DuluxGroup Limited

ABN 42 133 404 065

ASX Announcement

19 December 2013

2013 AGM – MANAGING DIRECTOR'S ADDRESS

Thank you Peter.

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

This has been a year in which the company has continued to grow and outperform in generally flat markets. And a year in which we strengthened our product and end market breadth, while continuing to invest in those key capabilities that have underpinned DuluxGroup's consistent organic growth to date.

Operating result

Before I go through key aspects of the operating result, I will briefly explain that there are some non-recurring items that have impacted the statutory reporting numbers.

The statutory net profit result included a net charge, after tax, of $17.2 million in non-recurring items. These items included $15.1 million of costs associated with the acquisition and integration of the Alesco businesses, a $10.2 million non-cash impairment charge against our share of the DGL Camel joint venture in China and an $8.1 million gain from the sale of a site in Western Australia following changes to our warehouse and logistics footprint.

In discussing the results, I will exclude non-recurring items from both 2013 and 2012 to allow a more meaningful comparison.

On this basis, DuluxGroup grew net profit after tax by 18.2% to $94.1 million. Earnings before interest and tax, or EBIT, increased 25% on sales that grew 39% to just under $1.5 billion. Operating cash flow also increased by 32%.

2013 was of course the first year that we have included the Alesco businesses, which we acquired in December 2012. The 2013 result therefore includes the contribution from these businesses for the last 10 months of our financial year.

Key drivers of the results

Our “heritage DuluxGroup” businesses – being the DuluxGroup businesses excluding Alesco – also contributed strongly, growing revenue 5.5%, and EBIT 7.9%, on a like for like basis. This result was driven by:

- profitable market share gains in weak but improving markets in Australia, with our largest operating segment, Paints Australia, performing particularly strongly;
- profitable share gains in the Paints New Zealand business, in markets that have returned to growth assisted by currency translation benefits; and
- solid earnings growth for Selleys Yates.
- However, our Papua New Guinea and China businesses continued to be impacted by soft market conditions.
- Costs were generally well-managed.

Whilst our statutory results only show the contribution from the Alesco businesses from the time of acquisition, we have also assessed their performance compared to the prior year on a 12 month “pro forma” basis. On this pro forma basis the Alesco businesses also performed well in generally weak markets. Excluding Robinhood and non-recurring items directly related to the acquisition, the Alesco businesses grew pro forma EBIT by 3.7% on flat revenue. The result reflected:

- modest share gains;
- faster realisation of synergies in the Alesco corporate office; and
- good margin and cost control.

At the same time we invested to grow these businesses, with a greater focus on marketing and sales effectiveness.

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

Overall this has been a very successful year, in which our heritage businesses have grown profits, generally outperformed the market and strengthened their market leadership positions, while the new businesses have delivered solid pro forma earnings growth.

We have successfully integrated the new businesses and invested to capitalise on the growth options offered by what is now DuluxGroup’s broader paints, home improvement and building products portfolio.

Outlook for 2014

Our view on the 2014 market outlook is consistent with our position in November when we released our full year results.

Many of our markets showed improvement in the second half of 2013. For example, the Decorative Paint market in Australia recovered to grow approximately 2% in the second half. Many of the factors that underpin the markets in which we operate in Australia, such as interest rates, consumer confidence and house prices, also improved over the second half. In addition, we have seen signs that new housing construction will improve, though of course most of our exposure to this segment of the market is late in the cycle.

Given this, we expect modest market growth in 2014 in Australia.

For New Zealand, we expect markets to continue to grow, underpinned by the rebuilding activity in Christchurch.

Markets are likely to be more challenging in both China and PNG.

In relation to corporate costs, we reiterate our year end guidance. Reported corporate costs in 2014 will increase to take account of a change in accounting standards relating to movements in DuluxGroup's defined benefit superannuation scheme. The prior year 2013 costs will also be restated to show the impact of this accounting standard change and we have disclosed that the impact in 2013 would have been approximately $2.8 million pre-tax. A similar amount is expected for 2014. I should point out that the defined benefit superannuation scheme was closed over ten years ago and that none of the Executive team is on this scheme. In addition, there will be a fringe benefits tax expense of approximately $1.5 million relating to debt forgiveness associated with the recent vesting of the 2010 Long Term Incentive Scheme. Excluding these amounts, baseline corporate costs are expected to increase broadly in line with inflation.

At the same time, we remain on track to realise approximately $3-4 million of Alesco cost synergies this year, which will take the total synergies to $8-9 million.

Our results in 2014 will include a full year of Alesco compared to 10 months in 2013. Also, the $1.7 million operating loss from Alesco's Robinhood business will not be repeated, given that we sold this business late last year.

From a trading perspective, the 2014 financial year has started well. For the first two months of this year, revenue performance has been broadly similar to that achieved in 2013 with growth from heritage DuluxGroup driven by the Paints businesses, and Alesco flat with softness in Parchem's infrastructure markets offset by growth in the other businesses.

So, given all of this, we retain our outlook that, subject to economic conditions, and excluding non-recurring items, we expect 2014 net profit after tax to be higher than the 2013 equivalent of $94.1 million.

DuluxGroup's Values and Behaviours

It is now just on 12 months since we welcomed 1500 new employees to DuluxGroup as part of the Alesco acquisition. One of the most important elements of the integration has been introducing our new employees to DuluxGroup's Values and Behaviours. These were collectively developed and agreed upon by our employees.

One of the four DuluxGroup Values is to *Value people, work safely and respect the environment.* DuluxGroup's safety performance in 2013 was excellent. For the second year in a row there was a significant decrease in injury rates for employees across all businesses.

We continually encourage our employees to speak up about hazards that have the potential to cause significant injury or worse, and I am pleased that the level of reporting in this area continues to increase.

Between our manufacturing sites, trade stores and warehouses, we now have more than 100 sites across Australia, New Zealand, PNG and Asia. Our commitment to value people and respect the environment extends beyond our worksites. A range of company initiatives during the year provided opportunities to help in our local communities. The Dulux Australia campaign to supply paint to every Surf Life Saving Club across Australia, Dulux New Zealand's program to supply paint and wood coatings to protect hiking trail huts throughout the country, Dulux PNG's support for local youth rugby teams, and support for the State Emergency Services across Australia by Dulux and B&D are some examples of such programs.

The Executive Team

During the year there were some changes to the executive team. Tony Bova was appointed to lead the B&D Garage Doors business, bringing more than 15 years' experience in various roles at DuluxGroup. Stephen Cox also joined as Executive General Manager Parchem Construction Chemicals & Equipment, following the completion of the Alesco acquisition.

This month we also welcomed Penny Lovett as Executive General Manager Human Resources. Penny replaces Michael McMullen who has chosen to leave DuluxGroup for family reasons. Penny joins us following 10 years at BUPA.

Thank you

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

I would like to thank the DuluxGroup Board for its ongoing guidance during the year.

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

Thank you.

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