DuluxGroup Limited

ABN 42 133 404 065

ASX Announcement

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2011 AGM – MANAGING DIRECTOR'S SPEECH

Thank you Peter.

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

As Peter indicated, 2011 has presented some significant challenges in the form of natural disasters and mixed market conditions. Despite this, we delivered a strong financial result for the year.

Sales revenue increased by 3.4% to $996.4 million.

Underlying earnings before interest and tax increased by 9.1% to $134.7 million.

Underlying net profit after tax was $77.6 million, an increase of 8.5% over the 2010 pro forma result.

To deliver such solid results reflects the resilience of our business model and sound financial discipline.

It also continues a consistent record of year on year earnings growth, achieved over the last few years in an environment of significant industry change and somewhat volatile global financial markets.

In a year when consumer sentiment was relatively subdued in most markets, the home improvement market proved resilient compared with the construction sector and the more discretionary consumer segments. This was reflected in strong results in both the Paints Australia and the Selleys Yates businesses.

Our largest operating segment, the Paints Australia 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 the flood at our Rocklea factory. Importantly, the business continued to grow market share, with strong performances across both the retail and trade segments.

The New Zealand Paints business was heavily impacted by the continued slowdown 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, the result included income from the increased production to support the Paints Australia business while the Rocklea factory was offline. Earnings were negatively affected by increased costs and depreciation associated with the significant upgrade of the Wellington paint factory and the mid-year transfer of protective coatings production to the new Dandenong manufacturing site in Australia.

The Selleys Yates business delivered earnings of $30.5 million, up 5.5%. This strong result reflects profitable market share growth, supported by continued investment in marketing and new product development. The business also benefited from ongoing productivity initiatives.

DuluxGroup's Offshore and Other business segment 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 aimed at regulating growth within the residential property sector. The Powders, Refinish and Industrial Coatings business was impacted by the slowdown in new housing and commercial construction in both Australia and New Zealand. Our Papua New Guinea business grew earnings in local currency, however the magnitude of growth was lower on translation due to the strong Australian dollar.

This year's DuluxGroup result was supported by a continued focus on financial discipline. Margins were maintained despite rising input costs, particularly for titanium dioxide, reflecting effective cost control, pricing discipline, innovation and productivity. So, overall the business has performed very well, despite a number of headwinds, both anticipated and unforseen.

Of course, the most significant of these was the impact of the January 2011 Queensland flood on our main Australian paint manufacturing site at Rocklea. As Peter indicated, the business has recovered very well, with Rocklea now returned to full operations. Since the end of the financial year we have finalised our claim with our insurers, with a total agreed payment of $80 million. $65 million of this was recognised as other income within the 2011 result, so the remaining $15 million will be recognised as other income in 2012. From a cash perspective, we received $53.5 million in 2011, so the remaining $26.5 million will be received in cash in the first half of 2012. There will be some final flood related capital expenditure and operating costs incurred in 2012, which will partially offset these amounts.

In terms of what we are seeing so far at the beginning of this financial year, our overall sales momentum has continued in a similar vein to that seen in 2011.

We are, however, seeing some margin pressure across our business, which is likely to impact the first half result. There are several drivers of this, some of which are flood-related. Our fixed cost base has been adversely impacted by additional operating costs due to the recently acquired Glen Waverley site and higher insurance premiums at Rocklea following the flood. Further, we expect to spend more on marketing in the first half of this year than in the prior year, given that in 2011 many of our marketing programs were deferred to the second half due to the flood and the late timing of Easter. As indicated at the 2011 full year result, our depreciation for the first half is likely to be $1.5-2 million higher than in the previous year given the higher levels of capital expenditure in 2011, some of which was flood-related. While interest savings from our recent debt renegotiation should provide an offset over the course of the full year, we expect a mismatch at the first half. Finally, as expected, we are seeing increases in input costs, with titanium dioxide being the key driver. We have initiatives in place aimed at mitigating these pressures, though the full benefit of these are more likely to take effect in the second half.

Given all of the above, we anticipate that first half 2012 underlying earnings are likely to be broadly in line with the prior year, with improvement expected during the second half.

Notwithstanding this increased margin pressure, DuluxGroup remains well positioned for ongoing profitable growth.

- A number of our businesses have strengthened their leadership positions, benefiting from favourable range review outcomes with major retail customers during 2011. At the same time our Trade businesses, which represent about 45% of DuluxGroup's revenue, have continued to grow.

- We see opportunities to outperform in modestly growing Australian markets, given our momentum in both the retail and trade businesses. We see the investment in the retail hardware sector by a number of our customers as a positive.

- The New Zealand market remains uncertain, with any improvement and positive impact of the Christchurch reconstruction not expected until the 2012 calendar year.

- Our key focus in our core markets is on delivering a greater level of consumer-driven innovation, and generating sustainable growth opportunities, both organically and through logical, measured M&A activity.

- Our focus in China will be on completing and integrating the merger with Camel and ensuring that the business is well shaped to leverage the expertise and customer relationships in each company's respective markets.

- Financial discipline, cost control and productivity improvements will continue to be a major focus.

Taking account of all of those factors, I reiterate our previous guidance that, subject to economic conditions, we expect 2012 DuluxGroup underlying net profit after tax to be higher than that reported in 2011, being $77.6 million.

The 2011 result was underpinned by our continued strong investment in the fundamentals of brand, innovation and customer service across broad distribution networks. As Peter outlined earlier, we also completed a number of significant capital investments during the year to ensure that we have the infrastructure in place to support growth and increased productivity.

We have continued to build a stronger base for our China business with the establishment of DGL Camel International. This provides us increased capability and scale to capitalise on the medium to long term growth opportunities we see in targeted segments of China.

Alan Preston, who has significant Asian paint industry experience, has been appointed General Manager of the DGL Camel International business. Alan has previously held a range of senior management positions at ICI Dulux Asia. His expertise in the paints markets of Asia complements that of our partner at Camelpaints.

There were a number of other changes to the DuluxGroup Executive team during the year. Michael McMullen has joined DuluxGroup as General Manager of Human Resources. Julia Myers was promoted to the role of General Manager of the Paints New Zealand business, replacing Patrick Jones who has been appointed General Manager of the Paints Australia business.

Having high calibre employees with the right skills – at all levels and across all of our businesses - is of course fundamental to achieving superior results. However, equally critical is maintaining an environment where they are empowered and rewarded to succeed.

One of the most important activities for 2011 was to refresh our stated values to ensure that they continue to be relevant for DuluxGroup and its strategic growth path as a stand alone company. Our employees have 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; and
- Run the business as your own

I would like to thank all DuluxGroup employees for their contribution during quite a difficult year. The Queensland flood and the Christchurch earthquakes disrupted the operations of a number of our businesses, but they also impacted a number of our employees at a personal level. It says a great deal about the values of our people that they not only went to extraordinary efforts to ensure the business continued to succeed, but showed great support to their workmates, our customers and local communities throughout the year.

There were numerous examples of employees helping to clean-up and repair customers' damaged premises, local community facilities and private residences – on both sides of the Tasman.

Finally, I would also like to thank my fellow board members for their support and guidance during the year.

As we focus on 2012, we do so with the confidence that we have a proven strategy in place, a capable team to successfully deliver it and are well positioned for ongoing success.

Thank you.

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