 2010 do not reflect the full year results for several operations that comprise DuluxGroup currently and at the time of the separation from Orica Limited. During the 2010 financial year, as part of the preparation for the demerger, significant operating assets and liabilities owned by other entities within the Orica Group were legally acquired on a progressive basis by DuluxGroup Limited. These include the assets and liabilities of Paints Australia, Paints New Zealand and Selleys Yates on 1 December 2009, the Malaysian operation on 1 March 2010, the Hong Kong operation on 1 April 2010 and the Papua New Guinea operation on 30 June 2010. The results of these operations have only been included in the consolidated financial statements from the date of acquisition by the Company, as required by applicable Australian Accounting Standards.

Shareholders wanting comparative financial information on the entire DuluxGroup business which separated from Orica Limited are encouraged to refer to the Review of Operations and Financial Performance and Review of Business Segment Performance as set out on pages 10 to 17. We note that the Review of Operations and Financial Performance and Review of Business Segment Performance has not been subject to review or audit.

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Directors' Report

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 2011 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 39 to 55;
- Review of Operations and Financial Performance and Review of Business Segment Performance on pages 10 to 17; and
- details of the current Directors and the Company Secretary on pages 22 to 23.

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
Garry Hounsell
Gaik Hean Chew
Andrew Larke
Judith Swales (appointment effective from 11 April 2011)

Particulars of the current Directors' and the Company Secretary's qualifications, experience and special responsibilities are detailed on pages 22 to 23 of the Annual Report.

Company Secretary

Simon Black is the Company Secretary and General Counsel since 8 July 2010.

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/ Board Committee[1] [2]	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Peter Kirby	14	14	5	5	5	5	-	-	5	5
Patrick Houlihan	14	14	-	-	-	-	4	4	5	5
Stuart Boxer	14	14	-	-	-	-	-	-	5	5
Garry Hounsell	14	14	5	5	5	5	-	-	4	4
Gaik Hean Chew	14	13	4	4	5	5	4	4	4	4
Andrew Larke	14	14	-	-	-	-	-	-	4	3
Judith Swales	6	6	1	1	-	-	2	2	-	-

(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.

(2) Matters dealt with at the Special Board / Board Committee meetings included the Rocklea floods and the 2010 financial year results.

Directors' interests in share capital

The relevant interest of each Director in the share capital of the Company at 30 September 2011 is shown in note 27 of the financial statements.

Principal activities

The principal activities of the consolidated entity in the course of the financial year were the manufacture, marketing, sale and distribution of consumer products and services including coatings, home improvement products and garden care products.

Directors' Report (continued)

Likely developments

Likely developments in the operations of the consolidated entity and the expected results of those operations are covered generally in the Review of Operations and Financial Performance and Review of Business Segment Performance on pages 10 to 17 of the Annual Report. Further information as to likely developments in the operations of the consolidated entity and the expected results of those operations in subsequent financial years has not been included in this report because, in the opinion of the Directors, disclosure would likely result in unreasonable prejudice to the consolidated entity.

Review and results of operations

A review of the operations of the consolidated entity during the financial year and of the results of those operations is contained on pages 10 to 17 of the Annual Report.

Dividends paid in the year ended 30 September 2011

In respect of the 2010 financial year, a fully franked final dividend of 3.0 cents per ordinary share was paid on 10 December 2010. The financial effect of this dividend has been included in the financial statements for the year ended 30 September 2011.

In respect of the 2011 financial year, a fully franked interim dividend of 7.5 cents per ordinary share was paid on 17 June 2011. The financial effect of this dividend has been included in the financial statements for the year ended 30 September 2011.

Since the end of the financial year, the Directors have determined a final dividend to be paid at the rate of 7.5 cents per share, details of which are set out below.

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 2011 are as follows:

- Total assets of $668.7 million increased by $94.4 million on the prior year.
- Year end net debt of $222.1 million increased by $17.2 million on the prior year.
- Total equity of $138.5 million increased by $53.5 million on the prior year.

Events subsequent to balance date

On 14 November 2011, the Directors declared a final dividend of 7.5 cents per ordinary share in respect of the 2011 financial year, fully franked and payable on 16 December 2011. The financial effect of this dividend is not included in the financial statements for the year ended 30 September 2011 and will be recognised in the 2012 financial statements.

On 2 November 2011, DuluxGroup announced the merger of its DGL Camel International business in China and Hong Kong with Camelpaint Chemicals Company Limited (Camelpaint) to create DGL Camel International Limited (currently known as DGL Camel Coatings Limited and formerly known as Ego Sino Holdings Limited), a company incorporated in Hong Kong. DuluxGroup will hold 51% of DGL Camel International Limited. The transaction involves a payment by DuluxGroup to secure board and management control of the new company. The amount of this payment is not material to DuluxGroup as a whole. There are a number of conditions to be met before the merger becomes binding, with completion of the transaction expected to occur by the end of the 2011 calendar year.

The Directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2011, 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' Report (continued)

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 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.

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.

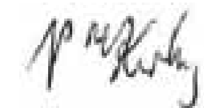
No officer of the Company was a partner or director of KPMG. A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is contained on page 56 of the Annual Report and forms part of this Directors' Report.

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 28 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

14 November 2011

Directors' Report

Remuneration Report (Audited)

Remuneration Report - Contents

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Directors' Report

Remuneration Report (Audited) (continued)

The Directors of DuluxGroup Limited (the Company) present the Remuneration Report for the Company and its controlled entities (collectively 'the consolidated entity' or 'the Group' or 'DuluxGroup') for the financial year ended 30 September 2011 prepared in accordance with the requirements of the *Corporations Act 2001* and its regulations.

A. Remuneration Report Summary

A.1 Remuneration strategy

During the financial year ended 30 September 2011, the Board has continued to refine the remuneration framework and policies established for executive remuneration following the demerger in the 2010 financial year in line with the stated key strategic aims of the Group for the setting of remuneration arrangements, being:

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

The Board appointed PricewaterhouseCoopers (PwC) as remuneration consultants to the Board and the Remuneration and Nominations Committee, and, in line with amendments to the *Corporations Act 2001*, which came into effect on 1 July 2011, developed a protocol for the provision of remuneration advice and recommendations.

A.2 Overview of elements of remuneration

The Key Management Personnel (KMP) of DuluxGroup include the Non-Executive Directors and members of the Group Executive Team (including Executive Directors) who have authority and responsibility for planning, directing and controlling the activities of DuluxGroup.

In this report, 'Executives' refers to Group executives identified as KMP and any other Group executives who comprise the five most highly remunerated executives in the Group.

The following summarises the key elements of remuneration arrangements for the Non-Executive Directors and Executives:

Table 1

	Elements of remuneration	Directors		Other/ Former Executives	Discussion in Remuneration Report
		Non-Executive	Executive		
Fixed remuneration	Fees	✓	×	×	B.1
	Salary	×	✓	✓	C.3
	Compulsory Statutory Superannuation	✓	✓	✓	B.1/C.3
	Other benefits	✓	✓	✓	B.1/B.2/E
At-risk remuneration	Short Term Incentive (STI)	×	✓	✓	C.4/D.2/E
	Long Term Equity Incentive Plan (LTEIP)	×	✓	✓	C.5/D.3/E
Post-employment	Service Agreements	×	✓	✓	F

Non-Executive Directors

Non-Executive Directors' fees are benchmarked externally and set at levels which reflect the responsibilities and time commitments required of Non-Executive Directors to discharge their duties. In order to maintain independence and impartiality, these fees are not linked to the performance of DuluxGroup.

Executives and other senior managers

Senior manager (including Executives) remuneration comprises both a fixed and an at-risk component. Fixed remuneration provides a guaranteed level of reward based on the senior manager's role, skills, knowledge, experience, individual performance and the comparative employment market. At-risk remuneration rewards senior managers for achieving financial and business targets and increasing shareholder value. The mix between fixed and at-risk remuneration depends on the level of seniority of the senior manager. Fixed annual remuneration is set with reference to the market median with the ability to earn total remuneration at the 75th percentile relative to the market based on achievement of clear short and long term stretch performance targets.

Directors' Report

Remuneration Report (Audited) (continued)

A.3 Non-Executive Directors and Executives

The Non-Executive Directors and Executives to whom this report applies are set out in Table 2. The following executives are KMP: Messrs Houlihan, Boxer, Doyle, Jones, Hordern, Ingleton (until his resignation with effect from 31 May 2011) and Ms Myers (from 1 May 2011 following her appointment to the position of General Manager, Dulux Paints New Zealand).

The remuneration details for Messrs Brezzi and Walker are disclosed in this report in accordance with the requirements of the *Corporations Act 2001* as they are among the five most highly remunerated executives in the Group for the financial year ended 30 September 2011.

Table 2

Name	Role
Non-Executive Directors	
Current	
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 – appointed effective 11 April 2011
Executive Directors	
Patrick Houlihan	Managing Director and Chief Executive Officer
Stuart Boxer	Chief Financial Officer and Executive Director
Other Executives	
Graeme Doyle	General Manager, Selleys Yates
Patrick Jones	General Manager, Dulux Paints Australia – appointed 1 May 2011 (General Manager, Dulux Paints New Zealand – until 30 April 2011)
Brad Hordern	General Manager, Supply Chain
Mike Brezzi	Marketing Director, Dulux Australia
Julia Myers	General Manager, Dulux Paints New Zealand – appointed 1 May 2011
Steven Walker	DuluxGroup ANZ Coatings Manufacturing Manager
Former Executive	
Andrew Ingleton	General Manager, Dulux Paints Australia – resigned effective 31 May 2011

A.4 Summary of remuneration outcomes for the year

In terms of remuneration outcomes for the financial year ended 30 September 2011, the following key aspects are noted:

- STI outcomes for the year reflect DuluxGroup's strong performance against financial objectives and other targets despite the impact on performance outcomes arising from the Queensland flood. The Board has in accordance with the rules of the STI plan exercised its discretion to adjust STI outcomes to take account of the impact of the Queensland flood on financial targets, and in a limited number of cases has further adjusted STI outcomes to take account of the changing priorities and work demands as a consequence of the Queensland flood and associated activities.
- Following the grant made under the DuluxGroup Long Term Equity Incentive Plan (LTEIP) in July 2010, at the time of demerger, the Board confirmed that there would be no offer made during the financial year ended 30 September 2011 so as to enable the alignment of future offers with annual financial reporting periods. The Board anticipates the next LTEIP offer will be made in late November 2011. The Company intends to seek shareholder approval at its 2011 Annual General Meeting for the LTEIP grant to be made to the Executive Directors.
- Consistent with DuluxGroup's commitment to succession planning and development of key talent, following the resignation of Mr Ingleton, on 1 May 2011 both Mr Jones and Ms Myers were promoted internally from other roles within the Group to the positions of General Manager, Dulux Paints Australia and General Manager, Dulux Paints New Zealand respectively.
- Utilising benchmarking advice from PwC, the Board continues to consider that executive remuneration packages remain competitive and are consistent with DuluxGroup's business strategy.

This Remuneration Report is signed in accordance with a resolution of the directors of DuluxGroup Limited.

P.M. Kirby
Chairman

14 November 2011

Directors' Report
Remuneration Report (Audited) (continued)

B. Non-Executive Directors' Remuneration

B.1 Policy and approach to setting fees

The Non-Executive Directors' 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 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. 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.

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

Table 3

Base fees		
Non-Executive Chairman	$324,000	
Non-Executive Director	$120,000	
Committee fees	**Committee chair**	**Committee member**
Audit and Risk Committee	$20,000	$10,000
Remuneration and Nominations Committee	$15,000	$7,500
Safety and Sustainability Committee	$15,000	$7,500

In addition, Non-Executive Directors are paid a travel allowance of $5,000 per return trip for international travel where the journey includes a one way international trip in excess of 6 hours. The Directors also receive the statutory superannuation contribution of 9% of their base fees and committee fees, but do not receive any retirement allowances.

B.2 Remuneration

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

Table 4

	Fees	Super-annuation	Other benefits[1]	Total
2011	$	$	$	$
Peter Kirby	324,000	29,160	5,000	358,160
Gaik Hean Chew	150,000	13,500	50,000	213,500
Garry Hounsell	147,500	13,275	5,000	165,775
Andrew Larke	120,000	10,800	5,000	135,800
Judith Swales – appointed 11 April 2011	61,518	5,537	-	67,055
Total Non-Executive Director Remuneration	**803,018**	**72,272**	**65,000**	**940,290**

(1) This benefit represents the travel allowance of $5,000 per return trip for international travel.

Table 5

	Fees	Super-annuation	Other benefits[1]	Total
2010	$	$	$	$
Peter Kirby – appointed 8 July 2010[2]	74,863	6,738	-	81,601
Gaik Hean Chew – appointed 2 August 2010[3]	25,417	2,288	10,000	37,705
Garry Hounsell – appointed 8 July 2010[2]	34,081	3,067	-	37,148
Total Non-Executive Director Remuneration	134,361	12,093	10,000	156,454

(1) This benefit represents the travel allowance of $5,000 per return trip for international travel.

(2) In addition to the amounts presented in the table above, prior to their appointment as Directors of DuluxGroup Limited, Messrs Kirby and Hounsell received payments of $50,000 and $40,000 respectively from Orica Limited for the additional workload involved in the demerger of DuluxGroup. Mr Hounsell received a further payment of $50,000 from Orica Limited for his role as Chairman of the demerger Due Diligence Committee.

(3) In addition to the amounts presented in the table above, Ms Chew was paid a fee of $40,000 in relation to consulting services rendered prior to her appointment as a Non-Executive Director on 2 August 2010.

Directors' Report
Remuneration Report (Audited) (continued)

C. Executive Remuneration – Driving a Performance Culture

C.1 Policy and approach to setting remuneration

Details of the composition and responsibilities of the Remuneration and Nominations Committee (the Committee) are set out on page 28.

The Committee considers it desirable for remuneration packages of senior managers, including the Executives, to include both a *fixed* component and an *at-risk* or *performance-related* component (comprising both short term and long term incentives). The Committee attributes the at-risk component as an essential driver of DuluxGroup's high performance culture. The mix between fixed remuneration and at-risk remuneration is designed to reflect market conditions at each job and seniority level.

Fixed annual remuneration of senior managers is set with reference to the market median, with the ability to earn total remuneration at the 75th percentile relative to the market based on the achievement of clear short and long term stretch performance targets. For the purposes of setting market competitive remuneration, 'market' is considered to include both ASX listed companies of a comparable market capitalisation and our key industry competitors.

The remainder of section C focuses more specifically on the fixed and at-risk remuneration arrangements for Executives.

C.2 Summary of remuneration mix

The actual remuneration mix for Executives will vary depending on the level of performance achieved at a Group, business unit and individual level. The weighting of at-risk remuneration reflects the Board's commitment to performance-based reward. The table below summarises the remuneration mix policy applicable for the financial year ended 30 September 2011.

Table 6

		% of Fixed Annual Remuneration		
		Short term incentive		Long term incentive
Name	Fixed annual remuneration $	Assuming a 'Target' level of performance is achieved	Assuming a 'Stretch' level of performance is achieved	
Executive Directors				
Patrick Houlihan[1]	879,750	50%	90%	90%
Stuart Boxer[2]	500,000	30%	60%	40%
Other Executives				
Graeme Doyle[2]	440,000	30%	60%	40%
Patrick Jones[2]	440,000	30%	60%	40%
Brad Hordern[2]	366,000	20%	40%	25%
Mike Brezzi[3]	284,792	15%	30%	15%
Julia Myers – appointed 1 May 2011[2]	280,000	20%	40%	25%
Steven Walker[3]	258,352	20%	40%	25%
Former Executive				
Andrew Ingleton – resigned effective 31 May 2011[2]	440,000	30%	60%	40%

(1) Target STI is broadly set at 55% of the 'Stretch' STI. The CEO may achieve greater than 100% of 'Stretch' STI as there is an uncapped STI for selected significant critical performance items.

(2) Target STI is set at 50% of the 'Stretch' STI. Executives may achieve greater than 100% of 'Stretch' STI as there is an uncapped STI for selected significant critical performance items.

(3) Target STI is set at 50% of the 'Stretch' STI.

C.3 Fixed remuneration

All Executives receive a fixed remuneration component. In general, this is 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 is determined by reference to the scope of an individual's role, their level of knowledge, skills and experience, individual performance and market benchmarking. There are no guaranteed increases in fixed remuneration.

Directors' Report

Remuneration Report (Audited) (continued)

C.4 At-risk remuneration – Short Term Incentive Plan (STI)

The DuluxGroup STI is the Company's short term incentive component of the remuneration mix for senior managers. STI arrangements are summarised below in question and answer form.

Table 7

Form and purpose of the plan	
What is the STI?	An annual cash incentive plan linked to specific performance conditions (which are predominantly financial).
Who participates in the STI?	All senior managers, including Executives.
Why does the Board consider the STI an appropriate incentive?	The STI is designed to put a large proportion of senior manager remuneration at-risk to be determined based on the achievement of targets linked to DuluxGroup's annual business objectives.
Governance	
Who assesses the performance of the Chief Executive Officer?	The Board of Directors, on recommendation from the Remuneration and Nominations Committee, approves the targets and assesses the performance and incentive outcomes of the Chief Executive Officer.
Who assesses the performance of the Chief Financial Officer and Other Executives?	The Board of Directors, on recommendation from the Remuneration and Nominations Committee, approves the targets and assesses the performance and incentive outcomes of the Chief Financial Officer and Other Executives. The recommendations from the Remuneration and Nominations Committee are formed taking into consideration advice from the Chief Executive Officer.
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. With respect to review of performance against targets and outcomes, the Board has retained discretion to adjust STI outcomes and make any changes deemed appropriate. For the short term incentives relating to the financial year ended 30 September 2011, the performance conditions were established prior to the Queensland flood in January 2011. The Board has in accordance with the rules of the STI plan exercised its discretion to adjust STI outcomes to take account of the impact of the Queensland flood on financial targets, and in a limited number of cases has further adjusted STI outcomes to take account of the changing priorities and work demands as a consequence of the Queensland flood and associated activities. The STI payments made for the current financial year are set out in Table 12 of section E.2 and reflect the extent to which performance conditions were achieved after taking account of the impact of the Queensland flood and related activities.
Performance conditions	
What are the STI performance conditions?	The performance conditions comprise financial targets and non-financial targets relating to: **Financial** / **Non-financial** Group earnings / Safety & sustainability Business/Region EBIT (where appropriate) / Personal objectives Cash flow Trade working capital For most senior managers, financial outcomes represent at least 70% of the available STI target. Performance conditions are set at both a DuluxGroup level and an individual business level. Accordingly achievement of individual business level performance conditions may vary.
Why were these conditions chosen?	Overall the targets are set to reinforce and drive business strategy, align with the Group's annual budget and four year plan and are intended to improve financial performance which results in greater shareholder wealth.
Are STIs awarded where performance falls below a minimum threshold performance level?	In the ordinary course of business, no STI is awarded if minimum performance across DuluxGroup does not achieve a threshold NPAT performance level.
Reward opportunity	
What level of reward can be earned under the plan?	The STI opportunities able to be earned under the plan are derived as a percentage of fixed annual remuneration. Refer section C.2 for further details.

Directors' Report

Remuneration Report (Audited) (continued)

Can STI be greater than 100% of the available STI at 'Stretch'?	Yes. Selected senior managers may achieve greater than 100% of stretch STI as there is an uncapped benefit available for delivery of selected significant critical performance items. In accordance with the terms of the plan, the Board has discretion to make any necessary adjustments to STI performance conditions or outcomes. The exercise of this discretion may result in selected senior managers achieving greater than 100% of stretch STI.
Cessation of employment or a change of control	
If the 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. In certain appropriate circumstances (such as redundancy), the Board may consider eligibility for a pro-rata payment.
How would a change of control impact on STI entitlements?	The STI will be considered to have been met at target for the full performance year, notwithstanding the date of change of control, unless the Board determines otherwise.

C.5 At-risk remuneration – Long Term Equity Incentive Plan (LTEIP)

The DuluxGroup LTEIP is the Company's long term incentive component of the remuneration mix for senior managers. LTEIP arrangements are summarised below in question and answer form. Following the grant made under the LTEIP in July 2010, at the time of demerger, no offer was made during the financial year ended 30 September 2011 so as to enable the alignment of future offers with annual financial reporting periods. The Board anticipates the next offer will be made in late November 2011.

Table 8

Purpose of plan	
What are the key features of the LTEIP?	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 restricted 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. In order to reward superior performance, and subject to satisfaction of an earnings 'gateway', part of the loan may be forgiven at the end of the vesting period subject to the achievement of a specified performance condition. The remaining loan must be repaid following testing of the performance condition after the vesting period.
Why does the Board consider the structure of the LTEIP appropriate?	The LTEIP facilitates share ownership by the senior managers and links a significant proportion of their 'at-risk' remuneration to DuluxGroup Limited's ongoing share price and returns to shareholders over the applicable performance period. It is designed to encourage senior managers to focus on the key performance drivers which underpin sustainable growth in shareholder value. The Board believes the LTEIP, which has both an earnings 'gateway' that must be achieved before any shares vest and a total shareholder return performance condition, promotes behaviour that will achieve superior performance over the long term.
Structure of awards (including how loan operates)	
How does a senior manager derive value from LTEIP?	A senior manager can derive value from LTEIP in two ways: through share price appreciation and/or through loan forgiveness of a portion of the loan as a reward for superior performance.
Why use a loan based plan?	The Board approved the design of the LTEIP (as a loan based plan) after consideration of its relative merits against other performance share-based equity plans in the market. The Board considers the LTEIP to be a cost effective plan aligned to the creation of shareholder value.
How was the amount of the loan determined?	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).
Is the loan 'interest free'?	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.
As the loans are non-recourse do senior managers have to repay their loans?	Yes, the senior managers must repay their loan. Following the end of the vesting period, assuming the earnings 'gateway' is achieved, the senior managers 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. 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'.

Directors' Report

Remuneration Report (Audited) (continued)

Why is a non-recourse loan provided?	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.
Are senior managers able to limit their exposure to unvested awards granted under the LTEIP?	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. DuluxGroup treats compliance with this policy as a serious issue and takes appropriate measures to ensure the policy is adhered to. Executives are required to sign an annual declaration confirming their compliance with this policy.
What is the vesting/ performance period?	Typically the vesting/performance period is three years, with the performance condition tested following the announcement of annual results in the third year after a grant is made. For the grant made under the DuluxGroup LTEIP during the financial year ended 30 September 2010, a period of approximately three and a half years will apply, with testing expected to occur in November 2013.
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. The Company proposes to acquire shares on-market for the LTEIP offer expected to be made to Executive Directors in late November 2011. In the interests of good governance, the Company intends to seek shareholder approval at its 2011 Annual General Meeting for the LTEIP grant to be made to the Executive Directors.
Reward opportunity	
Is there a minimum level of performance required before any benefit accrues?	Yes, the Board has implemented a 'gateway' level of minimum performance for the DuluxGroup below which no benefit accrues. This 'gateway' is a minimum level of acceptable performance for any of the LTEIP shares to vest. For the grant made during the year ended 30 September 2010, compound annual EPS growth over the vesting period from 30 September 2010 to 30 September 2013 must equal or exceed 2% per annum. This minimum level of EPS growth was set to reflect the challenges immediately following demerger. The baseline 2010 EPS is 19.7 cents per share, being the EPS on the 2010 pro forma net profit after tax of $71.5 million before one off demerger costs. The Board anticipates that the gateway in respect of the grant to be made in late 2011 will be 4% compound annual EPS growth over the vesting period.
What level of reward is available to senior managers if the minimum level of performance is achieved?	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.
What is EPS and how is it calculated?	EPS stands for Earnings per Share and is calculated by dividing DuluxGroup's Net Profit After Tax (NPAT) by the weighted average number of ordinary shares on issue during the relevant period. EPS growth measures the growth in earnings on a per share basis. The Board has retained discretion to adjust EPS for individually material items on a case by case basis when determining whether the EPS performance gateway condition has been met.
Performance condition	
What is TSR?	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.
How is the relative TSR performance hurdle applied to the plan?	The relative Total Shareholder Return (TSR) performance hurdle is used to determine the level of loan forgiveness under the plan (the forgiveness amount).
Why did the Board select relative TSR as the performance condition?	The LTEIP is designed to align the interests of management with shareholders. In doing so, the Board considered it appropriate to compare the relative share price and dividend performance of DuluxGroup to that of a comparator group over the performance period to determine the amount of benefit to be awarded to participants.

Directors' Report

Remuneration Report (Audited) (continued)

How is the forgiveness amount determined?	There is no loan forgiveness amount if DuluxGroup's relative TSR is below the 51st percentile against a comparator group. If DuluxGroup Limited's relative TSR is greater than or equal to the 51st percentile, a proportion of the initial loan balance (up to a maximum of 30%) is forgiven on a 'sliding scale' as shown below.

Relative TSR ranking	Loan forgiveness
Less than 51st percentile	0 %
51st percentile	10%
Between 51st percentile and 75th percentile	Percentage of loan forgiveness increases on a straight line basis between 10% and 30%
75th percentile or above	30%

Who is the relative TSR comparator group?	The comparator group comprises peer companies in the ASX 200 at the date of grant which remain listed throughout the vesting period. The Board has approved the exclusion of companies who 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 truly compete with DuluxGroup for capital, that is Australian industrial, retail, manufacturing and distribution businesses included in the ASX 200.
Is the performance condition re-tested?	No, the performance condition is only tested once at the end of the performance period.
Cessation of employment or a change of control	
What happens if a LTEIP participant ceases employment prior to vesting and repayment of the loan?	If a participant resigns from the Group or is terminated for cause during the loan period, the shares are forfeited and surrendered to the Group (in full settlement of the loan) and the individual has no further interest in the shares.
What happens to 'good leavers'?	In general, all shares are forfeited and surrendered 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 all of the loan forgiveness amount may be granted.
How would a change of control impact on LTEIP entitlements?	The LTEIP rules provide that the loan becomes immediately repayable upon a change of control, with the outstanding loan balance reduced by the forgiveness amount at target, except where the Board determines otherwise. The Board's current intention is that it would not exercise its discretion to vary this default position in the event of an actual change of control.

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 $3 and 20,000 shares are allocated (i.e. initial loan of $60,000).
- Dividends paid of $2,000 per annum, less 46.5% to cover the participants' individual tax obligations.
- Case A – EPS gateway achieved and relative TSR ranks at the 60th percentile (i.e. 17.5% loan forgiveness), share price at the vesting date is $6.
- Case B – EPS gateway achieved but relative TSR ranks below the 51st percentile (i.e. no loan forgiveness), share price at vesting date is $3.30.
- Case C – EPS gateway not achieved and relative TSR ranks above the 75th percentile, share price at the vesting date is $6.

	Case A $	Case B $	Case C $
Initial loan	60,000	60,000	60,000
Less net dividends	(3,210)	(3,210)	(3,210)
Less loan forgiveness[1,2]	(10,500)	-	-
Outstanding loan balance	46,290	56,790	56,790
Value of shares awarded at vesting	120,000	66,000	NIL
Less outstanding loan balance	(46,290)	(56,790)	N/A
Value of LTEIP to the executive	73,710	9,210	NIL

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

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

Directors' Report

Remuneration Report (Audited) (continued)

D. Company Performance – The Link to Reward

The statutory requirement is to present a five year discussion of the link between performance and reward. As DuluxGroup has only been listed since July 2010, it is not possible to present five years of financial data. Instead this report describes the performance and reward linkage to shareholder value and discusses reward outcomes for the period since listing to 30 September 2011.

D.1 Overview of the link between reward and performance

As described in section C.1, the key principles applied in the design of the executive remuneration framework and policy relate directly to aligning the interests of executives and shareholders, with all of the at-risk components of executives remuneration tied to performance.

The table below provides company performance information since listing on the Australian Securities Exchange (ASX) on 12 July 2010 that is relevant in considering shareholder return.

Table 9

	2010	2011
NPAT ($m)	61.3	93.2
NPAT before one off tax adjustment and insurance uplift	71.5[1]	77.6
Diluted EPS (cents)	16.9	25.7
Diluted EPS before one off tax adjustment and insurance uplift (cents)	19.7[1]	21.4
Dividends paid per share (cents)	-	10.5
Opening share price ($)	2.50[2]	2.73
Closing share price at 30 September ($)	2.73	2.52
TSR % – DuluxGroup[3]	9.2%	(3.8%)
Change in S&P/ASX 200 Price Index for the period[4]	4.2%	(12.5%)
Recordable case rate (RCR)[5]	1.81	1.96

(1) Proforma before one off demerger costs

(2) Opening listing share price on 12 July 2011 for DuluxGroup shares following the demerger from Orica Limited.

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

(4) Calculated as change in closing S&P/ASX 200 Price Index from 30 September 2010 to 30 September 2011 (2010 9 July 2010 to 30 September 2010).

(5) 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.

D.2 Short term incentives

Short term incentives are paid annually in cash and are discussed in detail in section C.4.

For the short term incentives relating to the financial year ended 30 September 2011, the performance conditions were established prior to the Queensland flood in January 2011. The Board has in accordance with the rules of the STI plan exercised its discretion to adjust STI outcomes to take account of the impact of the Queensland flood on financial targets, and in a limited number of cases has further adjusted STI outcomes to take account of the changing priorities and work demands as a consequence of the Queensland flood and associated activities. The STI payments made for the current financial year are set out in Table 12 of section E.2 and reflect the extent to which performance conditions were achieved after taking account of the impact of the Queensland flood and related activities.

D.3 Long term incentives

Long term incentives are discussed in detail in section C.5. The DuluxGroup LTEIP grants that were made following demerger are subject to a 'gateway' condition at 30 September 2013 and a performance condition over a period of approximately three and a half years, with testing expected to occur in November 2013. As such no awards have yet been tested or have vested during the financial year ended 30 September 2011.

No offer was made during the financial year ended 30 September 2011 so as to enable the alignment of future offers with annual financial reporting periods. The Board anticipates the next offer will be made in late November 2011.

Directors' Report

Remuneration Report (Audited) (continued)

E Details of Executive Remuneration

E.1 Executive Remuneration

Details of the remuneration of Executives of DuluxGroup for the financial year ended 30 September 2011 are included in the table below:

Table 10

	Short term employee benefits			Post employment benefits							
For the financial year ended 30 September 2011	Fixed remuneration[1] $	STI payment[2] $	Other benefits[3] $	Super-annuation benefits $	Termination benefits $	Other long term benefits[4] $	Total excluding Share-based payment expense $	Share-based payment expense[5] $	Total $	% performance related remuneration[6]	% of remuneration consisting of options[7]
Executive Directors											
Patrick Houlihan	856,274	583,037	(588)	15,343	-	25,395	1,479,461	335,353	1,814,814	51%	18%
Stuart Boxer	475,676	260,183	1,170	15,343	-	9,469	761,841	93,047	854,888	41%	11%
Other Executives											
Graeme Doyle[8]	420,822	141,613	14,155	15,343	-	8,678	600,611	89,997	690,608	34%	13%
Patrick Jones[8]	353,985	140,473	81,884	15,343	-	40,572	632,257	37,625	669,882	27%	6%
Brad Hordern[8]	328,324	171,527	2,952	15,343	-	8,753	526,899	40,988	567,887	37%	7%
Mike Brezzi[8]	267,376	66,512	15,814	15,343	-	5,293	370,338	22,610	392,948	23%	6%
Julia Myers – appointed 1 May 2011[9]	111,560	24,254	47,630	6,477	-	(8,913)	181,008	7,127	188,135	17%	4%
Steven Walker[8]	240,229	94,917	6,835	15,343	-	8,081	365,405	33,681	399,086	32%	8%
Former Executive											
Andrew Ingleton – resigned effective 31 May 2011[10]	279,368	-	15,955	10,133	-	10,012	315,468	59,379	374,847	16%	16%
Total Remuneration	**3,333,614**	**1,482,516**	**185,807**	**124,011**	**-**	**107,340**	**5,233,288**	**719,807**	**5,953,095**		

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

(2) STI payment includes payments relating to 2011 performance accrued but not paid.

(3) These benefits include relocation costs, medical costs, costs associated with international assignment, movement in annual leave accrual, spousal travel and costs associated with services related to employment (inclusive of any applicable fringe benefits tax).

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

(5) 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. These 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 mechanism which determines whether or not long term incentives vest in the future is described in section C.5.

(6) The percentages shown relate to accrued STI payments in 2011 and the value of the 2010 LTEIP grants calculated under AASB 2 as a proportion of the executive's total remuneration. No LTEIP offer was made during the financial year ended 30 September 2011 so as to enable the alignment of future offers with annual financial reporting periods.

(7) Following the grant made under the LTEIP in July 2010, at the time of demerger, no offer was made during the financial year ended 30 September 2011 so as to enable the alignment of future offers with annual financial reporting periods. The percentages shown relate to the value of the 2010 LTEIP grants calculated under AASB 2 (and not the amounts actually received by Executives during the year) as a proportion of the executive's total remuneration.

(8) Denotes the five most highly remunerated executives of the Group, as required to be disclosed under the *Corporations Act 2001*.

(9) Ms Myers was appointed to the role of General Manager, Dulux Paints New Zealand on 1 May 2011 and became a KMP on that date. The table includes her remuneration, including STI, from the date she became a KMP. Ms Myers is on an international assignment in New Zealand and as such secondment costs associated with her assignment are included in her remuneration summary.

(10) Mr Ingleton resigned with effect from 31 May 2011 and accordingly ceased to be a KMP of DuluxGroup at this date. On his departure, Mr Ingleton was paid his leave entitlements of $169,814. This payment has not been included in the table as a movement in his short term or long term other benefits.

Directors' Report
Remuneration Report (Audited) (continued)

Details of the remuneration of Executives of DuluxGroup for the financial year ended 30 September 2010 are included in the table below:

Table 11

For the financial year ended 30 September 2010		Short term employee benefits			Post employment benefits							
		Fixed remuneration[1] $	STI payment[2] $	Other benefits[3] $	Super-annuation benefits $	Termination benefits[4] $	Other long term benefits[5] $	Total excluding Share-based payment expense $	Share-based payment expense[6] $	Total $	% performance related remuneration	% of remuneration consisting of options
Executive Directors												
Patrick Houlihan	Orica Group[7]	104,925	88,443	(2,466)	2,410	-	3,376	196,688	14,565	211,253		
	Orica Group[8]	386,736	309,549	117,145	8,839	-	11,813	834,082	661,530[12]	1,495,612		
	DuluxGroup[9]	189,786	138,742	30,904	3,397	-	69,871	432,700	73,502	506,202		
	Total	**681,447**	**536,734**	**145,583**	**14,646**	**-**	**85,060**	**1,463,470**	**749,597**	**2,213,067**	**58%**	**34%**
Stuart Boxer	Orica Group[7]	62,590	39,600	442	2,410	-	1,175	106,217	-	106,217		
	Orica Group[8]	232,259	138,600	51,190	8,839	-	4,414	435,302	204,202[12]	639,504		
	DuluxGroup[9]	100,746	61,553	4,146	3,397	-	3,346	173,188	20,394	193,582		
	Total	**395,595**	**239,753**	**55,778**	**14,646**	**-**	**8,935**	**714,707**	**224,596**	**939,303**	**49%**	**24%**
Other Executives[13]												
Graeme Doyle	Orica Group[7]	62,590	13,351	3,886	2,410	-	1,327	83,564	5,296	88,860		
	Orica Group[8]	232,258	46,729	52,837	8,839	-	4,935	345,598	234,567[12]	580,165		
	DuluxGroup[9]	91,657	91,712	6,549	3,397	-	3,375	196,690	19,725	216,415		
	Total	**386,505**	**151,792**	**63,272**	**14,646**	**-**	**9,637**	**625,852**	**259,588**	**885,440**	**46%**	**29%**
Brad Hordern	Orica Group[7]	42,590	16,432	2,957	2,410	-	1,515	65,904	2,175	68,079		
	Orica Group[8]	198,549	57,512	30,057	8,839	-	5,324	300,281	100,095[12]	400,376		
	DuluxGroup[9]	69,216	46,306	46	3,397	-	1,220	120,185	8,984	129,169		
	Total	**310,355**	**120,250**	**33,060**	**14,646**	**-**	**8,059**	**486,370**	**111,254**	**597,624**	**39%**	**19%**
Andrew Ingleton	Orica Group[7]	62,591	44,239	(3,078)	2,410	-	1,995	108,157	4,918	113,075		
	Orica Group[8]	232,260	154,835	34,173	8,839	156,509	7,843	594,459	227,841[12]	822,300		
	DuluxGroup[9]	91,655	47,882	1,456	3,397	-	8,631	153,021	19,549	172,570		
	Total	**386,506**	**246,956**	**32,551**	**14,646**	**156,509**	**18,469**	**855,637**	**252,308**	**1,107,945**	**45%**	**23%**
Patrick Jones	Orica Group[7]	44,779	12,116	12,436	2,410	-	727	72,468	1,203	73,671		
	Orica Group[8]	164,021	42,407	68,067	8,839	-	3,200	286,534	81,997[12]	368,531		
	DuluxGroup[9]	64,012	40,582	21,045	3,397	-	6,020	135,056	8,246	143,302		
	Total	**272,812**	**95,105**	**101,548**	**14,646**	**-**	**9,947**	**494,058**	**91,446**	**585,504**	**32%**	**16%**
Anthony Richardson[14]	Orica Group[10]	169,501	43,729	164,995	11,249	-	50,605[15]	440,079	60,921[12]	501,000		
	DuluxGroup[11]	52,251	13,097	40,607	3,397	-	1,937	111,289	5,634	116,923		
	Total	**221,752**	**56,826**	**205,602**	**14,646**	**-**	**52,542**	**551,368**	**66,555**	**617,923**	**20%**	**11%**
Total Remuneration		**2,654,972**	**1,447,416**	**637,394**	**102,522**	**156,509**	**192,649**	**5,191,462**	**1,755,344**	**6,946,806**		

Directors' Report
Remuneration Report (Audited)

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

(2) STI payment includes payments relating to 2010 performance accrued but not paid. The split between Orica Group and DuluxGroup has been determined based on the accounting expense charged pre and post demerger to accrue the STI payable.

(3) These benefits include relocation costs, medical costs, costs associated with international assignment, movement in annual leave accrual, spousal travel and costs associated with services related to employment (inclusive of any applicable fringe benefits tax).

(4) On termination of the service agreement governing Mr Ingleton's employment with the Orica Group of companies, Mr Ingleton was paid a termination payment of $156,509 recognising that part of his termination entitlement under that contract could not be assumed by DuluxGroup pursuant to amendments to the *Corporations Act 2001*.

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

(6) Includes the value calculated under AASB 2. The share-based payment expense represents the charge incurred during the year in respect of current and past incentive allocations to Executives. These 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 mechanism which determines whether or not long term incentives vest in the future is described in section C.5.

(7) For the period from 1 October 2009 to 30 November 2009, prior to the Executive becoming a KMP of DuluxGroup Limited as a subsidiary of Orica Limited.

(8) For the period from 1 December 2009 to 9 July 2010 during which the Executive was a KMP of DuluxGroup Limited as a subsidiary of Orica Limited.

(9) For the period from 10 July 2010 to 30 September 2010 during which the Executive was a KMP of DuluxGroup Limited as an independent entity.

(10) For the period from 1 October 2009 to 9 July 2010 during which the Executive was an employee of DuluxGroup Limited as a subsidiary of Orica Limited.

(11) For the period from 10 July 2010 to 30 September 2010 during which the Executive was an employee of DuluxGroup Limited as an independent entity.

(12) At the time of demerger, in accordance with the relevant Plan rules, all outstanding Orica Group LTEIP loans (relating to the 2007, 2008 and 2009 LTEIP offers) became repayable for DuluxGroup Executives. Orica Group tested the performance conditions applicable to each award on a pro-rata basis at the time of the demerger. All costs attaching to the accelerated pro-rata award of debt forgiveness or the forfeiture and surrender of outstanding Orica Group LTEIP shares in satisfaction of outstanding loans on demerger were borne by Orica Group. While these costs were not recognised in the books of DuluxGroup, any accounting expense attributable to Executives calculated in accordance with AASB 2 was recognised in Table 11 detailing the remuneration received by Executives for the financial year ended 30 September 2010.

(13) Denotes the five most highly remunerated executives of the Group, as required to be disclosed under the *Corporations Act 2001*.

(14) Mr Richardson was on an international assignment in China and as such secondment costs associated with his assignment were included in his remuneration summary.

(15) Mr Richardson's remuneration arrangements pertaining to the financial year ended 30 September 2009 included a deferred component of $44,611 which was conditional upon Mr Richardson remaining in employment until 1 October 2010. This amount was included as 'other long term benefits' and was accrued for accounting purposes during the year ended 30 September 2010.

Directors' Report
Remuneration Report (Audited)

E.2 Short term incentives

The Board believes that the largest component of an Executive's STI payment should be affected by the financial performance of the Company. The actual STI payments reflect the strong financial performance at the Group level, as well as the financial performance of individual business units, despite the impact on performance outcomes arising from the Queensland flood. The Board has in accordance with the rules of the STI plan exercised its discretion to adjust STI outcomes to take account of the impact of the Queensland flood on financial targets, and in a limited number of cases has further adjusted STI outcomes to take account of the changing priorities and work demands as a consequence of the Queensland flood and associated activities. A combination of financial performance and adjustments made to take account of the Queensland flood had the most significant impact on the variation of STI outcomes between Executives. Individual outcomes from non-financial objectives further differentiated Executive STI outcomes. The short term incentive payments shown below reflect the performance for Executives in the current financial year.

Table 12

For the financial year ended 30 September 2011	2011 STI award $[1,2]	STI payable assuming a 'Stretch' level of performance is achieved $[3]	Actual STI payment as % of 'Stretch' STI	% of 'Stretch' STI payment forfeited
Executive Directors[4]				
Patrick Houlihan	583,037	791,775	74%	26%
Stuart Boxer	260,183	300,000	87%	13%
Other Executives				
Graeme Doyle[4]	141,613	264,000	54%	46%
Patrick Jones[4]	140,473	188,633	74%	26%
Brad Hordern[4]	171,527	138,667	124%	NIL%
Mike Brezzi	66,512	85,438	78%	22%
Julia Myers[4,5]	24,254	46,667	52%	48%
Steven Walker	94,917	103,341	92%	8%

(1) STI constitutes a cash incentive earned during 2011, which is expected to be paid in December 2011.

(2) 2011 STI awards include the financial impact of the discretion exercised by the Board in assessing STI outcomes for Executives.

(3) The STI payable assuming a 'Stretch' level of performance is achieved has been calculated based on the actual fixed remuneration received by Executives during the financial year ended 30 September 2011.

(4) Executives may achieve greater than 100% of 'Stretch' STI as there is an uncapped STI component for selected significant critical performance items.

(5) Ms Myers was appointed to the role of General Manager, Dulux Paints New Zealand on 1 May 2011 and became a KMP on that date. The table includes her STI for the period following her appointment to 30 September 2011.

Directors' Report
Remuneration Report (Audited) (continued)

E.3 DuluxGroup equity instruments granted to Executives

Following the grant made under the LTEIP in July 2010, at the time of demerger, no offer was made during the financial year ended 30 September 2011 so as to enable the alignment of future offers with annual financial reporting periods. The Board anticipates the next offer will be made in late November 2011.

Under the LTEIP, Executives acquire shares in DuluxGroup Limited funded by a loan from the Group. While shares are acquired under the plan for legal and taxation purposes, Australian Accounting Standards require they be treated as options for accounting purposes. No loans were made during the year as set out in Table 14.

The value of the notional options granted following demerger during the financial year ended 30 September 2010 to DuluxGroup Executives under the LTEIP is set out below. No options over DuluxGroup Limited shares were exercised during the year.

Table 13

For the financial year ended 30 September 2011	Grant date	Number held at 1 October 2010	Number granted during the year	Number exercised during the year[2]	Number lapsed during the year	Number outstanding at 30 September 2011	Exercise price $	Value of options at grant date[3] $	Value of options included in compensation for the year $[4]
Executive Directors									
Patrick Houlihan	(1)	1,145,655	-	-	-	1,145,655	N/A	1,122,742	335,353
Stuart Boxer	(1)	317,873	-	-	-	317,873	N/A	311,516	93,047
Other Executives									
Graeme Doyle	(1)	307,453	-	-	-	307,453	N/A	301,304	89,997
Patrick Jones	(1)	128,536	-	-	-	128,536	N/A	125,965	37,625
Brad Hordern	(1)	140,026	-	-	-	140,026	N/A	137,225	40,988
Mike Brezzi	(1)	77,242	-	-	-	77,242	N/A	75,697	22,610
Julia Myers[5]	(1)	58,088	-	-	-	58,088	N/A	56,926	7,127
Steven Walker	(1)	115,065	-	-	-	115,065	N/A	112,764	33,681
Former Executive									
Andrew Ingleton	(1)	304,701	-	-	304,701[6]	-	N/A	-	59,379

(1) While the issue and allocation of LTEIP shares to the Executives only occurred on either 19 July 2010 or 5 August 2010, in accordance with the requirements of Australian Accounting Standards, the 'grant date' is 12 July 2010 being the date that the Company and the Executives agreed to enter a share-based payment arrangement.

(2) 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 and a half years. 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 31 January of the following year. The options expire if the loan is not repaid within the repayment window.

(3) The option valuation is determined having regard to valuation advice from PwC. The valuation methodology utilises an adjusted form of the Black-Scholes option pricing model and reflects the value (as at grant date) of options held at 30 September 2011. The minimum potential future value of grants under LTEIP is $NIL.

(4) The amortised value for accounting purposes.

(5) Ms Myers was appointed to the role of General Manager, Dulux Paints New Zealand on 1 May 2011 and became a KMP on that date. The table includes her option holdings and related disclosures for the period following her appointment to 30 September 2011.

(6) Following his resignation with effect from 31 May 2011, Mr Ingleton's options over DuluxGroup Limited shares were forfeited.

Directors' Report

Remuneration Report (Audited) (continued)

E.4 Loans to Executives under DuluxGroup long term incentive plans

Table 14

For the financial year ended 30 September 2011	Opening balance $	Advances during the year[1] $	Repayments during the year[2] $	Closing balance $	Interest free value $	Highest indebtedness $
Executive Directors						
Patrick Houlihan	2,944,334	-	64,357	2,879,977	230,388	2,944,334
Stuart Boxer	816,934	-	17,857	799,077	63,923	816,934
Other Executives						
Graeme Doyle	790,157	-	17,271	772,886	61,828	790,157
Patrick Jones	330,340	-	7,221	323,119	25,848	330,340
Brad Hordern	359,868	-	7,866	352,002	28,159	359,868
Mike Brezzi	198,514	-	4,339	194,175	15,533	198,514
Julia Myers[3]	148,356	-	2,331	146,025	4,828	148,356
Steven Walker	295,720	-	6,464	289,256	23,139	295,720
Former Executive						
Andrew Ingleton	783,082	-	783,082[4]	-	41,004	783,082
Total	6,667,305	-	910,788	5,756,517	494,650	6,667,305

(1) Under the DuluxGroup LTEIP, eligible Executives are provided with a non-recourse loan from DuluxGroup for the sole purpose of acquiring shares in DuluxGroup Limited. Executives must apply net cash dividends to the repayment of the loan balance, and Executives may not deal with the shares while the loan remains outstanding. Australian Accounting Standards require that shares issued under employee incentive share plans in conjunction with non-recourse loans are to be accounted for as options. As a result, the amounts receivable from employees in relation to these loans have not been recognised in the financial statements. As there were no offers made during the financial year ended 30 September 2011, no loans were advanced.

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

(3) Ms Myers was appointed to the role of General Manager, Dulux Paints New Zealand on 1 May 2011 and became a KMP on that date. The table includes details of her LTEIP loan and related disclosures for the period following her appointment to 30 September 2011.

(4) Following his resignation with effect from 31 May 2011, Mr Ingleton's options over DuluxGroup Limited shares were forfeited and surrendered to the Group in full settlement of the outstanding loan balance.

E.5 Equity instruments held by executives

The number of option (LTEIP) issues, values and related loan information in relation to DuluxGroup senior managers as at 30 September 2011 is shown in the following table.

Table 15

Grant date	Number of options issued	Number of options held at 30 Sep	Number of participants at 30 Sep	Total loan at grant date $	Total loan at 30 Sep $	Maximum loan waiver opportunity over full loan period $	Loan repayments through dividends during year $	Value of options at grant date[2] $
(1)	4,401,850	3,979,698	37	11,312,817	10,004,321	3,068,364	230,335	0.98

(1) While the issue and allocation of LTEIP shares to the Executives only occurred on either 19 July 2010 or 5 August 2010, in accordance with the requirements of Australian Accounting Standards, the 'grant date' is 12 July 2010 being the date that the Company and the Executives agreed to enter a share-based payment arrangement. No LTEIP shares were granted during the financial year ended 30 September 2011.

(2) The assumptions underlying the options valuations are:

Table 16

Price of DuluxGroup Limited shares at grant date	Expected volatility in share price	Dividends expected on shares	Risk free interest rate	Average value per option $
$2.54	30%	NIL	4.70%	0.98

The terms of the DuluxGroup LTEIP apply equally to Executives and other eligible senior managers of the Company.

As required by Australian Accounting Standards, shares allocated under LTEIP that are purchased with non-recourse loans are accounted for as options. As a result, the amounts receivable from Executives in relation to these loans are not recognised in the financial statements. Shares issued under LTEIP are recognised as treasury shares with a share-based payment expense 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. LTEIP is administered by Computershare Limited.

Directors' Report

Remuneration Report (Audited) (continued)

F. Summary of 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 17

Name	Term of agreement	Notice period by Executive	Notice and termination benefits[1]
Executive Directors			
Patrick Houlihan	Open	6 months	12 months fixed annual remuneration
Stuart Boxer	Open	6 months	12 months fixed annual remuneration
Other Executives			
Graeme Doyle	Open	6 months	12 months fixed annual remuneration
Patrick Jones	Open	6 months	12 months fixed annual remuneration
Brad Hordern	Open	6 months	12 months fixed annual remuneration
Mike Brezzi	Open	3 months	3 months fixed annual remuneration
Julia Myers	Open	6 months	12 months fixed annual remuneration
Steven Walker[2]	Open	13 weeks	57.09 weeks fixed annual remuneration

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

(2) Mr Walker's employment terms reflect the employment arrangements with the Orica Group that were agreed prior to demerger. In the event that Mr Walker's services are terminated and a payment in excess of the statutory threshold (if applicable) becomes payable to him, the Company would seek shareholder approval.

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.

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 2011 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

14 November 2011

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Consolidated Income Statement

For the financial year ended 30 September:

	Notes	2011 $'000	2010 $'000
Revenue from sale of goods		**996,425**	775,654
Other income	6	**67,542**	1,253
Expenses			
Changes in inventories of finished goods and work in progress		**(13,820)**	(3,778)
Raw materials and consumables used and finished goods purchased for resale		**417,983**	296,099
Employee benefits expense		**210,319**	160,137
Depreciation and amortisation expense	7	**19,973**	16,367
Purchased services		**147,496**	105,129
Repairs and maintenance		**12,965**	6,257
Lease payments - operating leases		**30,015**	24,154
Outgoing freight		**47,454**	32,647
Other expenses		**53,280**	41,378
Share of net profit of joint ventures accounted for using the equity method	14	**(917)**	(624)
		924,748	677,766
Profit from operations		**139,219**	99,141
Finance income		**540**	169
Finance expenses	7	**(23,618)**	(13,596)
Net finance costs		**(23,078)**	(13,427)
Profit before income tax expense		**116,141**	85,714
Income tax expense	8	**(22,904)**	(24,425)
Profit for the financial year		**93,237**	61,289

		cents	cents
Earnings per share			
Attributable to ordinary shareholders of DuluxGroup Limited:			
Basic earnings per share	4	**25.7**	16.9
Diluted earnings per share	4	**25.7**	16.9

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Consolidated Statement of Comprehensive Income

For the financial year ended 30 September:

	Notes	2011 $'000	2010 $'000
Profit for the financial year		**93,237**	61,289
Other comprehensive income			
Items that may be reclassified subsequently to the income statement			
Effective portion of changes in fair value of cash flow hedges	8(c)	**653**	(231)
Foreign currency translation gain/(loss) on foreign operations		**4,115**	(7,262)
Income tax on items that may be reclassified subsequently to the income statement	8(c)	**(196)**	69
Total items that may be reclassified subsequently to the income statement, net of tax		**4,572**	(7,424)
Items that will not be reclassified to income statement			
Actuarial (losses)/gains on defined benefit plan	8(c),22	**(11,811)**	569
Income tax on items that will not be reclassified to the income statement	8(c)	**3,543**	(170)
Total items that will not be reclassified to the income statement, net of tax		**(8,268)**	399
Other comprehensive income for the financial year, net of income tax		**(3,696)**	(7,025)
Total comprehensive income for the financial year		**89,541**	54,264

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Consolidated Balance Sheet

As at 30 September:

	Notes	2011 $'000	2010 $'000
Current assets			
Cash and cash equivalents	9	**39,540**	44,681
Trade and other receivables	10	**169,723**	140,881
Inventories	11	**135,727**	113,428
Derivative financial assets	12	**918**	58
Other assets	13	**2,384**	3,061
Total current assets		**348,292**	302,109
Non-current assets			
Trade and other receivables	10	**4**	88
Derivative financial assets	12	**221**	1,278
Investments accounted for using the equity method	14	**2,497**	2,080
Property, plant and equipment	15	**196,359**	153,890
Intangible assets	16	**87,024**	89,004
Deferred tax assets	17	**33,994**	25,432
Other assets	13	**338**	490
Total non-current assets		**320,437**	272,262
Total assets		**668,729**	574,371
Current liabilities			
Trade and other payables	18	**193,380**	178,859
Interest-bearing liabilities	19	**15,721**	12,289
Derivative financial liabilities	12	**6**	305
Current tax liabilities		**8,807**	6,419
Provisions	20	**19,697**	21,073
Total current liabilities		**237,611**	218,945
Non-current liabilities			
Trade and other payables	18	**294**	133
Interest-bearing liabilities	19	**245,931**	237,279
Deferred tax liabilities	21	**986**	745
Provisions	20	**22,837**	19,045
Defined benefit liability	22	**22,614**	13,269
Total non-current liabilities		**292,662**	270,471
Total liabilities		**530,273**	489,416
Net assets		**138,456**	84,955
Equity			
Contributed equity	23	**175,629**	174,323
Reserves	24	**(105,232)**	(111,027)
Retained earnings		**68,059**	21,659
Total equity		**138,456**	84,955

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Consolidated Statement of Changes in Equity

For the financial year ended 30 September:

	Contributed equity $'000	Share-based payments reserve $'000	Cash flow hedging reserve $'000	Foreign currency translation reserve $'000	Common control reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 October 2010	174,323	1,925	(162)	(15,088)	(97,702)	21,659	84,955
Profit for the financial year	-	-	-	-	-	93,237	93,237
Other comprehensive income, net of income tax	-	-	457	4,115	-	(8,268)	(3,696)
Total comprehensive income for the financial year	**-**	**-**	**457**	**4,115**	**-**	**84,969**	**89,541**
Transactions with owners, recorded directly in equity							
Total changes in contributed equity	1,258	-	-	-	-	-	1,258
Share-based payments expense	-	1,247	-	-	-	-	1,247
Shares vested under the DuluxGroup Employee Share Investment Plan(1)	48	(24)	-	-	-	-	24
Dividends paid	-	-	-	-	-	(38,569)	(38,569)
Balance at 30 September 2011	**175,629**	**3,148**	**295**	**(10,973)**	**(97,702)**	**68,059**	**138,456**
Balance at 1 October 2009	-	-	-	(7,826)	-	(29)	(7,855)
Profit for the financial year	-	-	-	-	-	61,289	61,289
Other comprehensive income, net of income tax	-	-	(162)	(7,262)	-	399	(7,025)
Total comprehensive income for the financial year	**-**	**-**	**(162)**	**(7,262)**	**-**	**61,688**	**54,264**
Transactions with owners, recorded directly in equity							
Total changes in contributed equity	174,323	-	-	-	-	-	174,323
Share-based payments expense	-	1,925	-	-	-	-	1,925
Policy difference within Group for common control transactions(2)	-	-	-	-	(97,702)	-	(97,702)
Dividends paid(3)	-	-	-	-	-	(40,000)	(40,000)
Balance at 30 September 2010	**174,323**	**1,925**	**(162)**	**(15,088)**	**(97,702)**	**21,659**	**84,955**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

(1) Refer to Note 26(b) for details of the DuluxGroup Employee Share Investment Plan.

(2) DuluxGroup Limited elected to account for prior year 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 in relation to the valuation 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.

(3) On 17 June 2010, whilst a wholly owned subsidiary of Orica Group (comprising Orica Limited and its controlled entities), the Directors of DuluxGroup Limited declared a dividend to Orica Nominees Pty Ltd, a related entity, of $40,000,000 which was settled on 30 June 2010.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Consolidated Statement of Cash Flows

For the financial year ended 30 September:

	Notes	2011 $'000	2010 $'000
Cash flows from operating activities			
Receipts from customers		**1,085,667**	772,580
Payments to suppliers and employees		**(1,001,883)**	(727,796)
Interest received		**540**	169
Interest paid		**(26,162)**	(9,172)
Income taxes paid		**(25,638)**	(25,081)
Insurance recoveries	2	**53,532**	-
Net cash inflow from operating activities	32	**86,056**	10,700
Cash flows from investing activities			
Payments for property, plant and equipment		**(61,662)**	(29,817)
Payments for intangible assets		**(318)**	(737)
Payments for purchase of businesses and controlled entities		**(4,480)**	(310,701)
Proceeds from joint venture distributions	14	**500**	500
Proceeds from sale of property, plant and equipment		**101**	670
Net cash outflow from investing activities		**(65,859)**	(340,085)
Cash flows from financing activities			
Net movement in short term financing		**3,287**	1,872
Proceeds from long term borrowings		**7,792**	235,743
Proceeds from issue of ordinary shares		**1,258**	174,323
Dividends paid		**(38,569)**	(40,000)
Net cash (outflow)/inflow from financing activities		**(26,232)**	371,938
Net (decrease)/increase in cash held		**(6,035)**	42,553
Cash at the beginning of the financial year		**44,681**	2,532
Effects of exchange rate changes on cash		**894**	(404)
Cash at the end of the financial year		**39,540**	44,681
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	9	**36,463**	41,871
Cash at bank - restricted(1)	9	**3,077**	2,810
	9	**39,540**	44,681

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

(1) DuluxGroup operates a customer loyalty programme, which is managed on behalf of DuluxGroup by a third party. Under the terms of this arrangement, DuluxGroup is 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 is contractually restricted and has therefore been presented separately.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements

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Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

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 and investments in financial assets (other than controlled entities and joint ventures) which have been measured at fair value. In addition, we draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup arising from the Queensland flood for the financial year ended 30 September 2011.

The consolidated financial statements were approved by the Board of Directors on 14 November 2011. The consolidated financial statements 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.

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 2010. The standards relevant to the Group that have been adopted during the year are:

- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project.*
- Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*

The standards relevant to the Group that have been early adopted during the year are:

- AASB 1053 *Application of Tiers of Australian Accounting Standards.*
- AASB 1054 *Australian Additional Disclosures.*
- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project.*
- AASB 2010-5 *Amendments to Australian Accounting Standards.*
- AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets.*
- AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets.*
- AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project.*
- AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income.*

These standards have had no significant impact on the consolidated financial statements.

The standards and interpretations relevant to the Group that have not been early adopted are:

- AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* - applicable for annual reporting periods beginning on or after 1 January 2013.
- AASB 2010-7 *Amendments to Australian Accounting Standards Arising from AASB 9* - applicable for annual reporting periods beginning on or after 1 January 2013.
- AASB 9 *Financial Instruments* - applicable for annual reporting periods beginning on or after 1 January 2013.
- AASB 10 *Consolidated Financial Statements* - applicable for annual reporting periods beginning on or after 1 January 2013.
- AASB 11 *Joint Arrangements* - applicable for annual reporting periods beginning on or after 1 January 2013.
- AASB 12 *Disclosure of Interests in Other Entities* - applicable for annual reporting periods beginning on or after 1 January 2013.
- AASB 13 *Fair Value Measurement* - applicable for annual reporting periods beginning on or after 1 January 2013.
- AASB 119 *Employee Benefits* – applicable for annual reporting periods beginning on or after 1 January 2013.
- AASB 127 *Separate Financial Statements* - applicable for annual reporting periods beginning on or after 1 January 2013.

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

1 Accounting policies (continued)

- AASB 128 *Investments in Associates and Joint Ventures* - applicable for annual reporting periods beginning on or after 1 January 2013.
- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* – applicable for annual reporting periods on or after 1 July 2013.
- AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* – applicable for annual reporting periods beginning on or after 1 January 2013.
- AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* – applicable for annual reporting periods beginning on or after 1 January 2013.
- AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* - applicable for annual reporting periods beginning on or after 1 January 2013.

DuluxGroup expects to adopt these standards and interpretations in the financial year ending 30 September 2012 and subsequent financial years - however they are not expected to have a significant impact on the financial results of DuluxGroup.

b) Comparatives

Where applicable, comparatives have been adjusted to disclose them on the same basis as current financial year figures.

We draw your attention to Note 3 which describes the impact on the reported results of DuluxGroup arising from the transactions and restructuring activities undertaken as part of the demerger from Orica Limited for the financial year ended 30 September 2010.

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. On acquisition, the assets, liabilities and provision for contingent liabilities of a subsidiary, other than acquisitions under common control, are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the excess is credited to the income statement in the period of acquisition.

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.

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.

d) Revenue recognition

Sales revenue

External sales are 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.

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 six years after the initial sale.

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

1 Accounting policies (continued)

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.

Dividends are recognised in the income statement when declared.

Royalty income is recognised on sale of licensed product to the final customer.

Insurance recoveries are recognised in the income statement to the extent that the virtually certain recognition criteria set out in the Australian Accounting Standards has been satisfied.

e) Finance income and expenses

Finance income

Finance income includes interest income on funds invested, which is recognised in the income statement as accrued. 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.

f) Leases

Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in the income statement on a straight-line basis over the lease term.

g) Research and development costs

Research costs are expensed as incurred.

Development costs are expensed as incurred except when it is probable that future economic benefits associated with the item will flow to the consolidated entity, in which case they are capitalised.

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 on taxable income for the financial year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable 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. 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 tax is also recognised in other comprehensive income or directly in equity, respectively.

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.

i) Inventories

Inventories are valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses. 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 material and fixed overheads based on normal operating capacity. For merchanted goods, cost is net cost into store.

j) Trade and other receivables

Trade and other receivables are recognised at their cost less any impairment losses.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. An impairment loss is recognised when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables.

The impairment expense is reported in the income statement within Other Expenses.

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

1 Accounting policies (continued)

A number of customers use bank facilities under the trade card programme that are guaranteed or partially guaranteed by DuluxGroup. As the risks and rewards relating to these facilities have not transferred to the financial institution, a receivable and the equivalent interest-bearing liability have been recognised in the Balance Sheet.

k) Investments accounted for using the equity method

Investments in joint ventures are accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the share of the profits and losses of the joint venture is recognised in the profit or loss, and the share of post-acquisition movements in reserves is recognised in Other Comprehensive Income.

l) Other financial assets

DuluxGroup's investments in financial assets other than controlled entities and joint ventures are stated at market value.

m) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. 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 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 each financial year end.

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

Buildings and improvements	25 to 40 years
Machinery, plant and equipment	3 to 10 years

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

Assets under construction are not depreciated until ready for use.

n) Intangible assets and amortisation

Identifiable intangibles

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

Identifiable intangible assets with a finite life (customer contracts, patents, software, brand names, trademarks and rights) are amortised on a straight-line basis over their expected useful life to the consolidated entity, being up to thirty 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 as explained under impairment of assets (Note 16(c)).

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 as explained under impairment of assets (Note 16(c)).

Subsequent expenditure

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.

o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year, which remain unpaid at the year end date.

Dividends

A liability for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

p) 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.

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

1 Accounting policies (continued)

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.

q) 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 has been 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.

r) 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 up to balance date. Liabilities for long service leave entitlements, which are not expected to be paid or settled within 12 months, are discounted using the rates attaching to Government fixed coupon bond rates with similar maturity terms.

Management judgment is applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- future increases in wages and salaries;
- future on-cost rates; and
- experience of employee departures and period of service.

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.

Superannuation

Contributions to defined contribution superannuation funds are taken to the income statement in the year in which the expense is incurred.

For the defined benefit fund, the cost of providing pensions is charged to the income statement so as to recognise current and past service costs, interest cost on defined benefit obligations, and the effect of any curtailments or settlements, net of expected returns on plan assets.

All actuarial gains and losses are recognised directly in equity.

DuluxGroup's net obligation in respect of the defined benefit fund is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the market yield on Government bonds that have maturity dates approximating the terms of the consolidated entity's obligation. The calculation is performed at least annually by a qualified actuary using the projected unit credit method.

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 value (as at grant date) of options granted. The assumptions underlying the options valuations are:

(i) the exercise price of the option,
(ii) the life of the option,
(iii) the current price of the underlying securities,
(iv) the expected volatility of the share price,
(v) the dividends expected on the shares and
(vi) the risk-free interest rate for the life of the option.

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.

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

1 Accounting policies (continued)

The amounts receivable from employees in relation to the non-recourse loans and any share capital issued under LTEIP are not recognised and any shares purchased on-market by the Company or its controlled entities are recognised as a share buy-back and deducted from contributed equity.

Where the company issues shares under the employee share investment plan at a discount, an expense for the fair value of the discount on the granted shares is recognised.

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.

s) 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.

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. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency of the entity at foreign exchange rates ruling at the dates the fair value was determined.

Foreign currency receivables and payables outstanding at balance date are translated at the exchange rates current at that date. Exchange gains and losses on retranslation of outstanding receivables and payables are taken to 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.

t) Financial instruments - classification

DuluxGroup's principal financial instruments comprise cash and cash equivalents, receivables, payables, interest-bearing liabilities and derivatives.

For measurement purposes DuluxGroup classifies financial assets and financial liabilities into the following categories:

(i) financial assets and liabilities at fair value through profit and loss,
(ii) loans and receivables and
(iii) financial liabilities at amortised cost.

The consolidated entity has no financial assets categorised as held-to-maturity or as available-for-sale.

Financial assets and liabilities at fair value through profit and loss

This category combines financial assets and liabilities that are held for trading and those designated at fair value through profit and loss at inception. A financial asset or liability is classified in this category if it is acquired principally for the purpose of selling in the short term or if it is so designated by management. The consolidated entity uses a number of derivative instruments for economic hedging purposes under Board approved Treasury risk management policies, which do not meet the criteria for hedge accounting under Australian Accounting Standards. These derivatives are required to be categorised as held for trading. Assets and liabilities in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. The fair value of those derivatives that meet the accounting criteria as cash flow hedges and are designated as such are transferred from the income statement to the cash flow hedge reserve in equity.

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

1 Accounting policies (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except where maturities are greater than 12 months after the balance sheet date when they are classified as non-current. Loans and receivables are classified as 'Trade and other receivables' in the balance sheet (refer Note 10).

Financial liabilities at amortised cost

Financial liabilities measured in this category are initially recognised at their fair value and are then subsequently re-measured at amortised cost using the effective interest rate method. This includes DuluxGroup's short term non-derivative financial liabilities (refer Note 18) and its interest bearing liabilities (refer Note 19).

u) 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. In accordance with its Board approved Treasury risk management policies, 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 instruments.

Financial instruments are recognised initially at cost. Subsequent to initial recognition, financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement.

Where financial instruments qualify for hedge accounting, recognition of any resulting gain or loss on remeasurement to fair value depends on the nature of the item being hedged.

Cash flow hedges

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 two 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.

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.

Anticipated transactions

Where a hedge transaction is designated as a hedge of the anticipated purchase or sale of goods or services, purchase of qualifying assets, or an anticipated interest transaction, gains and losses on the hedge, arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the income statement.

The net amount receivable or payable under open swaps, forward rate agreements, options and futures contracts and the associated deferred gains or losses are not recorded in the income statement until the hedged transaction matures. The net receivables or payables are then revalued using the foreign currency, interest or commodity rates current at balance date.

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

1 Accounting policies (continued)

When the anticipated transaction is no longer expected to occur as designated, the deferred gains and losses relating to the hedged transaction are recognised immediately in the income statement.

Gains and losses that arise prior to and upon the maturity of transactions entered into under hedge strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains and losses are recognised immediately in the income statement.

v) Cash and cash equivalents

Cash includes cash at bank, cash on hand and deposits at call which are readily convertible to cash on hand and which are used in the cash management function and are disclosed for the purposes of the Consolidated Statement of Cash Flows, net of bank overdrafts.

w) Contributed equity

Ordinary shares in DuluxGroup Limited are classified as 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.

Shares held by DuluxGroup Employee Share Trust are disclosed as treasury shares and deducted from contributed equity.

x) Impairment of assets

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

The recoverable amount of an asset is determined as the higher of fair value less costs to sell 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 to which the asset belongs.

A cash generating unit 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 cash generating unit being no larger than a reportable segment.

In calculating recoverable amount, the estimated future cash flows 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 cash generating unit.

Cash flows 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.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount.

Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units 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 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.

y) Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to the ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

1 Accounting policies (continued)

Diluted earnings per share is calculated by dividing the net profit attributable to the ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued upon the conversion of all dilutive potential ordinary shares into ordinary shares.

z) Segment reporting

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.

aa) Goods and services tax

Revenues, expenses, assets and liabilities other than receivables and payables, are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the relevant taxation authorities. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. The net amount of GST recoverable from, or payable to, the relevant taxation authorities is included as a current asset or liability in the Consolidated Balance Sheet.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the relevant taxation authorities are classified as operating cash flows.

ab) Rounding

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

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

2 Queensland flood

On 12 January 2011, DuluxGroup announced that its main Australian manufacturing plant at Rocklea in Queensland was being temporarily shutdown in light of the flood conditions, and subsequently confirmed that the production facility, distribution centre and office building located at the Rocklea facility had been subject to significant flooding.

DuluxGroup has insurance arrangements in place, which are subject to a deductible amount that is not material to the Group. Claims made under the insurance arrangements are subject to an insurance assessment and recovery process. The insurance arrangements are designed to cover property damage and business interruption, including damage to plant and equipment; damage to other assets, including inventory; clean up and repair costs; lost profit arising from sales lost as a direct result of damage to our facilities; and increased costs of operating to replace production to maintain revenue, eg. incremental costs associated with third party tolling arrangements.

At 30 September 2011, the insurance assessment and recovery process is continuing. To the extent that the recognition criteria set out in the Australian Accounting Standards has been satisfied, management have recognised in other income insurance recoveries of $65,000,000 for damaged inventory; replacement of property, plant and equipment (assessed based on current replacement cost); lost profit arising from sales lost as a direct result of damage to our facilities; and increased operating, clean up and repair costs. During the year ended 30 September 2011, $53,532,000 of the reported insurance recoveries has been received with the balance of $11,468,000 included in other receivables.

Contingent asset from Queensland flood

Potential further insurance recoveries to be claimed pertaining to the financial year ended 30 September 2011 have not been recognised as a receivable at balance date as these amounts cannot be reliably estimated and are dependent on the insurance assessment and recovery process. The impact of this will be reported in DuluxGroup's 30 September 2012 results.

3 Businesses acquired

2011

There were no material business combinations entered into during the financial year ended 30 September 2011.

Amendments to prior year acquisitions

The purchase accounting adjustments associated with the acquisition of the EnviroSolutions business acquired in 2008 were finalised during the financial year ended 30 September 2011. The result of this is a reduction of $1,000,000 which has been recognised in goodwill during the financial year ended 30 September 2011 with a corresponding decrease to creditors. This adjustment reflects a reduction in the contingent consideration arising from an earn-out arrangement.

2010

Demerger of DuluxGroup Limited and its controlled entities from Orica Limited

On 21 July 2008, Orica Limited announced its intention to demerge the DuluxGroup business (formerly known as the Consumer Products business). This demerger was approved by the Supreme Court of Victoria on 9 July 2010 and effective at the close of business on the same day for accounting purposes.

Owing to the activities undertaken by Orica Limited in preparation for demerger of its DuluxGroup business, the consolidated financial results presented for DuluxGroup for the financial year ended 30 September 2010 do not reflect the full year results for several operations that comprise DuluxGroup at the time of the separation from Orica Limited. During the 2010 financial year, as part of the preparation for the demerger, significant operating assets and liabilities owned by other entities within the Orica Group were legally acquired on a progressive basis by DuluxGroup Limited. These include the assets and liabilities of Paints Australia, Paints New Zealand and Selleys Yates on 1 December 2009, the Malaysian operation on 1 March 2010, the Hong Kong operation on 1 April 2010 and the Papua New Guinea operation on 30 June 2010. The results of these operations have only been included in the consolidated financial statements from the date of acquisition by the Company, as required by applicable Australian Accounting Standards.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

3 Business acquired (continued)

As part of the activities undertaken by Orica Limited during the financial year ended 30 September 2010 to prepare the DuluxGroup business for demerger, DuluxGroup acquired the following legal entities (100% unless otherwise stated):

- DuluxGroup (Australia) Pty Ltd on 1 December 2009;
- Dulux Holdings Pty Ltd on 1 December 2009;
- DGL International (Malaysia) Sdn Bhd on 1 March 2010;
- DGL International (Hong Kong) Ltd on 1 April 2010;
- DGL International (Shenzhen) Co Ltd on 1 April 2010; and
- Dulux Holdings (PNG) Ltd on 30 June 2010.

Also as part of the activities undertaken by Orica Limited to prepare the DuluxGroup business for demerger, DuluxGroup acquired the following business assets and liabilities:

- DuluxGroup business in New Zealand on 1 December 2009;
- DuluxGroup businesses in Australia not trading through DuluxGroup (Australia) Pty Ltd on 1 December 2009 (with certain employee liabilities and other assets only acquired as at 30 June 2010);
- DuluxGroup businesses in Singapore not already trading through DGL International (Singapore) Pte Ltd on 25 January 2010; and
- Dulux Holdings (PNG) Ltd business assets and liabilities, excluding land and buildings, on 30 June 2010, being prior to the acquisition of the Dulux Holdings (PNG) Ltd legal entity on the same date.

These transactions occurred while under the common control of Orica Limited and for consolidation purposes have been accounted for as business combinations under common control at carrying value by DuluxGroup Limited. Consequently no acquisition accounting in the form of a purchase price allocation has been undertaken and therefore the assets and liabilities have not been remeasured to fair value nor has any goodwill arisen. Accordingly in the books of DuluxGroup all assets and liabilities continue to reflect their carrying values in the Orica Limited consolidated accounting records immediately prior to transfer to DuluxGroup using Orica Limited's accounting policies prior to the business combinations occurring.

DuluxGroup Limited elected to account for prior period 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 in relation to the valuation of the business assets and liabilities in New Zealand is reversed with the recognition of a Common Control Reserve (reported in Total Equity) to the extent that the fair value of the business assets and liabilities exceeded their carrying value at the date of acquisition.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

3 Business acquired (continued)

The assets and liabilities recognised as a result of the acquisitions by the consolidated entity are as follows:

2010	$'000
Consideration	
Cash paid	315,451
Net cash acquired	(4,750)
Total consideration	310,701
Book value of net assets of businesses / controlled entities acquired	
Trade and other receivables	89,850
Inventories	107,201
Investments accounted for using the equity method	1,956
Property, plant and equipment	134,696
Intangible assets including purchased goodwill	73,365
Deferred tax assets	25,150
Other assets	19,795
Trade and other payables	(168,747)
Interest-bearing liabilities	(16,082)
Current tax liabilities	(6,244)
Provision for employee entitlements	(24,899)
Other provisions	(1,920)
Deferred income - customer loyalty programme	(2,907)
Environmental provisions	(4,025)
Deferred tax liabilities	(563)
Defined benefit liability	(13,627)
	212,999
Common control reserve	97,702

Results contributed by the acquired business since acquistion date:	$'000
Revenue	741,369
Profit before income tax expense	96,453

If the acquisition had occured on 1 October 2009, the results contributed by the business acquired would have been:	$'000
Revenue	928,799
Profit before income tax expense	125,963

The information on revenue and profit before income tax expense above was compiled by DuluxGroup management based on historical DuluxGroup management information.

Amendments to prior year acquisitions

All fair value adjustments associated with the acquisition of DGL International (Singapore) Pte Ltd were finalised during the financial year ended 30 September 2010. The result of this is a reduction of $813,000 which has been recognised in goodwill during the financial year ended 30 September 2010 with a corresponding decrease to creditors of $1,120,000 and an increase to the deferred tax liabilities of $307,000. These adjustments reflect a reduction in the deferred consideration arising from an earn-out arrangement and recognition of future tax consequences attaching to the acquired brand names.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

4 Earnings per share (EPS)

As reported in the Consolidated Income Statement	2011 Cents per share	2010 Cents per share
Total attributable to ordinary shareholders of DuluxGroup Limited		
Basic earnings per share	**25.7**	16.9
Diluted earnings per share	**25.7**	16.9
	$'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	**93,237**	61,289
	Number	Number
Weighted average number of shares used as the denominator:		
Number for basic earnings per share	**362,481,237**	362,100,430[1]
Effect of the potential issue of shares as part of the Long Term Equity Incentive Plan and the Employee Share Investment Plan[2]	**470,900**	928,611
Number for diluted earnings per share	**362,952,137**	363,029,041

[1] The weighted average number of shares for the financial year ended 30 September 2010 has been restated to reflect the change in the Company's capital structure as a result of DuluxGroup's demerger as if the change had occurred at the beginning of the financial year.

[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.

5 Segment report

Segment information is presented in respect of the consolidated entity's reportable segments. The Chief Operating Decision Maker (CODM) for the Group has been assessed as the Group's Managing Director and Chief Executive Officer. The consolidated entity's operations are divided into four reportable segments comprising: Paints Australia, Paints New Zealand, Selleys Yates and Offshore and Other.

The consolidated entity's policy is to transfer products internally at negotiated commercial prices. Other income includes insurance recoveries, royalties, profit on sale of property, plant and equipment, and net foreign exchange gains.

The major products and services from which the above segments derive revenue are:

Defined reportable segments	Products/services
Paints Australia	Manufacture and supply of paints and other surface coatings to the decorative market in Australia for both consumer and professional markets.
Paints New Zealand	Manufacture and supply of paints and other surface coatings to the decorative market in New Zealand for both consumer and professional markets.
Selleys Yates	Manufacture and distribution of home improvement and garden care products in Australia and New Zealand for both consumer and professional markets.
Offshore and Other	China and South East Asia coatings and home improvement businesses, Papua New Guinea coatings business and the powders and industrial coatings business in Australia and New Zealand.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

5 Segment report (continued)

Reportable segments 2011 $'000	Paints Australia	Paints New Zealand	Selleys Yates	Offshore and Other	Unallocated [2]	Consolidated
Revenue						
External sales	575,089	70,639	237,619	113,078	-	996,425
Inter-segment sales	5,540	11,909	11,306	753	(29,508)	-
Total revenue from sale of goods	580,629	82,548	248,925	113,831	(29,508)	996,425
Other income [1]	65,101	(151)	560	2,163	(131)	67,542
Total revenue and other income	645,730	82,397	249,485	115,994	(29,639)	1,063,967
Results						
Profit/(loss) before net financing costs and income tax expense	106,896	9,725	30,491	7,656	(15,549)	139,219
Profit/(loss) from operations	106,896	9,725	30,491	7,656	(15,549)	139,219
Finance income						540
Finance expense						(23,618)
Profit before income tax expense						116,141
Income tax expense						(22,904)
Profit for the financial year						93,237
Segment assets	301,676	51,096	139,058	85,604	91,295	668,729
Segment liabilities	141,987	14,381	48,947	26,632	298,326	530,273
Investments accounted for using the equity method	-	-	2,497	-	-	2,497
Acquisitions of property, plant and equipment and intangible assets	46,006	13,467	3,583	2,793	429	66,278
Impairment of property, plant and equipment	6,546	153	-	-	12	6,711
Impairment/(reversal of impairment) of inventories	6,104	365	(99)	510	-	6,880
Impairment of trade and other receivables	854	139	-	469	-	1,462
Depreciation expense	9,031	2,227	3,093	3,400	370	18,121
Amortisation expense	976	76	597	203	-	1,852
Non-cash expenses other than depreciation and amortisation: Share-based payments	201	75	194	38	739	1,247
Share of net profit of joint venture accounted for using the equity method	-	-	917	-	-	917

(1) Includes foreign exchange gains/(losses) in various reportable segments and recoveries from the Queensland flood of $65,000,000 in Paints Australia.

(2) Unallocated largely comprises centrally managed income, costs, assets and liabilities relating to properties, tax, treasury and DuluxGroup's defined benefit pension plan.

Revenue from one of DuluxGroup's customers was approximately 30% (2010 30%) of the total DuluxGroup revenue from sale of goods during the year ended 30 September 2011. This customer operated within the Paints Australia, Paints New Zealand and Selleys Yates segments.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

5 Segment report (continued)

Reportable segments 2010 $'000	Paints Australia	Paints New Zealand	Selleys Yates	Offshore and Other	Unallocated [3]	Consolidated
Revenue						
External sales	446,969	59,269	180,483	88,933	-	775,654
Inter-segment sales	7,608	7,219	9,423	556	(24,806)	-
Total revenue from sale of goods	454,577	66,488	189,906	89,489	(24,806)	775,654
Other income [1]	(336)	46	529	427	587	1,253
Total revenue and other income	454,241	66,534	190,435	89,916	(24,219)	776,907
Results						
Profit/(loss) before demerger costs, net financing costs and income tax expense	75,741	8,378	22,395	3,321	(6,694)	103,141
Demerger costs [2]	-	-	-	-	(4,000)	(4,000)
Profit/(loss) from operations	75,741	8,378	22,395	3,321	(10,694)	99,141
Finance income						169
Finance expense						(13,596)
Profit before income tax expense						85,714
Income tax expense						(24,425)
Profit for the financial year						61,289
Segment assets	238,989	37,377	129,634	80,807	87,564	574,371
Segment liabilities	121,846	16,655	45,346	24,047	281,522	489,416
Investments accounted for using the equity method	-	-	2,080	-	-	2,080
Acquisitions of property, plant and equipment and intangible assets	16,140	10,727	5,148	660	-	32,675
Impairment/(reversal of impairment) of inventories	571	(10)	-	266	-	827
Impairment of trade and other receivables	1,032	101	-	281	-	1,414
Depreciation expense	7,121	1,590	2,567	3,133	284	14,695
Amortisation expense	829	74	559	210	-	1,672
Non-cash expenses other than depreciation and amortisation: Share-based payments	1,128	63	193	38	503	1,925
Share of net profit of joint venture accounted for using the equity method	-	-	624	-	-	624

(1) Includes foreign exchange gains/(losses) in various reportable segments.

(2) DuluxGroup incurred $4,000,000 (pre-tax) of transaction costs ($2,800,000 after tax) related to rebranding and separation activities resulting from the demerger.

(3) Unallocated largely comprises centrally managed income, costs, assets and liabilities relating to properties, tax, treasury and DuluxGroup's defined benefit pension plan.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

5 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:

	2011 $'000	2010 $'000
Australia	**802,130**	628,455
New Zealand	**124,723**	92,432
Other countries	**69,572**	54,767
	996,425	775,654

The location of non-current assets other than financial instruments, investments accounted for using the equity method and deferred tax assets at the end of the financial year is as follows:

	2011 $'000	2010 $'000
Australia	**224,988**	197,581
New Zealand	**36,547**	24,288
Other countries	**22,186**	21,515
	283,721	243,384

6 Other income

	2011 $'000	2010 $'000
Insurance recoveries [1]	**65,000**	-
Royalty income	**740**	404
Net foreign exchange gains	**-**	59
Other	**1,802**	790
	67,542	1,253

[1] Comprises of recoveries from the Queensland flood (refer Note 2).

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

7 Expenses

Profit before income tax includes the following specific expenses:

	2011 $'000	2010 $'000
Depreciation and amortisation		
Depreciation (Note 15)		
Buildings	**1,781**	1,368
Machinery, plant and equipment	**16,340**	13,327
	18,121	14,695
Amortisation (Note 16)		
Patents, trademarks and rights	**191**	150
Brand names	**232**	239
Software	**1,429**	1,283
	1,852	1,672
Total depreciation and amortisation expense	**19,973**	16,367
Provisions - net of amounts written back (Note 20)		
Environmental provision	**-**	310
Deferred income - customer loyalty programme provision	**1,475**	(42)
Leased properties provision	**2,696**	1,821
Other provisions	**210**	4,145
	4,381	6,234
Finance expenses		
Interest and finance charges paid/payable for financial liabilities not at fair value through profit and loss	**24,252**	13,596
Provisions: unwinding of discount (Note 20)	**436**	-
Amount capitalised (Note 15)	**(1,070)**	-
	23,618	13,596
Net loss on sale of property, plant and equipment	**54**	106
Net foreign exchange losses	**161**	-
Impairment of property, plant and equipment (Note 15)	**6,711**	-
Impairment of trade and other receivables	**1,462**	1,414
Impairment of inventories	**6,880**	827
Research and development expense	**14,711**	11,045

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

8 Income tax

a) Income tax expense recognised in the Consolidated Income Statement

	2011 $'000	2010 $'000
Current tax expense	39,268	24,876
Deferred tax benefit	(4,903)	(451)
Over provision in prior years [1]	(11,461)	-
Total income tax expense in the Consolidated Income Statement	**22,904**	24,425
Deferred income tax expense/(benefit) included in income tax expense comprises:		
Increase in deferred tax assets (Note 17)	(5,127)	(419)
Increase/(decrease) in deferred tax liabilities (Note 21)	224	(32)
	(4,903)	(451)

b) Reconciliation of prima facie tax expense to income tax expense

	2011 $'000	2010 $'000
Profit before income tax expense	116,141	85,714
Prima facie income tax expense calculated at 30% of profit before income tax expense	34,842	25,714
Tax effect of items which (decrease)/increase tax expense:		
Variation in tax rates of foreign controlled entities	175	311
Entertainment	262	267
Non allowable share-based payments	374	578
Research and development	(360)	(378)
Share of net profit of joint ventures accounted for using the equity method	(275)	(187)
Net non-deductible/non-assessable income	(1,284)	(2,481)
Tax consolidation adjustment [2]	(12,474)	-
Deferred tax restatements for overseas tax legislation change	231	391
Other foreign deductions	-	(489)
Sundry items	1,413	699
Income tax expense reported in the Consolidated Income Statement	**22,904**	24,425

(1) This largely comprises of an over provision arising from changes to the tax consolidation adjustment recognised for the financial year ended 30 September 2010. Refer to footnote 2 below for further details.

(2) On forming the Australian tax consolidated group effective from 19 July 2010, management undertook an exercise to calculate the impact of tax consolidation on the recognised values of deferred tax balances in Australia. The impact of tax consolidation was reflected in the last annual report at 30 September 2010 based on management's best estimates, taking into account the time frame available to prepare the exit calculations from the demerger date. Since 30 September 2010, management has continued to refine the tax exit calculation supported by independent valuation advice and have recognised a further deferred tax asset of $12,474,000 in the financial year ended 30 September 2011, with a corresponding credit to income tax expense.

c) Income tax expense recognised in Other Comprehensive Income

	2011			2010		
	$'000	$'000	$'000	$'000	$'000	$'000
	Before tax	Tax (expense) /benefit	Net of tax	Before tax	Tax (expense) /benefit	Net of tax
Effective portion of changes in fair value of cash flow hedges	653	(196)	457	(231)	69	(162)
Actuarial (losses)/gains on defined benefit plan	(11,811)	3,543	(8,268)	569	(170)	399
	(11,158)	3,347	(7,811)	338	(101)	237

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

8 Income tax (continued)

d) Unrecognised deferred tax assets and liabilities

	2011 $'000	2010 $'000
Tax losses not recognised in China [1]	1,753	1,681

(1) Expiration dates between 2011 and 2016 (2010 between 2010 and 2015).

e) Unrecognised temporary differences

	2011 $'000	2010 $'000
Temporary differences relating to investments in subsidiaries for which deferred tax assets have not been recognised	10,973	15,088
Unrecognised deferred tax assets relating to the above temporary differences	3,292	4,526

A deferred tax asset 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.

f) Tax consolidation

DuluxGroup Limited is the head entity of the tax consolidated group. As the parent entity, the Company 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.

Current tax benefit/expense, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the group allocation approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation. The subsidiary entities are compensated for the assets and liabilities assumed by the parent entity as intercompany receivables and payables and for amounts which equal the amounts initially recognised by the subsidiary entities. Consequently, there is no adjustment for tax consolidation contribution by (or distribution to) equity participants.

9 Cash and cash equivalents

	2011 $'000	2010 $'000
Cash at bank and on hand	36,463	41,871
Cash at bank - restricted [1]	3,077	2,810
	39,540	44,681

(1) DuluxGroup operates a customer loyalty programme, which is managed on behalf of DuluxGroup by a third party. Under the terms of this arrangement, DuluxGroup is 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 is contractually restricted and has therefore been presented separately.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

10 Trade and other receivables

	2011 $'000	2010 $'000
Current		
Trade receivables	**158,994**	140,596
Less allowance for impairment	**(3,137)**	(2,763)
	155,857	137,833
Other receivables	**2,398**	3,097
Less allowance for impairment	**-**	(49)
	2,398	3,048
Insurance receivables (Note 2)	**11,468**	-
	169,723	140,881
Non-current		
Other receivables	**4**	88

a) Trade receivables

Trade receivables (current) includes $12,526,000 (2010 $12,289,000) of receivables arising from trade cards used by customers to finance trade debts that have effectively been transferred from DuluxGroup. These receivables do not qualify for derecognition due to DuluxGroup's exposure to the credit risk associated with the relevant debtors via guarantees provided to financial institutions should the debtors not pay. A corresponding liability is recognised in Note 19.

Refer to Note 27 for terms and conditions relating to related party trade receivables.

b) Trade receivables and allowance for impairment

	2011 Gross $'000	2011 Allowance $'000	2010 Gross $'000	2010 Allowance $'000
Not past due	**137,389**	**32**	120,517	100
Past due 0 - 30 days	**13,416**	**125**	13,056	-
Past due 31 - 60 days	**2,060**	**63**	2,512	-
Past due 61 - 90 days	**1,316**	**188**	993	151
Past due 91 - 120 days	**817**	**251**	484	255
Past 120 days	**3,996**	**2,478**	3,034	2,257
	158,994	**3,137**	140,596	2,763

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 end of month of invoice date. 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.

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.

Trade receivables have been aged according to their due date in the above ageing analysis.

There are no individually significant receivables that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

10 Trade and other receivables (continued)

c) Movement in allowance for impairment of trade receivables

	2011 $'000	2010 $'000
Opening balance	**2,763**	1,386
Allowances made during the year	**1,468**	1,411
Additions through business acquisitions	**-**	2,304
Allowances utilised during the year	**(1,136)**	(2,032)
Foreign currency exchange differences	**42**	(306)
Closing balance	**3,137**	2,763

d) Movement in allowance for impairment of current other receivables

	2011 $'000	2010 $'000
Opening balance	**49**	46
Allowances made during the year	**-**	3
Allowances written back during the year	**(6)**	-
Allowances utilised during the year	**(44)**	-
Foreign currency exchange differences	**1**	-
Closing balance	**-**	49

e) Fair values

The net carrying amount of trade and other receivables approximates their fair values.

f) Concentrations of credit risk

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 indications of lower credit risk.

11 Inventories

	2011 $'000	2010 $'000
Raw materials	**26,935**	18,456
Work in progress	**4,480**	3,766
Finished goods	**104,312**	91,206
	135,727	113,428

The cost of goods sold recognised in the Consolidated Income Statement for the financial year ended 30 September 2011 amounted to $564,799,000 (2010 $439,236,000).

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

12 Derivative financial assets and liabilities

	2011 $'000	2010 $'000
Current		
Derivative financial assets		
Foreign exchange options - cash flow hedges	**881**	35
Foreign exchange options - held for trading	**-**	23
Interest rate options - cash flow hedges	**37**	-
	918	58
Derivative financial liabilities		
Foreign exchange contracts - held for trading	**6**	-
Foreign exchange contracts - cash flow hedges	-	305
	6	305
Non-current		
Derivative financial assets		
Interest rate options - cash flow hedges	**221**	1,278
	221	1,278

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.

a) Foreign exchange transactions

The hedging of foreign exchange transactions is described under foreign exchange risk management in Note 36.

The fair value of forward exchange contracts used as hedges of foreign exchange transactions at 30 September 2011 was $NIL (2010 net $305,000 loss). The fair value of foreign exchange options used as hedges of foreign exchange transactions at 30 September 2011 was $881,000 (2010 $35,000), comprising assets of $881,000 (2010 $35,000).

The following table shows the maturities of the receipts/payments of derivative instruments designated as cash flow hedges:

Foreign exchange contracts	Weighted average rate 2011	$'000 2011	Weighted average rate 2010	$'000 2010
Buy US dollars/sell Australian dollars				
Not later than one year	**-**	**-**	0.8831	USD 4,094
Buy US dollars/sell New Zealand dollars				
Not later than one year	**-**	**-**	0.7193	USD 505

Vanilla European Option Contracts	Weighted average rate 2011	$'000 2011	Weighted average rate 2010	$'000 2010
Buy US dollars/sell Australian dollars				
Not later than one year	**1.0422**	**USD 9,224**	0.9018	USD 1,642
Buy US dollars/sell New Zealand dollars			-	-
Not later than one year	**0.8424**	**USD 372**		

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

12 Derivative financial assets and liabilities (continued)

a) Foreign exchange transactions (continued)

$NIL has been recognised in the cash flow hedge reserve on foreign exchange contracts hedging anticipated purchases for the financial year ended 30 September 2011. In the financial year ended 30 September 2010, net losses of $305,000 ($214,000 net of tax) were recognised in the cash flow hedge reserve on foreign exchange contracts hedging anticipated purchases expected to be recognised within 12 months. Since inception of the foreign exchange options, recognised in the balance sheet at 30 September 2011, a net gain of $456,000 ($319,000 net of tax) (2010 net loss of $40,000 ($28,000 net of tax)) has been recognised in the cash flow hedge reserve and is expected to be recognised within 12 months.

The terms of the foreign currency hedges have been negotiated to match the terms of the commitments.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the underlying asset or liability affects the income statement, the consolidated entity transfers the related amount deferred in the cash flow hedge reserve in equity into the income statement.

b) Interest rate option contracts

Interest rate options are classified as cash flow hedges if they are used to transfer floating rate debt into fixed rate debt and are stated at fair value. 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. There was a derivative asset of $258,000 (2010 $1,278,000) as at 30 September 2011.

The notional amounts of interest rate options as summarised below represent the contract or face values of these derivatives. The notional amounts do not represent amounts exchanged by the parties. The amounts to be net settled will be calculated with reference to the notional amounts and the interest rates determined under the terms of the derivative contracts. Each option contract involves quarterly receipt of the net amount of interest where applicable:

	2011 $'000	2010 $'000
Floating to fixed options		
One to five years	**175,000**	175,000
Fixed interest rate range p.a.	**4.75 % to 5.50%**	4.75% to 5.50%

Losses of $34,000 ($24,000 net of tax) (2010 gains of $114,000 ($80,000 net of tax)) recognised in the cash flow hedge reserve on interest rate options are largely expected to be recognised within 12 months.

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 (for example, changes in the fair value of any economic hedge not qualifying for hedge accounting).

Fair value of derivatives

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.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

12 Derivative financial assets and liabilities (continued)

Fair value of derivatives (continued)

The table below presents the Group's financial assets and financial liabilities measured and recognised according to the fair value measurement hierarchy.

2011	Level 1[(1)] $'000	Level 2[(2)] $'000	Level 3[(3)] $'000	Total $'000
Forward foreign exchange contracts	-	(6)	-	(6)
Interest rate options	-	258	-	258
Foreign exchange options	-	881	-	881

2010	Level 1[(1)] $'000	Level 2[(2)] $'000	Level 3[(3)] $'000	Total $'000
Forward foreign exchange contracts	-	(305)	-	(305)
Interest rate options	-	1,278	-	1,278
Foreign exchange options	-	58	-	58

(1) Quoted prices (unadjusted) in active markets for identical assets or liabilities.
(2) Inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (as prices) or indirectly (i.e. derived from prices).
(3) Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

13 Other assets

	2011 $'000	2010 $'000
Current		
Prepayments	2,114	2,987
Other	270	74
	2,384	3,061
Non-current		
Prepayments	332	481
Other	6	9
	338	490

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

14 Investments accounted for using the equity method

The consolidated entity has an interest in the following entities:

Name of entity	Percentage of ownership interest held at end of the financial year 2011 %	2010 %	Contribution to net profit 2011 $'000	2010 $'000
DGL Camel Powder Coatings Limited (formerly DGL Camel Coatings Limited, Orica Camel Coatings Limited)[(1)]	50.0	50.0	-	-
Pinegro Products Pty Ltd[(2)]	50.0	50.0	917	624
			917	624

(1) Acquired on 30 April 2010 and incorporated on 31 October 2003.
(2) Acquired on 1 December 2009 and incorporated on 10 April 1979.

There were no commitments and contingent liabilities in the joint ventures as at 30 September 2011 (2010 $NIL).

	2011 $'000	2010 $'000
Results of joint ventures		
Share of joint ventures' profit before income tax	1,310	891
Share of joint ventures' income tax expense	(393)	(267)
Share of net profit of joint ventures accounted for using the equity method	917	624
Movements in carrying amounts of investments		
Opening balance	2,080	-
Investments in joint ventures acquired during the year	-	1,956
Share of net profit of joint ventures accounted for using the equity method	917	624
Less distributions from joint ventures	(500)	(500)
Closing balance	2,497	2,080
Summary of profit and loss and balance sheets of joint ventures on a 100% basis		
The revenue, net profit after tax, assets and liabilities of joint ventures are:		
Revenue	14,319	10,599
Net profit after tax	1,834	1,248
Assets	9,541	8,399
Liabilities	3,640	3,520

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

15 Property, plant and equipment

	2011 $'000	2010 $'000
Land		
At cost	**28,970**	22,466
Buildings		
At cost	**60,573**	52,448
Less accumulated depreciation	**(26,666)**	(24,912)
	33,907	27,536
Machinery, plant and equipment		
At cost	**265,537**	224,174
Less accumulated depreciation	**(132,055)**	(120,286)
	133,482	103,888
Total net book value		
At cost	**355,080**	299,088
Less accumulated depreciation	**(158,721)**	(145,198)
Total net book value of property, plant and equipment	**196,359**	153,890

a) Assets under construction

Included in the above are assets under constructions at 30 September 2011 of $36,989,000 (2010 $25,822,000).

b) Capitalised borrowing costs

Included in the above is capitalised interest on qualifying assets for the financial year ended 30 September 2011 of $1,070,000 (2010 $NIL). The capitalisation rate used to determine the amount of borrowings costs to be capitalised is 7.1% (2010 Not applicable), being the weighted average interest rate applicable to the entity's outstanding borrowings during the financial year.

c) Reconciliations

Reconciliations of the net book values of property, plant and equipment are set out below:

	Land $'000	Buildings $'000	Machinery, plant and equipment $'000	Total $'000
2011				
Balance at 1 October 2010	**22,466**	**27,536**	**103,888**	**153,890**
Additions	**6,425**	**8,069**	**51,469**	**65,963**
Disposals	**-**	**-**	**(182)**	**(182)**
Depreciation expense	**-**	**(1,781)**	**(16,340)**	**(18,121)**
Impairment expense	**-**	**(23)**	**(6,688)**	**(6,711)**
Foreign currency exchange differences	**79**	**106**	**1,335**	**1,520**
Balance at 30 September 2011	**28,970**	**33,907**	**133,482**	**196,359**
2010				
Balance at 1 October 2009	-	-	3,921	3,921
Additions	-	872	31,066	31,938
Disposals	-	-	(776)	(776)
Additions through business acquisitions (Note 3)	22,528	28,104	84,064	134,696
Depreciation expense	-	(1,368)	(13,327)	(14,695)
Foreign currency exchange differences	(62)	(72)	(1,060)	(1,194)
Balance at 30 September 2010	22,466	27,536	103,888	153,890

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

16 Intangible assets

	2011 $'000	2010 $'000
Goodwill		
At cost	**43,705**	44,200
	43,705	44,200
Patents, trademarks and rights		
At cost	**4,418**	4,299
Less accumulated amortisation	**(3,439)**	(3,148)
	979	1,151
Brand names		
At cost	**41,298**	41,288
Less accumulated amortisation	**(864)**	(638)
	40,434	40,650
Software		
At cost	**19,194**	18,785
Less accumulated amortisation	**(17,288)**	(15,782)
	1,906	3,003
Total net book value		
At cost	**108,615**	108,572
Less accumulated amortisation	**(21,591)**	(19,568)
Total net book value of intangible assets	**87,024**	89,004

a) 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	Total $'000
2011					
Balance at 1 October 2010	**44,200**	**1,151**	**40,650**	**3,003**	**89,004**
Additions	**-**	**-**	**-**	**315**	**315**
Adjustments for business acquisitions (Note 3)	**(1,000)**	**-**	**-**	**-**	**(1,000)**
Amortisation expense	**-**	**(191)**	**(232)**	**(1,429)**	**(1,852)**
Foreign currency exchange differences	**505**	**19**	**16**	**17**	**557**
Balance at 30 September 2011	**43,705**	**979**	**40,434** (1)	**1,906**	**87,024**
2010					
Balance at 1 October 2009	16,682	-	1,683	91	18,456
Additions	-	-	46	691	737
Additions through business acquisitions (Note 3)	28,458	970	39,895	3,229	72,552
Amortisation expense	-	(150)	(239)	(1,283)	(1,672)
Foreign currency exchange differences	(940)	331	(735)	275	(1,069)
Balance at 30 September 2010	44,200	1,151	40,650 (1)	3,003	89,004

(1) Includes an amount of $38,358,000 (2010 $38,358,000) relating to brand names with indefinite useful lives.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

16 Intangible assets (continued)

b) Allocation of goodwill and intangible assets with indefinite useful lives to cash-generating units

The allocation of goodwill and brand names with indefinite lives are as follows:

	Goodwill[1]		Brand names[2]	
	2011 $'000	2010 $'000	**2011 $'000**	2010 $'000
Paints Australia	**8,063**	9,043	**23,500**	23,500
Selleys Yates	**20,210**	20,181	**14,858**	14,858
China[3]	**15,432**	14,976	**-**	-
	43,705	44,200	**38,358**	38,358

[1] Goodwill acquired in a business combination is measured at cost less any accumulated impairment losses.

[2] Brand names assessed to have indefinite lives are identified on the basis of brand strength, expectations of continuing profitability and future business commitment to these brands.

[3] Includes DuluxGroup's operations in China and Hong Kong.

c) Impairment testing of goodwill and intangible assets with indefinite useful lives

For the purpose of impairment testing, the recoverable amount of both goodwill and brand names with indefinite lives is assessed based on the higher of value in use and fair value less costs to sell.

The recoverable amount of the CGUs are determined using cash flow projections based on DuluxGroup's Board approved budgets, four year business plans and related strategic reviews. 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. Foreign currency cash flows are discounted using the functional currency of the CGUs and then translated to Australian dollars using the closing exchange rate.

The discount rates for the recoverable amount of each CGU are assessed using a pre-tax rate. The 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 cost to sell calculation is based on an independent external assessment of the cost of capital of a willing buyer taking into account risk specific factors to the countries in which the CGU operates.

The pre-tax discount rates applied in the discounted cash flow models range between 14% and 16% (2010 15% and 18%).

The calculation of recoverable amount for DuluxGroup is sensitive to changes in interest rates and earnings varying from the assumptions and forecast data used in the impairment testing. As such, sensitivity analysis was undertaken to examine the effect of a change in a variable on each CGU.

At a DuluxGroup consolidated level assessed using a value in use model to determine recoverable amount, a one percentage point change in discount rates would affect overall value in use by an estimated $70,000,000 (2010 $80,000,000) while a 10% change in earnings would affect value in use by $110,000,000 (2010 $130,000,000). A reduction of this magnitude would not cause the recoverable amount to be below the carrying amount of these assets.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

16 Intangible assets (continued)

c) Impairment testing of goodwill and intangible assets with indefinite useful lives (continued)

DuluxGroup's Asian presence (through Selleys, Texture Coatings and Powder Coatings) was enhanced by the acquisition of Sopel, a China-based coatings business, in November 2008. The acquisition of Sopel provided DuluxGroup with access to over 750 distribution outlets and a market leading position in woodcare coatings in the Shanghai region. DuluxGroup's strategy in acquiring Sopel is to leverage the acquired distribution channels by overlaying DuluxGroup's broad product range. Consistent with this strategy for growth in China, the recoverable amount of the China CGU was assessed for the year ended 30 September 2011 using fair value less cost to sell, with the recoverable amount of the CGU exceeding the carrying value of its net assets. This excess in recoverable amount could be reduced should changes in the following key assumptions occur:

- Trading results – Trading results reflect the benefits of leveraging the distribution network acquired as part of the Sopel acquisition in November 2008 and the anticipated growth opportunities in this market. Notwithstanding this, should such an improvement from leveraging the distribution network not eventuate, then the impact on cash flows could result in a reduction of the carrying amount below recoverable amount.
- Discount rates – An increase in the discount rate of 1% (2010 5%) would result in a reduction of the recoverable amount to below its carrying amount.

Other key assumptions include sales, gross margin percentage, working capital and other capital requirements. These assumptions are based on a mix of historical experience, external sources of information and management projections.

17 Deferred tax assets

	2011 $'000	2010 $'000
The balance comprises temporary differences attributable to:		
Trade and other receivables	**655**	657
Inventories	**1,747**	1,598
Property, plant and equipment	**9,852**	1,722
Intangible assets	**2,123**	-
Trade and other payables	**4,585**	5,454
Provisions	**3,127**	3,037
Employee entitlements	**15,538**	11,861
Tax losses	**22**	23
Other	**876**	1,080
Deferred tax assets	**38,525**	25,432
Set-off of deferred tax assets pursuant to set-off provisions (Note 21)	**(4,531)**	-
Net deferred tax assets	**33,994**	25,432
Expected to be recovered within 12 months	**12,614**	14,808
Expected to be recovered after more than 12 months	**21,380**	10,624
	33,994	25,432
Movements:		
Opening balance	**25,432**	401
Additions through business acquisitions (Note 3)	**-**	25,150
Credited to profit or loss	**5,127**	419
Charged to other comprehensive income (Note 8(c))	**3,347**	(101)
Foreign currency exchange differences	**88**	(437)
Closing balance	**33,994**	25,432

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

18 Trade and other payables

	2011 $'000	2010 $'000
Current		
Trade payables	**159,498**	138,029
Other payables	**33,882**	40,830
	193,380	178,859
Non-current		
Other payables	**294**	133
	294	133

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. Refer to Note 27 for terms and conditions applicable for related party trade payables.

b) Fair values

The carrying amount of trade and other payables approximate their fair values due to their short term nature.

19 Interest-bearing liabilities

	2011 $'000	2010 $'000
Current		
Unsecured		
Trade cards [1]	**12,526**	12,289
Bank loans - RMB denominated [2]	**3,195**	-
	15,721	12,289
Non-current		
Unsecured		
Bank loan - USD denominated [3]	**3,070**	-
Bank loan - NZD denominated [4]	**19,685**	-
Bank loan - AUD denominated [5]	**223,176**	237,279
	245,931	237,279

(1) Trade cards used by customers to finance trade debts which are partially guaranteed by DuluxGroup. Therefore, these do not qualify for derecognition and have been included in both trade receivables and interest-bearing liabilities.

(2) The current RMB denominated unsecured bank loan amount comprises of RMB 20,000,000 (AUD 3,195,000) drawn under an overseas bank loan facility.

(3) The non-current USD denominated unsecured bank loan amount comprises of USD 3,000,000 (AUD 3,070,000) drawn under the Group's multi-currency syndicated bank loan facility.

(4) The non-current NZD denominated unsecured bank loan amount comprises of NZD 25,000,000 (AUD 19,685,000) drawn under the Group's multi-currency syndicated bank loan facility.

(5) The non-current AUD denominated unsecured bank loan amount comprises of $225,000,000 (2010 $240,000,000) drawn under the Group's multi-currency syndicated bank loan facility, net of unamortised prepaid establishment fees of $1,824,000 (2010 $2,721,000).

a) Fair values

The carrying amounts of the Group's current and non-current interest-bearing liabilities approximate their fair values.

b) Assets pledged as security

While there were no assets pledged as security by DuluxGroup Limited and its controlled entities. DuluxGroup Limited, DuluxGroup (Finance) Pty Ltd, DuluxGroup (Investments) Pty Ltd, DuluxGroup (New Zealand) Pty Ltd, DuluxGroup (Australia) Pty Ltd, Dulux Holdings Pty Ltd and DuluxGroup (PNG) Pte Ltd have provided a guarantee in relation to the Group's syndicated bank loan facility and other overseas bank facilities.

c) Defaults and breaches

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

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

20 Provisions

	2011 $'000	2010 $'000
Current		
Employee entitlements	**13,168**	12,122
Environmental	**2,344**	3,869
Deferred income - customer loyalty programme	**1,026**	937
Leased properties	**315**	-
Other	**2,844**	4,145
	19,697	21,073
Non-current		
Employee entitlements	**16,111**	14,159
Deferred income - customer loyalty programme	**1,707**	1,543
Leased properties	**4,422**	1,821
Other	**597**	1,522
	22,837	19,045

a) Environmental

Estimated costs for the remediation of soil and untreated waste that have arisen as a result of past events have been provided where a legal or constructive obligation exists and a reliable estimate of the liability is able to be assessed.

b) Deferred income – 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. This provision accounts for this deferral.

c) 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.

As required by Australian Accounting Standards, payments to be made under leases with fixed rent escalation clauses are recognised in the income statement on a straight-line basis over the term of the lease contract. In addition, under certain circumstances DuluxGroup has an obligation to restore its leased premises to an acceptable condition at the end of the respective lease terms. A provision is recognised to account for any amounts arising from these requirements.

d) Other

Other provision comprises of amounts for committed internal reorganisations, contingent liabilities arising from business acquisitions and other costs including those associated with the demerger of DuluxGroup from Orica Group.

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

20 Provisions (continued)

e) Reconciliations

Reconciliations of the carrying amounts of provisions in the current financial year are set out below:

Current and non-current	Environmental $'000	Deferred income - customer loyalty programme $'000	Leased properties $'000	Other $'000	Total $'000
Balance at 1 October 2010	3,869	2,480	1,821	5,667	13,837
Provisions made during the year	-	1,595	3,193	258	5,046
Provisions written back during the year	-	(120)	(497)	(1,022)	(1,639)
Provisions utilised during the year	(1,536)	(1,438)	-	(1,510)	(4,484)
Unwind of discounting	-	216	220	-	436
Foreign currency exchange differences	11	-	-	48	59
Balance at 30 September 2011	2,344	2,733	4,737	3,441	13,255

21 Deferred tax liabilities

	2011 $'000	2010 $'000
The balance comprises temporary differences attributable to:		
Trade and other receivables	3,441	-
Property, plant and equipment	1,358	250
Intangible assets	312	173
Trade and other payables	399	322
Other	7	-
Deferred tax liabilities	5,517	745
Set-off of deferred tax assets pursuant to set-off provisions (Note 17)	(4,531)	-
Net deferred tax liabilities	986	745
Expected to be settled within 12 months	499	322
Expected to be settled after more than 12 months	487	423
	986	745
Movements:		
Opening balance	745	-
Additions through business acquisitions (Note 3)	-	870
Charged/(credited) to profit or loss	224	(32)
Foreign currency exchange differences	17	(93)
Closing balance	986	745

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

22 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.

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 employer 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 employer 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. The amount recognised as an expense for the financial year ended 30 September 2011 was $10,800,000 (2010 $7,156,000).

c) Defined benefit pension plans

Following the demerger of DuluxGroup from Orica Limited on 9 July 2010, DuluxGroup (Australia) Pty Ltd became a sponsoring employer of the Orica Flexible Benefits Super Fund (FBSF), a defined benefit post-employment plan in Australia that provides benefits to employees upon retirement.

On 1 July 2011, a new successor fund called The DuluxGroup Super Fund (the Fund) was established. DuluxGroup (Australia) Pty Ltd is the sponsoring employer of the defined benefit post-employment section of the Fund in Australia. At 1 July 2011, the membership and benefits of all DuluxGroup employees who were members of the FBSF were transferred to the Fund under a successor fund arrangement. The impact of this transfer was $NIL, with the net defined benefit liability post the transfer equal to the net defined benefit before the transfer.

Funding for post-employment benefits is carried out in accordance with the requirements of the Trust Deed and the advice of the plan's actuarial adviser. During the financial year ended 30 September 2011, the consolidated entity made employer contributions of $5,729,000 (2010 $426,000) to defined benefit plans. DuluxGroup's external actuaries have forecast total employer contributions to defined benefit plans of $5,754,000 for the financial year ending 30 September 2012. The fund is currently closed to new members.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

22 Superannuation commitments (continued)

c) Defined benefit pension plans (continued)

i) Balance sheet amounts

The amounts recognised in the balance sheet are determined as follows:

	2011 $'000	2010 $'000
Present value of the defined benefit obligations	**139,539**	127,674
Fair value of defined benefit plan assets	**(116,925)**	(114,405)
Net defined benefit liability recognised in balance sheet at the end of the financial year	**22,614**	13,269

ii) Categories of plan assets

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

	2011	2010
Equity instruments	**40%**	45%
Fixed interest securities	**19%**	26%
Property	**14%**	12%
Cash and other assets	**27%**	17%

iii) Reconciliations

	2011 $'000	2010 $'000
Reconciliation of present value of the defined benefit obligations:		
Balance at 1 October	**127,674**	-
Additions through business acquisitions	**-**	128,030
Current service cost	**4,066**	1,014
Interest cost	**6,762**	1,646
Actuarial losses	**5,105**	2,291
Contributions by plan participants	**2,629**	348
Benefits paid	**(5,011)**	(5,390)
Distributions	**(1,686)**	(265)
Balance at 30 September	**139,539**	127,674
Reconciliation of the fair value of the plan assets:		
Balance at 1 October	**114,405**	-
Additions through business acquisitions	**-**	114,403
Expected return on plan assets	**7,565**	2,023
Actuarial (losses)/gains	**(6,706)**	2,860
Contributions by employer	**5,729**	426
Contributions by plan participants	**2,629**	348
Benefits paid	**(5,011)**	(5,390)
Distributions	**(1,686)**	(265)
Balance at 30 September	**116,925**	114,405

The fair value of plan assets does not include any amounts relating to the DuluxGroup's own financial instruments, property occupied by, or other assets used by, the consolidated entity (2010 $NIL).

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

22 Superannuation commitments (continued)

c) Defined benefit pension plans (continued)

iv) Amounts recognised in the Consolidated Income Statement

	2011 '000	2010 $'000
Current service cost	**4,066**	1,014
Interest cost	**6,762**	1,646
Expected return on plan assets	**(7,565)**	(2,023)
Total included in employee benefits expense	**3,263**	637

v) Principal actuarial assumptions

The principal actuarial assumptions used were as follows:

	2011	2010
Discount rate	**3.80%**	4.60%
Expected return on plan assets	**7.25%**	7.25%
Future salary increases	**3.75%**	3.75%
Future inflation	**2.75%**	2.75%

vi) Historic summary

	2011 $'000	2010 $'000
Defined benefit plan obligation	**139,539**	127,674
Plan assets	**(116,925)**	(114,405)
Deficit	**22,614**	13,269
Experience gain arising on plan liabilities	**(811)**	(764)
Experience (loss)/gain arising on plan assets	**(6,706)**	2,860
Actual return on plan assets	**859**	4,883

vii) Amounts included in the Consolidated Statement of Comprehensive Income

	2011 $'000	2010 $'000
Total actuarial (losses)/gains before tax	**(11,811)**	569
Tax on total actuarial losses/(gains)	**3,543**	(170)
Total actuarial (losses)/gains after tax	**(8,268)**	399

The consolidated entity has elected under AASB 119 *Employee Benefits*, to recognise all actuarial gains/losses in the Consolidated Statement of Comprehensive Income. The cumulative amount of net actuarial losses (before tax) included in the Consolidated Statement of Comprehensive Income to 30 September 2011 is $11,242,000 (2010 gain of $569,000).

viii) Expected rate of return on assets assumption

The overall expected rate of return on assets assumption is determined by weighting the expected long term rate of return for each asset class by the target allocation of plan assets to each class. The rates of return used for each class are net of investment tax and investment fees.

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

23 Contributed equity

	2011 $'000	2010 $'000
Issued and fully paid		
Ordinary shares	**175,629**	174,323

Movements in fully paid ordinary shares on issue since 1 October 2009 were as follows:

Details	Number of shares	Issue price $	$'000
Ordinary shares			
Balance at 1 October 2009	6	1.00	-
Shares issued under the Orica Demerger Scheme[1]	362,100,424	0.48	174,323
Shares issued under the DuluxGroup ESIP plan[2]	489,840	-	-
Shares issued under the DuluxGroup LTEIP plan[3]	4,401,850	-	-
Balance at 30 September 2010	366,992,120		174,323
Shares issued under the DuluxGroup dividend reinvestment plan[4]	464,139	2.71	1,258
Shares vested under the DuluxGroup ESIP plan[2]	-	-	48
Balance at 30 September 2011	**367,456,259**		**175,629**

[1] Under the Orica Demerger Scheme one DuluxGroup Limited ordinary share was issued for each Orica Limited ordinary share held at the Record Date for the demerger being 16 July 2010.

[2] Upon cessation of employment and settlement of amounts outstanding for their ESIP shares, 18,940 shares vested to plan participants. Refer to Note 26 for details of the DuluxGroup Employee Share Investment Plan.

[3] Refer to Note 26 for details of the DuluxGroup Long Term Equity Incentive Plan.

[4] The Company has established a dividend reinvestment plan (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. In relation to the final dividend paid on 10 December 2010, 464,139 new shares were issued at a price of $2.71.

a) Treasury shares

Under the DuluxGroup LTEIP and the ESIP, ordinary shares were issued to DuluxGroup (Employee Share Plans) Pty Ltd as trustee of the plans. On consolidation, the shares issued as part of these plans have been accounted for as treasury shares and accordingly are not included as part of the reported contributed equity amount. Movements in treasury shares since 1 October 2009 were as follows:

Details	Number of shares	$'000
Treasury shares		
Balance at 1 October 2009	-	-
Shares issued under the DuluxGroup ESIP plan[1]	489,840	1,260
Shares issued under the DuluxGroup LTEIP plan[2]	4,401,850	11,313
Balance at 30 September 2010	4,891,690	12,573
Shares vested under the DuluxGroup ESIP plan[1]	(18,940)	(48)
Balance at 30 September 2011	**4,872,750**	**12,525**

[1] Upon cessation of employment and settlement of amounts outstanding for their ESIP shares, 18,940 shares vested to plan participants. Refer to Note 26 for details of the DuluxGroup Employee Share Investment Plan.

[2] Refer to Note 26 for details of the DuluxGroup Long Term Equity Incentive Plan.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

24 Reserves

	2011 $'000	2010 $'000
Reserves		
Share-based payments	**3,148**	1,925
Cash flow hedging	**295**	(162)
Foreign currency translation	**(10,973)**	(15,088)
Common control	**(97,702)**	(97,702)
	(105,232)	(111,027)

a) Share-based payments reserve

The amount charged to the share-based payments reserve each year represents the share-based payments expense.

b) Cash flow hedging reserve

The amount in the cash flow hedging reserve represents the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

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 the Company'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-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.

25 Dividends

The declaration of dividends is subject to the Company satisfying the 'solvency test' requirements of the *Corporations Act 2001*.

a) Ordinary shares

On 8 November 2010, the Directors declared a fully franked final dividend of 3.0 cents per ordinary share. Dividends totalling $11,010,000 were paid on 10 December 2010.

On 16 May 2011, the Directors declared a fully franked interim dividend of 7.5 cents per ordinary share. Dividends totalling $27,559,000 were paid on 17 June 2011.

On 17 June 2010, whilst a wholly owned subsidiary of Orica Group, the Directors of DuluxGroup Limited declared a dividend to Orica Nominees Pty Ltd, a related entity, of $40,000,000 ($6,666,667 per ordinary share) which was settled on 30 June 2010.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

25 Dividends (continued)

b) Subsequent events

On 14 November 2011, the Directors declared a final dividend of 7.5 cents per ordinary share, fully franked and payable on 16 December 2011.

The financial effect of the final dividend has not been brought to account in the financial report for the financial year ended 30 September 2011 and will be recognised in the financial report for the financial year ending 30 September 2012.

The Company's DRP will operate with respect to the final dividend. The DRP pricing period will be the five trading days from 30 November 2011 to 6 December 2011 inclusive. No discount will be applied to the DRP price. Ordinary shares issued under the DRP will rank equally with all other ordinary shares.

c) Franking credits

Franking credits available at the 30% corporate tax rate after allowing for tax payable in respect of the current year's profit and the payment of the final dividend for 2011 are $949,500 (2010 $1,995,730).

26 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:

	2011 **$**	2010 $
DuluxGroup Long Term Equity Incentive Plan	**1,246,580**	282,410
DuluxGroup Employee Share Investment Plan	**-**	630,011
Orica Group Long Term Equity Incentive Plan[1]	**-**	1,012,979
	1,246,580	1,925,400

[1] Prior to demerger from the Orica Group at the close of business on 9 July 2010, eligible DuluxGroup executives participated in the Orica Group long term equity incentive plans. In addition, pursuant to the rules of the Orica Group LTEIP, loans became repayable and applicable debt waiver performance conditions were pro-rata tested in relation to the DuluxGroup participants at the time of demerger. As a result, an incremental share-based payment expense was incurred to reflect the accelerated vesting of these Orica Group LTEIP awards.

a) DuluxGroup Long Term Equity Incentive Plan

Under the DuluxGroup Long Term Equity Incentive Plan (LTEIP), there were no new grants during the financial year ended 30 September 2011.

The LTEIP was established on 9 July 2010 (following demerger from Orica Limited) to incentivise executives to generate shareholder wealth. Detailed remuneration disclosures, including further details on the link between the LTEIP and shareholder wealth, are provided in the Remuneration Report section of the Directors' Report.

Under the LTEIP, eligible executives are provided with an interest free, non-recourse loan from DuluxGroup for the sole purpose of acquiring ordinary 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. The shares issued to the executives can be newly issued shares, purchased on market or reissued unvested shares. Shares issued 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. Shares issued under this plan are recognised as treasury shares (refer Note 23), with a share-based payment expense recognised in the income statement over the vesting period based on the fair value of the options. Shares purchased by the Company or its controlled entities on-market under the plan are recognised as a share buy-back. Settlement of share loans are recognised as share capital. Under the July 2010 and subsequent LTEIP executive allocations, the shares are returned to DuluxGroup, subject to discretion retained by the Directors, if the executives leave DuluxGroup within the vesting period. Typically, the vesting period is three years, with performance tested following the announcement of annual results in the third year after a grant is made. For the grant made under the 2010 DuluxGroup LTEIP, a period of approximately three and a half years will apply, with testing expected to occur in November 2013.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

26 Share-based payments (continued)

a) DuluxGroup Long Term Equity Incentive Plan (continued)

Details of shares issued under this plan and the associated share-based payment expense is as follows:

	Number at issue date	Issue date	Issue price	Total expense[1] **2011** **$**	2010 $
Shares issued	3,937,778	19 July 2010	$2.57	**1,142,080**	252,636
Shares issued	464,072	5 August 2010	$2.57	**104,500**	29,774
	4,401,850			**1,246,580**	282,410

[1] Represents the value calculated under AASB 2 *Share-based Payment*. The share-based payment expense 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.

i) Movement in the number of equity instruments held by executives during the year

Grant date	Expiry date	Exercise price	Number outstanding at 1 October 2010	Number granted during the year	Number other changes during the year[1,2]	Number outstanding at year end	Number exercisable at year end
12 July 2010[3]	January 2014[4]	N/A	3,937,778	-	(334,330)	3,603,448	-
12 July 2010[3]	January 2014[4]	N/A	464,072	-	(87,822)	376,250	-

[1] Where share options are forfeited due to the executive leaving during the year, these amounts are reported as other changes during the year.

[2] 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 and a half years. 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 31 January of the following year. In the event options expire as the loan is not repaid within the repayment window these amounts are reported as other changes during the year.

[3] While the issue and allocation of LTEIP shares to the Executives only occurred on either 19 July 2010 or 5 August 2010, in accordance with the requirements of Australian Accounting Standards, the 'grant date' is 12 July 2010 being the date that the Company and the Executives agreed to enter a share-based payment arrangement.

[4] Expected expiry date is January 2014 coinciding with end of the trading window following the 30 September 2013 results announcement, which is expected to be in November 2013.

ii) Fair value of share options granted

The assessed fair value at grant date of share options granted during the year ended 30 September 2010 is detailed below. The fair value at grant date 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. In addition, specific factors in relation to the likely achievement of performance hurdles and employment tenure have been taken into account.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

26 Share-based payments (continued)

a) DuluxGroup Long Term Equity Incentive Plan (continued)

The fair value inputs for share options granted the year ended 30 September 2010 include:

	LTEIP 2010
Fair value estimate at grant date ($)	$0.98
Gateway condition[1]	EPS
Performance condition[2]	TSR ranking
Expected life of share options (years)	3.5
Expected dividend yield (%)	NIL
Expected risk-free interest rate (%)	4.70%
Expected share price volatility (%)	30.0%
Grant date share price ($)	$2.54

(1) The Board has implemented a 'gateway' level of minimum performance for the DuluxGroup LTEIP below which no benefit accrues. This 'gateway' is a minimum level of acceptable performance for any of the LTEIP shares to vest. For the grant made during the year ended 30 September 2010, compound annual EPS growth over the vesting period from 30 September 2010 to 30 September 2013 must equal or exceed 2% per annum.

(2) 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 (up to a maximum of 30% at or above the 75th percentile) is forgiven.

b) DuluxGroup Employee Share Investment Plan

There were no new employee share investment plans that commenced during the financial year ended 30 September 2011.

Under the 2010 Employee Share Investment Plan (ESIP), eligible employees of the Group (with the exception of New Zealand employees) were invited to acquire DuluxGroup Limited ordinary shares to the value of $500 (through a salary sacrifice). Eligible employees in New Zealand were offered to acquire ordinary shares to the value of NZ$390. DuluxGroup 'matched' this participation, providing shares up to the value of $500 (or NZ$390) to participating employees at no cost to the participant. In accordance with AASB 2, the accounting charge to the Company for the matching was expensed in full during the financial year ended 30 September 2010.

The number of DuluxGroup's ordinary shares allocated was based on the market price at the time of allocation under the ESIP with 489,840 new shares issued. 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 2010 ESIP offer and specifically excluded members of the senior management team.

A participating employee is entitled to receive all cash dividends paid on their DuluxGroup shares and to exercise the voting rights attaching to those shares from the date of allocation. Employees who leave DuluxGroup must salary sacrifice any remaining amount prior to becoming entitled to the shares. 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. A total of 1,341 employees participated in the plan.

Details of shares issued under this plan and the associated share-based payment expense is as follows:

	Number at issue date	Issue date	Issue price	Total expense 2011 $	2010 $
Shares issued	443,430	9 August 2010	$2.56	-	567,590
Shares issued	46,410	28 September 2010	$2.69	-	62,421
	489,840			-	630,011

During the financial year ended 30 September 2011, of the 489,840 ESIP shares on issue, 18,940 shares vested due to plan participants ceasing their employment with DuluxGroup and settlement of amounts outstanding for their ESIP shares.

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

27 Related party disclosures

a) 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. 'Executive KMP' refers to executives identified as KMP of DuluxGroup.

A summary of KMP compensation is set out in the following table:

	2011[1] $	2010[1] $
Short term employee benefits	**5,178,272**	4,399,963
Other long term benefits	**93,966**	140,107
Post employment benefits	**165,597**	99,969
Share-based payments	**663,516**	1,688,789
Termination benefits	**-**	156,509
	6,101,351	6,485,337

(1) The remuneration disclosure in this table is different to the disclosure in the Remuneration Report as this table excludes the remuneration of Messrs Brezzi and Walker (2010 Mr Richardson), who are not KMP under the requirements of AASB 124.

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.

b) Key Management Personnel's transactions in shares and options

The relevant interests of KMPs, including their related parties, in the share capital and options of the Company from the earlier of their date of appointment or 1 October 2010 are:

As at 30 September 2011	Balance held at date of appointment or 1 October 2010	Number acquired[1]	Net change other[2]	Number of fully paid ordinary shares held at 30 September 2011	Number of options for fully paid ordinary shares held at 30 September 2011[3]
Non-Executive Directors					
Peter Kirby	130,000	-	-	130,000	-
Gaik Hean Chew	-	49,000	-	49,000	-
Garry Hounsell	16,138	97,076	-	113,214	-
Andrew Larke	148,549	891	-	149,440	-
Judith Swales	-	-	-	-	-
Executive Directors					
Patrick Houlihan	89,322	35,000	-	124,322	1,145,655
Stuart Boxer	53,226	20,000	-	73,226	317,873
Other Executive KMP					
Graeme Doyle	41,287	-	-	41,287	307,453
Patrick Jones	12,595	469	-	13,064	128,536
Brad Hordern	14,110	1,017	-	15,127	140,026
Julia Myers	1,570[4]	40	-	1,610	58,088
Former Executive KMP					
Andrew Ingleton	22,681	-	-	22,681	-
Total	**529,478**	**203,493**	**-**	**732,971**	**2,097,631**

(1) Includes DuluxGroup Limited shares acquired through purchases and exercise of options.

(2) Net change other includes changes resulting from sales during the financial year.

(3) These interests include shares acquired under a loan agreement. A general description of these agreements (LTEIP) is provided in the Remuneration Report. Under AASB 2, the LTEIP plan is deemed to be an option plan for accounting purposes and the amounts receivable from employees in relation to the underlying loans and share capital issued under these schemes are not recognised by the consolidated entity.

(4) Ms Myers was appointed to the role of General Manager, Dulux Paints New Zealand on 1 May 2011 and became a KMP on that date. The table includes the balance of her share and option holdings at 1 May 2011.

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

27 Related party disclosures (continued)

b) Key Management Personnel's transactions in shares and options (continued)

As at 30 September 2010	Balance held at 12 July 2010	Number acquired[1]	Net change other[2]	Number of fully paid ordinary shares held at 30 September 2010	Number of options for fully paid ordinary shares held at 30 September 2010[3]
Non-Executive Directors					
Peter Kirby	-	130,000	-	130,000	-
Garry Hounsell	-	16,138	-	16,138	-
Gaik Hean Chew	-	-	-	-	-
Executive Directors					
Patrick Houlihan	-	89,322	-	89,322	1,145,655
Stuart Boxer	-	53,226	-	53,226	317,873
Other Executive KMP					
Graeme Doyle	-	41,287	-	41,287	307,453
Brad Hordern	-	14,110	-	14,110	140,026
Andrew Ingleton	-	22,681	-	22,681	304,701
Patrick Jones	-	12,595	-	12,595	128,536
Total	-	379,359	-	379,359	2,344,244

(1) Includes DuluxGroup Limited shares acquired through purchases, exercise of options and those acquired as part of the one-for-one share issue under the DuluxGroup demerger scheme of arrangement.

(2) Net change other includes changes resulting from sales during the financial year.

(3) These interests include shares acquired under a loan agreement. A general description of these agreements (LTEIP) is provided in the Remuneration Report. Under AASB 2, the LTEIP plan is deemed to be an option plan for accounting purposes and the amounts receivable from employees in relation to the underlying loans and share capital issued under these schemes are not recognised by the consolidated entity.

c) 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.

2011

There were no other transactions during the financial year nor balances owing to or from KMP as at 30 September 2011.

2010

Prior to their appointment as Directors of DuluxGroup Limited, Messrs Kirby and Hounsell received payments of $50,000 and $40,000 respectively from Orica Limited for the additional workload involved in the demerger of DuluxGroup. Mr Hounsell received a further payment of $50,000 from Orica Limited for his role as Chairman of the demerger Due Diligence Committee.

In addition, prior to her appointment as Non-Executive Director on 2 August 2010, Ms Chew was paid a fee of $40,000 in relation to consulting services rendered. This amount was outstanding at the date of her appointment.

There were no other transactions during the financial year nor balances owing to or from KMP as at 30 September 2010.

d) Parent entity

The ultimate parent entity within the Group is DuluxGroup Limited, which is domiciled and incorporated in Australia.

e) Controlled entities

Interests in subsidiaries are set out in Note 35.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

27 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:

	2011 $	2010 $
Sales of goods to joint ventures	**283,326**	240,255
Purchases of goods from joint ventures	**2,517,240**	1,436,518
Distributions received from joint ventures	**500,000**	500,000
Royalty income received from joint ventures	**434,216**	82,369

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:

	2011 $	2010 $
Current receivables from joint ventures	**71,912**	18,768
Current payables to joint ventures	**376,565**	512,096

No provisions for doubtful debt 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.

28 Auditors' remuneration

	2011 $	2010 $
Total remuneration received, or due and receivable, by the auditors of the Company for:		
Audit services - audit and review of financial reports		
KPMG Australia	**470,000**	420,000
Overseas KPMG firms[1]	**108,041**	120,401
	578,041	540,401
Other services[2]		
Other assurance services - KPMG Australia	**82,500**	55,000
	82,500	55,000

(1) Other regulatory audit services include fees paid or payable for overseas subsidiaries' local statutory lodgement purposes and other regulatory compliance requirements.

(2) The Audit and Risk Committee must approve any non-statutory services (other services) provided by KPMG above a value of $50,000 per assignment. Throughout the year, the Committee also reviews and approves other services provided by KPMG below a value of $50,000. 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.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

29 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 and estimates. 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 but any changes to useful economic lives may affect prospective depreciation rates and asset carrying values.

c) Impairment of assets

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 cash generating unit (CGU). The recoverable amount of those assets, or CGUs, is measured as the higher of their fair value less costs to sell 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, expected revenue from sales of products, the return on assets, future costs and discount rates. Subsequent changes to the CGU allocation or to the timing and quantum of cash flows may impact the carrying value of the respective assets.

d) Defined benefit superannuation fund obligations

The expected costs of providing post-retirement benefits under defined benefit arrangements relating to employee service during the period are charged to the income statement. Any actuarial gains and losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, are recognised immediately in the Consolidated Statement of Comprehensive Income. In all cases, the superannuation costs are assessed in accordance with the advice of independent qualified actuaries but require the exercise of significant judgement in relation to assumptions for future salary and superannuation increases, long term price inflation and investment returns. While management believes the assumptions used are appropriate, a change in the assumptions used may impact the earnings and equity of the Group.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

29 Critical accounting estimates and judgements (continued)

e) Legal proceedings

The nature of DuluxGroup's consumer products business means that the Company receives product-specific and general claims from various parties as part of the ordinary course of its business. These claims 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.

However, 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 be forced to 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.

f) Queensland flood

The Group's insurance receivable balance attributable to the Queensland flood is recognised when the criteria specified under the Australian Accounting Standards is satisfied. The insurance claims arising from the Queensland flood cover a range of issues including material damage to inventories and property, plant and equipment, costs associated with clean up, and business interruption arising from lost sales and incremental costs of manufacturing. The claims are evaluated on a case-by-case basis considering the information and evidence available, and management necessarily applies its judgement in assessing whether the receipt should be recognised. Where the claims have been estimated by management, but do not meet the recognition criteria, they are treated as contingent assets and may qualify for recognition in the future.

g) 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.

Environmental costs are estimated using either the work of external consultants and/or internal experts. Changes in the assumptions underlying these estimated costs may impact future reported results. Subject to these factors, but taking into consideration experience gained to date regarding environmental matters of a similar nature, DuluxGroup believes the provisions to be appropriate based upon currently available information. However, 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. It is possible that final resolution of these matters may require expenditures to be made in excess of established provisions over an extended period of time that may result in changes in timing of anticipated cash flows from those assumed and in a range of amounts that cannot be reasonably estimated.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

30 Contingent liabilities and contingent assets

DuluxGroup had contingent liabilities at 30 September 2011 in respect of:

a) Orica Separation Deed

The Separation Deed between Orica Limited and DuluxGroup Limited deals with certain commercial, transitional and legal issues arising in connection with the legal and economic separation of DuluxGroup from Orica Group. A key part of the Separation Deed is the agreement between the parties in relation to the 'Demerger Principle'. This fundamental underlying principle of the demerger is that, on and from the effective date of the demerger, DuluxGroup has the entire economic benefit, commercial risk and liabilities of all businesses to be conducted by DuluxGroup after the effective date and all former DuluxGroup businesses, as though DuluxGroup had always owned and operated those businesses. The principle also states that Orica Group will have the entire economic benefit, commercial risk and liabilities of all businesses to be conducted by Orica Group after the effective date, and any company, business or asset which is not a business to be conducted by DuluxGroup after the effective date or a former DuluxGroup business, as though Orica Group had always owned and operated those businesses. To support this principle, DuluxGroup and Orica Group indemnify each other against all claims, and liabilities relating to any claim brought by the other, relating to liabilities which are liabilities of their businesses or former businesses following the application of the Demerger Principle. The Separation Deed also contains specific indemnities with respect to certain matters.

b) Deed of cross guarantee

All of DuluxGroup Limited's Australian subsidiaries, excluding DuluxGroup Employee Share Plan Trust, are party to a Deed of Cross Guarantee pursuant to ASIC Class Order 98/1418. The terms of this Deed of Cross Guarantee include a provision that each party guarantees the debts of each other party on insolvency.

c) Contingent asset from Queensland flood

For details of contingent assets arising from the Queensland flood, refer to Note 2.

31 Commitments

a) Capital expenditure commitments

	2011 $'000	2010 $'000
Capital expenditure on property and plant and equipment contracted but not provided for and payable:		
- No later than one year	**2,886**	9,311
- Later than one, no later than five years	**47**	38
	2,933	9,349

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

31 Commitments (continued)

b) Lease commitments

i) 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.

	2011 $'000	2010 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
- No later than one year	**16,122**	15,335
- Later than one, no later than five years	**34,774**	32,778
- Later than five years	**9,494**	22,916
	60,390	71,029

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.

	2011 $'000	2010 $'000
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	**3,300**	5,507

ii) Cancellable operating leases

DuluxGroup also leases various plant and machinery under cancellable operating leases. Generally, DuluxGroup is required to give three months notice for termination of these leases.

	2011 $'000	2010 $'000
Commitments in relation to cancellable operating leases contracted for at the reporting date but not recognised as liabilities payable:		
- No later than one year	**5,238**	5,581
- Later than one, no later than five years	**5,839**	8,328
- Later than five years	**-**	15
	11,077	13,924

c) Other contractual commitments

As part of the normal course of business, the Group has signed various contracts that contain a penalty for early termination of these contracts. At balance date, it is expected that the Group will fulfil the entire term of these contracts. Therefore, no provisions have been raised as at 30 September 2011.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

32 Reconciliation of profit for the financial year to net cash inflow from operating activities

	2011 $'000	2010 $'000
Profit for the financial year	**93,237**	61,289
Depreciation and amortisation	**19,973**	16,367
Share-based payment expense	**1,247**	1,925
Share of joint ventures' net profit	**(917)**	(624)
Impairment of inventories	**6,880**	827
Net loss on sale of property, plant and equipment	**54**	106
Amortisation of prepaid loan establishment fees	**897**	200
Impairment of property, plant and equipment	**6,711**	-
Changes in working capital and provisions excluding the effects of acquisitions and disposals of businesses and controlled entities		
Increase in trade and other receivables	**(28,999)**	(82,105)
Increase in inventories	**(29,179)**	(3,188)
Decrease in other assets	**829**	16,366
Decrease in deferred taxes payable	**(4,707)**	(521)
Increase in trade payables and provisions	**18,057**	193
Increase/(decrease) in current tax liabilities	**1,973**	(135)
Net cash inflow from operating activities	**86,056**	10,700

33 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 dated 27 September 2010, are disclosed in Note 35. 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

	2011 $'000	2010 $'000
Profit before income tax expense	**113,045**	85,090
Income tax expense	**(19,329)**	(23,705)
Profit for the financial year	**93,716**	61,385
Retained earnings at 1 October	**21,334**	(450)
Profit for the financial year	**93,716**	-
Retained earnings of companies joining the deed	**-**	61,385
Actuarial (losses)/gains on defined benefit plan recognised directly in retained earnings (net of tax)	**(8,268)**	399
Dividends paid - ordinary shares	**(38,569)**	(40,000)
Retained earnings at 30 September	**68,213**	21,334

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

33 Deed of cross guarantee (continued)

b) Consolidated Statement of Comprehensive Income

Consolidated statement of comprehensive income

	2011 $'000	2010 $'000
Profit for the financial year	**93,716**	61,385
Other comprehensive income		
Items that may be reclassified subsequently to the income statement		
Effective portion of changes in fair value of cash flow hedges	**452**	73
Foreign currency translation gain/(loss) on foreign operations	**1,545**	(146)
Income tax on items that may be reclassified subsequently to the income statment	**(136)**	69
Total items that may be reclassified subsequently to the income statement, net of tax	**1,861**	(4)
Items that will not be reclassified to the income statement		
Actuarial (losses)/gains on defined benefit plan	**(11,811)**	569
Income tax on items that will not be reclassified to the income statement	**3,543**	(170)
Total items that will not be reclassified to the income statement, net of tax	**(8,268)**	399
Other comprehensive income for the financial year, net of income tax	**(6,407)**	395
Total comprehensive income for the financial year	**87,309**	61,780

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

33 Deed of cross guarantee (continued)

c) Consolidated Balance Sheet

	2011 $'000	2010 $'000
Current assets		
Cash and cash equivalents	**22,473**	35,349
Trade and other receivables	**161,208**	134,913
Inventories	**125,117**	106,895
Derivative financial assets	**918**	58
Other assets	**2,042**	2,760
Total current assets	**311,758**	279,975
Non-current assets		
Trade and other receivables	**15,605**	12,729
Derivative financial assets	**221**	1,278
Investments	**42,670**	42,253
Property, plant and equipment	**191,002**	148,844
Intangible assets	**70,218**	72,544
Deferred tax assets	**33,365**	24,439
Other assets	**315**	481
Total non-current assets	**353,396**	302,568
Total assets	**665,154**	582,543
Current liabilities		
Trade and other payables	**177,047**	166,825
Interest-bearing liabilities	**12,526**	12,289
Derivative financial liabilities	**6**	305
Current tax liabilities	**6,547**	6,188
Provisions	**19,413**	20,842
Total current liabilities	**215,539**	206,449
Non-current liabilities		
Trade and other payables	**8**	159
Interest-bearing liabilities	**245,931**	237,279
Deferred tax liabilities	**630**	601
Provisions	**22,183**	17,480
Defined benefit liability	**22,614**	13,269
Total non-current liabilities	**291,366**	268,788
Total liabilities	**506,905**	475,237
Net assets	**158,249**	107,306
Equity		
Ordinary shares	**188,154**	186,896
Reserves	**(98,118)**	(100,924)
Retained earnings	**68,213**	21,334
Total equity	**158,249**	107,306

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2011

34 Parent entity financial information

a) Summary financial information

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

	2011 $'000	2010 $'000
Current assets	**5,302**	7,503
Non-current assets	**223,502**	223,815
Total assets	**228,804**	231,318
Current liabilities	**1,365**	13
Non-current liabilities	**37,865**	38,074
Total liabilities	**39,230**	38,087
Net assets	**189,574**	193,231
Equity		
Contributed equity[1]	**188,154**	186,896
Retained earnings	**1,420**	6,335
	189,574	193,231
Profit before income tax expense[2]	**31,549**	46,264
Income tax benefit	**2,105**	71
Profit for the financial year	**33,654**	46,335
Total comprehensive income of the parent entity	**33,654**	46,335

[1] Includes $12,525,000 (2010 $12,573,000) relating to 4,872,750 (2010 4,891,690) DuluxGroup Limited shares issued as part of the DuluxGroup LTEIP and ESIP plans and $1,258,000 (2010 $NIL) relating to 464,139 DuluxGroup Limited shares issued as part of the DRP. On consolidation, the shares issued as part of the DuluxGroup LTEIP and ESIP plans have been accounted for as treasury shares and accordingly are not recognised as part of contributed equity. Refer Note 23(a).

[2] Profit before income tax expense includes dividend income of $11,010,000 and $27,559,000 (2010 $46,500,000) declared by DuluxGroup (New Zealand) Pty Ltd on 30 November 2010 and 17 June 2011 respectively (2010 17 June 2010).

b) Guarantees

Details of guarantees entered into by the parent entity in relation to external banking facilities as at 30 September 2011 are set out in Note 19(b). In addition, the parent entity is a party to the deed of cross guarantee as disclosed in Note 33.

c) Capital commitments

There were no capital commitments entered into by the parent entity as at 30 September 2011 (2010 $NIL).

d) Contingent liabilities

Refer to Note 30 for information relating to contingent liabilities and contingent assets of DuluxGroup.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

35 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of DuluxGroup Limited and the following subsidiaries in accordance with the accounting policies described in Note 1(c):

Name of entity	Country of incorporation /registration	Equity holding 2011 %	2010 %
DuluxGroup (Investments) Pty Ltd[1]	Australia	**100**	100
DuluxGroup (Finance) Pty Ltd[1]	Australia	**100**	100
DuluxGroup (New Zealand) Pty Ltd[1]	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[1,5]	Australia	**100**	100
DuluxGroup Employee Share Plan Trust[4]	Australia	**100**	100
DGL International (Shanghai) Co Ltd	China	**100**	100
DGL International (Shenzhen) Co Ltd [2]	China	**100**	100
DGL International (Hong Kong) Ltd[2]	Hong Kong	**100**	100
DGL International (Malaysia) Sdn Bhd [2]	Malaysia	**100**	100
Dulux Holdings (PNG) Ltd[2]	Papua New Guinea	**100**	100
DGL International (Singapore) Pte Ltd	Singapore	**100**	100
DuluxGroup (PNG) Pte Ltd [2]	Singapore	**100**	100
DGL International (Vietnam) Company Limited[3]	Vietnam	**100**	-
DGL Camel Coatings Limited (formerly Ego Sino Holdings Limited)[3]	Hong Kong	**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. The deed was dated 27 September 2010.

(2) Acquired in 2010.

(3) Incorporated in 2011.

(4) Formed in accordance with Trust Deed dated 15 July 2010.

(5) Incorporated in 2010.

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

36 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. Currently, DuluxGroup intends to pay at least 70% of its net profit after tax (subject to satisfying the solvency test set out in the *Corporations Act 2001*) as dividends to DuluxGroup shareholders each year.

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 to EBITDA. In addition, DuluxGroup monitors the accounting gearing ratio (which is calculated as net debt divided by net debt plus total equity). 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:

	2011 $'000	2010[1] $'000
Interest-bearing liabilities	**263,476**	252,289
Less:		
Prepaid loan establishment fees	**1,824**	2,721
Trade cards	**12,526**	12,289
Cash and cash equivalents	**39,540**	44,681
Net debt	**209,586**	192,598
Earnings before interest, tax, depreciation and amortisation	**159,192**	115,508
Net Debt to EBITDA (times)	**1.3**	1.7

The interest cover ratio is calculated as follows:

	2011 $'000	2010[1] $'000
Earnings before interest, tax, depreciation and amortisation	**159,192**	115,508
Net finance costs[2]	**22,181**	13,227
Interest cover ratio (times)	**7.2**	8.7

The accounting gearing ratio is calculated as follows:

	2011 $'000	2010[1] $'000
Net debt[3]	**209,586**	192,598
Net debt plus total equity	**348,042**	277,553
Net debt to net debt plus total equity	**60%**	69%

(1) We note that the above metrics and ratios prepared on a statutory basis are not necessarily reflective of these measures owing to the impact of the restructuring and demerger of DuluxGroup during the financial year ended 30 September 2010. For more details, refer to Note 3.

(2) Net finance costs exclude the amortisation of prepaid loan establishment fees.

(3) Refer calculation of net debt presented above for the Net Debt to EBITDA metric.

Impact of Queensland flood (current period) and Demerger (prior period)

We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

36 Financial and capital management (continued)

Financial risk factors

The consolidated entity's principal financial risks are associated with foreign exchange, interest rate, liquidity, commodity pricing and credit risk. The consolidated entity and the Company's overall risk management program seeks to mitigate these risks and reduce volatility of DuluxGroup's financial performance. Financial risk management is carried out centrally by the Treasury department under Treasury risk management policies approved by the Board of Directors. These policies provide written principles for overall risk management covering specific areas, such as foreign exchange, interest rate, liquidity, commodity pricing and credit risk as well as the use of derivative and non-derivative financial instruments and the investment of excess liquidity. DuluxGroup enters into derivative instruments for risk management purposes only. Derivative transactions are entered into to hedge the risks relating to underlying physical positions arising from business activities. Derivative transactions to hedge risks such as interest rate and foreign currency movements principally include interest rate options, forward exchange contracts and vanilla European option contracts.

The consolidated entity held the following financial instruments as at 30 September:

2011	Cash and cash equivalents $'000	Loans and receivables $'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	**36,463**	**-**	**-**	**-**	**36,463**
Cash at bank - restricted	**3,077**	**-**	**-**	**-**	**3,077**
Trade and other receivables (current)	**-**	**169,723**	**-**	**-**	**169,723**
Trade and other receivables (non-current)	**-**	**4**	**-**	**-**	**4**
Derivative financial assets (current)	**-**	**-**	**-**	**918**	**918**
Derivative financial assets (non-current)	**-**	**-**	**-**	**221**	**221**
	39,540	**169,727**	**-**	**1,139**	**210,406**
Financial liabilities					
Trade and other payables (current)	**-**	**-**	**193,380**	**-**	**193,380**
Trade and other payables (non-current)	**-**	**-**	**294**	**-**	**294**
Derivative financial liabilites (current)	**-**	**-**	**-**	**6**	**6**
Interest-bearing liabilities (current)	**-**	**-**	**15,721**	**-**	**15,721**
Interest-bearing liabilities (non-current)	**-**	**-**	**245,931**	**-**	**245,931**
	-	**-**	**455,326**	**6**	**455,332**
2010					
Financial assets					
Cash at bank and on hand	41,871	-	-	-	41,871
Cash at bank - restricted	2,810	-	-	-	2,810
Trade and other receivables (current)	-	140,881	-	-	140,881
Trade and other receivables (non-current)	-	88	-	-	88
Derivative financial assets (current)	-	-	-	58	58
Derivative financial assets (non-current)	-	-	-	1,278	1,278
	44,681	140,969	-	1,336	186,986
Financial liabilities					
Trade and other payables (current)	-	-	178,859	-	178,859
Trade and other payables (non-current)	-	-	133	-	133
Derivative financial liabilites (current)	-	-	-	305	305
Interest-bearing liabilities (current)	-	-	12,289	-	12,289
Interest-bearing liabilities (non-current)	-	-	237,279	-	237,279
	-	-	428,560	305	428,865

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

36 Financial and capital management (continued)

a) 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 interest-bearing liabilities. Non-derivative interest-bearing assets are predominately short term liquid assets, such as cash at bank balances. Interest-bearing liabilities issued at fixed rates expose the consolidated entity to fair value interest risk while borrowings issued at a variable rate give rise to cash flow interest rate risk.

Interest rate risk on long term interest bearing liabilities is managed by adjusting the ratio of fixed interest debt to variable interest debt. This is carried out centrally by the Treasury department under the Treasury risk management policies approved by the Board through the use of interest rate options. Under the policy, a maximum of between 50% and 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.

DuluxGroup's exposure to interest rate risk and the weighted average effective interest rates on financial assets and liabilities at balance date are:

	Note	2011 $'000	2011 % p.a.	2010 $'000	2010 % p.a.
Cash at bank and on hand	9	**36,463**	**2.1**	41,871	3.3
Cash at bank - restricted	9	**3,077**	**4.0**	2,810	4.0
Derivative financial assets (current)	12	**918**	**-**	58	-
Derivative financial assets (non-current)	12	**221**	**-**	1,278	-
Total financial assets		**40,679**		46,017	
Bank loan	19	**250,950**	**8.4** (1)	240,000	8.3(1)
Trade cards	19	**12,526**	**10.0**	12,289	10.8
Derivative financial liabilities	12	**6**	**-**	305	-
Total financial liabilities		**263,482**		252,594	
Net financial liabilities		**222,803**		206,577	

(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 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 include 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.

	2011 $'000	2010(1) $'000
Increase/(decrease) in profit before income tax expense		
If interest rates were 10% higher, with all other variables held constant	**(936)**	(227)
If interest rates were 10% lower, with all other variables held constant	**1,004**	(351)
Increase/(decrease) in profit after income tax expense		
If interest rates were 10% higher, with all other variables held constant	**(655)**	(159)
If interest rates were 10% lower, with all other variables held constant	**703**	(246)
Increase/(decrease) in total equity		
If interest rates were 10% higher, with all other variables held constant	**(634)**	624
If interest rates were 10% lower, with all other variables held constant	**703**	(324)

(1) DuluxGroup's external debt facilities were drawn on 12 July 2010. Accordingly, the interest rate sensitivities presented above shows the impact on profit before and after income tax expense and total equity from this date.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

36 Financial and capital management (continued)

b) Foreign exchange risk management

Foreign exchange risk - transactional

Foreign exchange risk refers to the risk that the value of a financial commitment, recognised asset or liability or cash flow will fluctuate due to changes in foreign currency rates.

The consolidated entity is exposed to foreign exchange risk primarily due to significant purchases and/or sales denominated, either directly or indirectly, in currencies other than the functional currencies of the consolidated entity's subsidiaries.

In regard to foreign currency risk relating to purchases, strategic 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 the Group to participate in favourable movements in exchange rates. Foreign exchange hedging is carried out or monitored centrally by the Treasury department, in accordance with the Treasury risk management policies approved by the Board. The derivative instruments used for hedging purchase exposures are vanilla option contracts and forward exchange contracts.

The currency giving rise to translational risk on purchases is primarily the United States Dollar (USD), with approximately 20% to 30% of DuluxGroup's material purchases denominated in USD or indirectly linked to USD. At year end, the effect of retranslating cash, receivables, payables and interest-bearing liabilities denominated in USD at exchange rates considered reasonably possible would not have a significant impact on profit before and after income tax expense and total equity as presented. While, the effect of retranslating hedges of future USD denominated purchases into AUD had the rates been 10% higher or lower than the year end rate (AUD/USD 0.9774) (2010 AUD/USD 0.9654) with all other variables held constant would have been a decrease in total equity of $382,000 (2010 $288,000) and an increase in total equity of $656,000 (2010 $394,000) respectively. Refer Note 12 for further details. The Directors cannot nor do not seek to predict movements in exchange rates.

The currencies and balances giving rise to foreign currency risk, including both external and internal balances (eliminated on consolidation) at the reporting date is as follows (in respective local currencies):

	2011		2010	
	NZD $'000	**USD $'000**	NZD $'000	USD $'000
Cash	**25,866**	**1,105**	-	393
Interest-bearing liabilities	**(25,000)**	**(3,000)**	(5,168)	(1,690)
Net exposure	**866**	**(1,895)**	(5,168)	(1,297)

At year end, the effect of retranslating receivables and payables not denominated in the functional currencies of the consolidated entity's subsidiaries is not material.

For the financial year ended 30 September 2011, there were no major exposures other than USD detailed above. While, for the financial year ended 30 September 2010 major exposures, other than USD detailed above, for DuluxGroup was against the New Zealand Dollar (NZD).

Exchange rate sensitivity

The following table shows the effect on profit and equity of the consolidated entity if exchange rates as at 30 September 2011 had been 10% higher or lower with all other variables held constant, taking into account all underlying exposures and related hedges and does not include the impact of any management actions that might take place if these events occurred. A sensitivity of 10% has been selected, as this is considered reasonably possible given the current level of exchange rates and the volatility of exchange rates based on an historical DuluxGroup analysis. The Directors cannot nor do not seek to predict movements in exchange rates. However, it should be noted that it is extremely unlikely that all currencies would move in the same direction and by the same percentage.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

36 Financial and capital management (continued)

b) Foreign exchange risk management (continued)

A 10% change in year-end rates would be as follows (against the Australian dollar):

		2011			2010	
	10% lower	**As reported**	**10% higher**	10% lower	As reported	10% higher
AUD/NZD	**1.1430**	**1.2700**	**1.3970**	1.1831	1.3145	1.4460
AUD/USD	**0.8797**	**0.9774**	**1.0751**	0.8689	0.9654	1.0619

The effect on total equity of a movement in individual exchange rates of 10% with all other variables held constant is as follows:

	2011		2010	
	-10% $'000	**+10% $'000**	-10% $'000	+10% $'000
Increase/(decrease) in profit before income tax expense				
AUD/NZD	**79**	**(64)**	(509)	416
Increase/(decrease) in profit after income tax expense				
AUD/NZD	**55**	**(45)**	(356)	291
Increase/(decrease) in total equity				
AUD/NZD	**55**	**(45)**	(434)	355
AUD/USD[1]	**656**	**(382)**	394	(288)

[1] At 30 September 2011, a net amount of $843,000 (2010 $247,000) relating to hedges of future USD denominated purchases was reported in the Consolidated Balance Sheet. The effect of retranslating these hedges into AUD had the rates been 10% higher or lower than the year end rate (AUD/USD 0.9774) (2010 AUD/USD 0.9654) with all other variables held constant would have been a decrease in shareholders' equity of $382,000 (2010 $288,000) and an increase in shareholders' equity of $656,000 (2010 $394,000) respectively. The effect of retranslating other USD denominated balances would not have a material impact on reported profit or shareholders' equity.

Foreign currency 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 location of a number of other individually minor foreign currency earnings. Derivative contracts to hedge earnings exposures do not qualify for hedge accounting under Australian Accounting Standards. However, Board approved 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 2011, the fair value of these derivatives was $NIL (2010 $NIL).

c) Credit risk management

Credit risk represents the loss that would be recognised if counterparties failed to meet their obligations at maturity under a contract or arrangement. DuluxGroup have exposure to credit risk on all financial assets included within the balance sheets.

For the Group's maximum exposure to credit risk on receivables (without taking into account the value of any collateral obtained) and discussion on how this risk is managed, refer to Note 10.

In regards to credit risk arising from derivatives and cash, this is the credit exposure to financial institutions that are counterparties to cash deposits and derivative contracts with a positive fair value (i.e. derivative financial assets) from DuluxGroup's perspective (refer Notes 9 and 12 respectively for the Group's maximum exposure). 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 policy. The consolidated entity does not hold any credit derivatives or collateral to offset its credit exposures.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

36 Financial and capital management (continued)

d) Liquidity risk management

Liquidity risk arises from the possibility that there will be insufficient funds available to make payment as and when required. The consolidated entity manages this risk via:

- Maintaining an adequate level of undrawn committed facilities in various currencies that can be drawn upon at short notice;
- Generally uses instruments that are readily tradeable in the financial markets;
- Retaining appropriate levels of cash and cash equivalent assets;
- Monitors duration of long term debt;
- Spreads, to the extent practicable, the maturity dates of long term debt facilities; and
- A comprehensive analysis of all inflows and outflows that relate to financial assets and liabilities.

Facilities available and the amounts drawn and undrawn are as follows:

	2011 $'000	2010 $'000
Unsecured bank overdraft facilities		
Unsecured bank overdraft facilities available	**3,937**	7,463
Amount of facilities undrawn	**3,937**	7,463
Committed standby and loan facilities		
Committed standby and loan facilities available[1]	**404,792**	400,000
Amount of facilities unused	**153,842**	160,000

(1) The syndicated bank loan facility is an unsecured USD, AUD and NZD revolving cash facility, with $300,000,000 maturing on 30 April 2013 and a further $100,000,000 maturing on 30 April 2015. Refer Note 19(b) for details of the related guarantee. In addition the Group has a RMB 30,000,000 (AUD 4,792,000) bank loan established in China.

The bank overdrafts are payable on demand and are subject to an annual review. The repayment dates of the committed loan facilities range from 30 April 2013 to 30 April 2015. The contractual maturity of DuluxGroup's fixed and floating rate financial liabilities and derivatives, based on the financing arrangements in place at 30 September 2011 (2010 30 September 2010), are shown in the table below. The amounts shown represent the future undiscounted principal and interest cash flows:

2011	Carrying amount $'000	Less than 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Total $'000
Financial liabilities					
Trade and other payables[1]	**193,674**	**193,380**	**294**	**-**	**193,674**
Trade bills and trade cards	**12,526**	**12,526**	**-**	**-**	**12,526**
Bank loan[2]	**249,126**	**20,510**	**161,025**	**111,777**	**293,312**
Derivative financial liabilities	**6**	**6**	**-**	**-**	**6**
	455,332	**226,422**	**161,319**	**111,777**	**499,518**
2010					
Financial liabilities					
Trade and other payables[1]	178,992	178,859	133	-	178,992
Trade bills and trade cards	12,289	12,289	-	-	12,289
Bank loan	237,279	17,729	17,777	250,249	285,755
Derivative financial liabilities	305	305	-	-	305
	428,865	209,182	17,910	250,249	477,341

(1) Excludes derivative financial instruments.

(2) On 8 November 2011, DuluxGroup renewed its $400,000,000 syndicated debt facility. The contractual maturity of principal borrowed under the renewed facility falls between two and five years. The impact of this renewal, however, is not reflected in the table above.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2011

36 Financial and capital management (continued)

e) Commodity price risk

DuluxGroup is exposed to commodity price risk from a number of commodities, including titanium dioxide, latex and resin. The cost of these inputs is impacted by changes in oil and other 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 before and after income tax and shareholder's equity could be impacted adversely.

As at 30 September 2011, DuluxGroup did not have any outstanding commodity contracts in relation to these inputs (2010 $NIL). Accordingly, no analysis of the impact of reasonable possible changes in commodity prices is presented.

37 Events subsequent to balance date

On 14 November 2011, the Directors declared a final dividend of 7.5 cents per ordinary share, fully franked and payable on 16 December 2011. The financial effect of this dividend is not included in the financial report for the year ended 30 September 2011 and will be recognised in the financial report for the year ending 30 September 2012.

On 2 November 2011, DuluxGroup announced the merger of its DGL International business in China and Hong Kong with Camelpaint Chemicals Company Limited (Camelpaint) to create DGL Camel International Limited (currently known as DGL Camel Coatings Limited and formerly known as Ego Sino Holdings Limited), a company incorporated in Hong Kong. DuluxGroup will hold 51% of DGL Camel International Limited. The transaction involves a payment by DuluxGroup to secure board and management control of the new company. The amount of this payment is not material to DuluxGroup as a whole. There are a number of conditions to be met before the merger becomes binding, with completion of the transaction expected to occur by the end of the 2011 calendar year.

The Directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2011 that has affected or may affect the operations, the results of those operations, or the state of affairs of DuluxGroup in subsequent years, which has not been covered in this report.

Impact of Queensland flood (current period) and Demerger (prior period)
We draw your attention to Note 2 which describes the impact on the reported results of DuluxGroup for the financial year ended 30 September 2011 arising from the Queensland flood and Note 3 describing transactions and restructuring activities undertaken in the financial year ended 30 September 2010 in preparation for a demerger from Orica Limited.

Directors' Declaration
For the financial year ended 30 September 2011

In the directors' opinion:

(a) the financial statements and notes, and the remuneration report in the Directors' report, set out on pages 39 to 121, 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 2011 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 35 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 33; 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 2011.

This declaration is made in accordance with a resolution of the directors.

Peter M. Kirby
Chairman

Melbourne
14 November 2011

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 2011, consolidated income statement, 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 37 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, 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*.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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 2011 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.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 September 2011. 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 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Alison Kitchen
Partner

Melbourne

14 November 2011

Shareholder Statistics

As at 17 October 2011

Distribution of ordinary shareholders and shareholdings

Size of holding	Number of holders		Number of shares	
1 - 1,000	29,262	61.84%	11,365,165	3.09
1,001 - 5,000	14,659	30.98%	31,092,277	8.46
5,001 - 10,000	2,116	4.47%	15,082,160	4.10
10,001 - 100,000	1,212	2.56%	25,987,132	7.07
100,001 and over	72	0.15%	283,929,525	77.27
Rounding				**0.01**
Total	**47,321**	**100%**	367,456,259	**100.00**

Included in the above total are 8,931 shareholders holding less than a marketable parcel of 191 shares.
The holdings of the 20 largest holders of fully paid ordinary shares represent 73.29% of that class of shares.

Twenty largest ordinary fully paid shareholders

Name	Shares	% of total
JP Morgan Nominees Australia Limited	64,287,744	17.50
HSBC Custody Nominees (Australia) Limited	62,002,766	16.87
National Nominees Limited	39,351,876	10.71
Citicorp Nominees Pty Limited	29,959,341	8.15
RBC Dexia Investor Services Australia Nominees Pty Limited <Pipooled A/C>	15,106,569	4.11
RBC Dexia Investor Services Australia Nominees Pty Limited <Bkcust A/C>	10,663,394	2.90
Perpetual Trustee Company Limited	9,534,114	2.59
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	9,257,125	2.52
JP Morgan Nominees Australia Limited <Cash Income A/C>	5,532,196	1.51
Cogent Nominees Pty Limited	4,934,493	1.34
Pacific Custodians Pty Limited <Orica Emp LTEIP Holding A/C>	3,775,053	1.03
Australian Foundation Investment Company Limited	2,509,072	0.68
RBC Dexia Investor Services Australia Nominees Pty Ltd <Piselect A/C>	2,246,680	0.61
Argo Investments Limited	2,064,698	0.56
AMP Life Limited	1,483,863	0.40
UBS Wealth Management Australia Nominees Pty Ltd	1,360,889	0.37
RBC Dexia Investor Services Australia Nominees Pty Limited <Gsam A/C>	1,349,031	0.37
RBC Dexia Investor Services Australia Nominees Pty Limited <PIIC A/C>	1,322,103	0.36
Queensland Investment Corporation	1,318,920	0.36
Mr Patrick Houlihan	1,234,977	0.34
Total	**269,294,904**	**73.29**

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
12 July 2011	BT Investment Management Limited	35,036,312	9.53
8 June 2011	Perpetual Limited And Subsidiaries	46,725,430	12.72
14 April 2011	Schroder Investment Management Australia Limited	23,451,632	6.73
7 February 2011	Commonwealth Bank Of Australia And Subsidiaries	30,797,491	8.38
12 January 2011	Treasury Group Limited	21,139,140	5.70

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.

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.au

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.computershare.com.au.

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.computershare.com.au.

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.computershare.com.au. 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). This is a 24 hour, seven day a week service. 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.computershare.com.au. 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).

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.computershare.com.au 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.computershare.com.au or contact our Share Registry.

Copies of reports are available on request.

Telephone: +61 3 9263 5678

Facsimile: +61 3 9263 5030

Email: company.info@duluxgroup.com.au

AUDITORS

KPMG

DULUXGROUP LIMITED

ABN 42 133 404 065

Registered address and head office:
1956 Dandenong Road
Clayton, Victoria 3168
Australia

Postal address:
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Clayton South, Victoria 3169

Telephone: +61 3 9263 5678
Facsimile: +61 3 9263 5030
Email: company.info@duluxgroup.com.au

Website: www.duluxgroup.com.au
Investor Relations
Telephone: +61 3 9263 5678

Email: company.info@duluxgroup.com.au

SHAREHOLDER TIMETABLE

31 March 2012	DuluxGroup 2012 Half Year End
14 May 2012*	Announcement Of Half Year Financial Results
30 September 2012	DuluxGroup 2012 Year End
14 November 2012*	Announcement Of Full Year Financial Results
18 December 2012*	Annual General Meeting 2012

* Timing of events is subject to change

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Our Iconic brands

2011 ANNUAL REPORT

DuluxGroup Limited
1956 Dandenong Rd
Clayton Victoria 3168
Australia