IMAGINE

a better place

DuluxGroup

ANNUAL REPORT

2012

2012

CONTENTS

SOLID RESULTS

despite SIGNIFICANT MARKET DECLINE REFLECT A RESILIENT STRATEGY *and* STRONG FINANCIAL DISCIPLINE. PROFITABLE SHARE GAINS *in* CORE COATINGS MARKETS AND CONTINUED INVESTMENT *in* KEY CAPABILITIES AND LONGER TERM GROWTH OPTIONS *provide* SOLID FOUNDATIONS FOR THE FUTURE.

HIGHLIGHTS

SALES REVENUE GROWTH $1.07B	↑ 7.2%	**Sales Revenue Growth** increased 7.2% to $1.07 billion. Of this sales growth, approximately 3 percentage points relates to the non-controlling interest component of DGL Camel International in China and Hong Kong. Sales in the 2011 full year were adversely impacted by an estimated 2% as a result of lost production at our Rocklea factory following the Queensland flood.
EBIT $132.2M	↓ 5.0%	**Earnings before interest and tax (EBIT)** decreased 5% to $132.2 million. Equity share of EBIT, before an insurance uplift of $7.7 million and Alesco net costs of $0.8 million, decreased by 4.7% to $128.4 million.
STATUTORY NPAT $89.5M	↓ 4.0%	**Statutory net profit after tax (NPAT)** and non-controlling interests of $89.5 million. This included a $6.3 million tax consolidation benefit, a $7.7 million ($5.4 million after tax) uplift relating to insurance income and $2.6 million ($1.8 million after tax) of net costs associated with the bid to acquire Alesco. The Alesco net costs include transaction costs and the dividend income and interest expense associated with DuluxGroup's 19.96% shareholding in Alesco, acquired in April 2012.
LIKE FOR LIKE NPAT $79.6M	↑ 2.6%	**Like for Like NPAT** of $79.6 million, an increase of 2.6% over the 2011 equivalent NPAT of $77.6 million.
TOTAL FULL YEAR DIVIDEND 15.5 cents	↑ 3.3%	**Final Dividend** of 8.0 cents per share fully franked, taking the full year dividend to 15.5 cents, which represents a 70% payout ratio on like for like NPAT.

Improved on all of our Safety and Sustainability measures, making good progress towards our vision of 'A future without harm'.

Resilience and financial discipline

- Like for like net profit growth despite general market decline, input cost pressure and additional flood related operating costs
- Grew revenue despite significant market declines
- Profitable market share gains in core coatings markets
- Strong cash management and productivity improvements

Investing for growth:

- Continued to invest in the fundamentals of brands, innovation and customer service to build on our premium branded, market leading positions
- Completed the integration of the merged DGL Camel International business in Hong Kong and mainland China, strengthening the platform for longer term growth in Asia
- Progressed with the bid to acquire all of Alesco Corporation Limited (Alesco), which will provide a number of strategic opportunities to grow and extend core market leading paint, specialty coatings and adhesives positions in Australia and New Zealand

CONSISTING OF FOUR OPERATING SEGMENTS, DULUXGROUP EMPLOYS APPROXIMATELY 2,900 PEOPLE IN AUSTRALIA, NEW ZEALAND, PAPUA NEW GUINEA, SOUTH EAST ASIA AND CHINA.

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, building and construction, cleaning, 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, DuluxGroup's China and Hong Kong business DGL Camel International and DuluxGroup's South East Asia business.

–

DULUXGROUP

is a

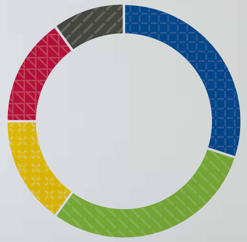
MARKETER AND MANUFACTURER *of* PREMIUM BRANDED PRODUCTS *that* ENHANCE, PROTECT AND MAINTAIN *the* PLACES *and* SPACES IN WHICH PEOPLE LIVE *and* WORK.

–

From HOUSEHOLD ROOMS TRANSFORMED *by* COLOUR AND TEXTURE, TO THE GARDEN ABUNDANT *with* SUMMER VEGETABLES, TO THE LUSTRE ON *the* WHEELS OF THE FAMILY CAR AND THE ADHESIVE THAT FIXES THAT SQUEAKY FLOORBOARD *to* THE COATINGS THAT PROTECT LANDMARKS SUCH *as* THE SYDNEY HARBOUR BRIDGE *and* AUCKLAND'S ICONIC PRINCESS WHARF BUILDING, DULUXGROUP PRODUCTS *are* AT WORK.

Our PRODUCTS HAVE BEEN WOVEN INTO THE FABRIC OF THE COMMUNITIES WHERE WE OPERATE, HELPING CONSUMERS *to* LIVE BETTER *and* MORE COMFORTABLE LIVES.

–



2012 SALES BY END MARKET

RETAIL PAINTS 30% · TRADE PAINTS 30% · SPECIALTY COATINGS 15%

PAINT PREPARATION, HOME CARE AND MAINTENANCE AND CONSTRUCTION ADHESIVES 15%

GARDEN CARE 10%

A DIVERSIFIED PORTFOLIO OF PRODUCTS AND MARKETS

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.

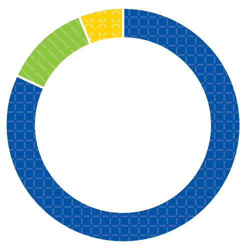
–

OUR LOCATIONS

DuluxGroup has 12 main manufacturing sites and a comprehensive supply chain network that spans Australia, New Zealand, PNG, China and South East Asia.

MAIN MANUFACTURING SITES	DISTRIBUTION CENTRES	DULUX TRADE CENTRES
12	13	73

DULUXGROUP HOLDS MARKET LEADING POSITIONS IN AUSTRALIA, NEW ZEALAND AND PNG WITH EXPOSURE TO THE HIGHER GROWTH REGIONS OF ASIA.



2012 SALES BY GEOGRAPHY

AUSTRALIA 82% NEW ZEALAND 12% ASIA & PNG 6%

- 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.

BUSINESS *fundamentals*

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 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.

STRATEGY & 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.

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.

During 2012 we have progressed with our bid to acquire all of Alesco Corporation Limited (Alesco). DuluxGroup and Alesco each have leadership positions in their chosen markets, premium brands, technology advantages, local manufacturing expertise, extensive trade networks, and a strong company owned trade store network.

However, they are also complementary, which presents new opportunities to grow and extend our market leading Australian and New Zealand positions. There are compelling opportunities to expand our respective product ranges and to cross sell products into new end markets.

Following a successful acquisition, DuluxGroup would remain predominantly an Australasian paints, specialty coatings and adhesives company, and almost two thirds of DuluxGroup's business would continue to be exposed to the relatively stable markets of the renovation and maintenance of existing homes.

DuluxGroup has a clear strategy to build on and leverage our core paint, specialty coatings and adhesives business and establish longer term growth options.

1. Continue to grow market leading positions in core paint, specialty coatings and adhesive categories

In our existing core markets we continue to invest in key capabilities – including technical innovation, marketing, customer service and supply chain capability – to drive the growth of our chosen product categories and to extend into new markets.

We see opportunities to:

- build on our premium branded, market leading positions via consumer do it yourself (DIY) retail and do it for me (DIFM) trade channels, focusing largely on residential homes with a bias towards the improvement of existing homes; and
- extend specialty coatings and adhesives products into the construction, engineering and infrastructure markets.

2. Adjacent category growth by leveraging key capabilities

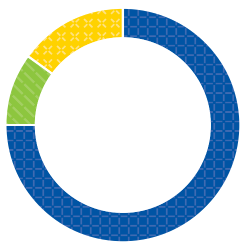
We see opportunities to grow our Australian and New Zealand positions in premium consumer product categories targeted at the residential home improvement market, where we can leverage DuluxGroup's existing 'go to market' capabilities.

We will further leverage the capabilities of our trade business, which makes up almost 50 per cent of DuluxGroup's revenue, particularly where the consumer is increasingly a critical decision maker in the purchase process, such as with Alesco's garage doors business.

This includes using our extensive network of relationships amongst trade professionals, architects and specifiers. We will also capitalise on our expertise in retail hardware channel management and maximise the value from our trade store network.

SALES BY END MARKET (EXCLUDING ALESCO)

DuluxGroup's primary focus is on residential markets, with a bias towards improvement and renovation of existing homes. This is complemented by specialty technical positions in commercial and industrial markets. Earnings have consistently proven to be relatively resilient even in challenging market conditions



2012 SALES BY END MARKET (EXCLUDING ALESCO)

MAINTENANCE AND HOME IMPROVEMENT **75%** PREMIUM END NEW HOUSING **10%**

COMMERCIAL CONSTRUCTION, INFRASTRUCTURE AND INDUSTRIAL **15%**

DULUXGROUP

aims to

CONTINUE TO DELIVER SOLID GROWTH *and* STRONG CASH FLOWS FROM EXISTING BUSINESSES AND DEVELOP FURTHER OPTIONS FOR GROWTH IN *a* MEASURED, LOW RISK MANNER.

CAPABILITY LED ADJACENCIES	GROW THE CORE	DEVELOP NICHE POSITIONS
GROW OUR AUSTRALIAN *and* NEW ZEALAND POSITION IN PREMIUM PRODUCT CATEGORIES ADJACENT TO *our* BUSINESSES, WHERE *we* CAN LEVERAGE KEY CAPABILITIES	BUILD ON AND LEVERAGE *our* PREMIUM BRANDED LEADING POSITIONS *in* OUR CORE PAINT, SPECIALTY COATINGS AND ADHESIVES MARKETS IN AUSTRALIA, NEW ZEALAND *and* PNG	DEVELOP OUR NICHE COATINGS *and* ADHESIVES POSITIONS IN ASIA, *in* A MEASURED WAY FOR MEDIUM *to* LONG TERM GROWTH

3. Continued measured growth in targeted segments of Asia

In tandem with our domestic market growth strategy, our DGL Camel International business in China and Hong Kong will continue to develop existing positions in targeted segments of high growth markets in Asia – for the medium to long term.

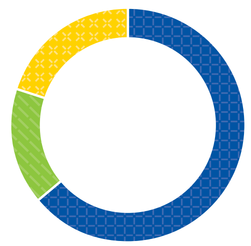
The merger between DGL International and Hong Kong based Camelpaint was created in late 2011 and completed integration during 2012. It provides a solid, low risk and measured growth option. DuluxGroup holds the majority (51%) interest in this business and has worked with Camel since 2004 in the Camel 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 increased scale to compete.

We will also build on our foothold positions in South East Asia through our DGL International business.

DULUXGROUP HAS A CLEAR CORE PURPOSE, A CONSIDERED 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.

SALES BY END MARKET (INCLUDING ALESCO)

Following a successful acquisition of Alesco, DuluxGroup would remain a predominantly Australasian based paints, specialty coatings and adhesives company, biased to the improvement and renovation of existing homes



SALES BY END MARKET (INCLUDING ALESCO)

MAINTENANCE AND HOME IMPROVEMENT **64%** PREMIUM END NEW HOUSING **16%**

COMMERCIAL CONSTRUCTION, INFRASTRUCTURE AND INDUSTRIAL **20%**

DULUXGROUP

has

DELIVERED SOLID RESULTS, DESPITE SEEING SOME OF THE TOUGHEST ECONOMIC CONDITIONS FOR MANY YEARS *in* MANY OF OUR KEY MARKETS.

–

DEAR FELLOW SHAREHOLDERS

DuluxGroup has delivered solid results, despite experiencing some of the toughest economic conditions for many years in a number of our key markets. During an eventful year, we have also made significant progress on building the platform for our company's ongoing growth. Market share gains within our existing core coatings business, embedding the DGL Camel business in China and progressing our bid to acquire Alesco are some of the strategic milestones which ensure DuluxGroup is well positioned when markets recover.

The weakness in new building approvals in Australia, and to a lesser extent New Zealand, impacted our industrial and trade focused businesses in particular. However, DuluxGroup's premium brands are primarily targeted at the improvement and renovation of existing homes. Only 10% of our business is derived from the more cyclical new housing sector. Even with the acquisition of Alesco, DuluxGroup's exposure to this segment would remain less than 20%.

2012 like for like net profit after tax (NPAT) and non controlling interest was $79.6 million, a 2.6% increase over the 2011 equivalent of $77.6 million. This excludes a tax consolidation benefit of $6.3 million, an insurance uplift of $7.7 million ($5.4 million after tax), and $2.6 million ($1.8 million after tax) of net costs associated with the bid for Alesco. The Alesco net costs include transaction costs, dividend income and interest expense associated with DuluxGroup's 19.96% shareholding in Alesco, acquired in April 2012.

Earnings before interest and tax (EBIT) decreased 5% to $132.2 million. Equity share of EBIT before the insurance uplift and Alesco costs decreased by 4.7% to $128.4 million. Sales revenue increased by 7.2% to $1.07 billion.

The Board has declared a final dividend of 8.0 cents per share, fully franked, representing a 70% payout ratio, on like for like NPAT. The record date for the final dividend is 30 November 2012 and the dividend payment date is 17 December 2012. DuluxGroup's Dividend Reinvestment Plan (DRP) will operate in respect of the final dividend, and a discount of 2.5% will apply to shares subscribed for under the DRP for the final dividend.

Our balance sheet currently has a conservative level of debt. Our main debt facility, which was renegotiated in November 2011, is now resulting in lower funding costs. Maintaining a cautious approach to our debt leverage has allowed us the required liquidity and confidence to pursue prudent growth opportunities, such as the Alesco acquisition, at the right time. In addition to our existing debt capacity, DuluxGroup has new committed debt financing in place to fully fund the Alesco acquisition, should it proceed. Following this transaction, our debt leverage would be above our preferred range, and we intend to reduce leverage over time.

We expect to retain DuluxGroup's current dividend policy. Subject to the availability of retained earnings, we intend to pay at least 70% of net profit after tax (excluding individually material items) as dividends, franked to the maximum extent practicable.

The bid to acquire Alesco is progressing well. We are seeing very good momentum in the level of acceptances as we approach the closing date for the Offer, which is scheduled for early December 2012. Alesco's Board has now recommended that Alesco shareholders accept DuluxGroup's offer, and all of the Alesco Directors have accepted the offer in relation to their own share holdings. In anticipation of a successful acquisition, we are well advanced with our integration planning and are pleased with the level of cooperation from Alesco's senior management.

The acquisition of Alesco is a logical part of DuluxGroup's growth strategy. It would allow us to grow DuluxGroup's core Australian and New Zealand position by playing to our principal strengths as expert marketers of premium branded products distributed through extensive consumer and trade channels.

The DuluxGroup and Alesco businesses have much in common. They each have leadership positions in their chosen markets, premium brands, technology advantages, local manufacturing expertise, extensive trade networks, and a strong company owned trade store network.

However, they are also complementary, which presents new opportunities for mutual growth. Increasingly, we see opportunities to further leverage the capabilities of our trade business, which makes up almost 50 per cent of DuluxGroup's revenue, particularly where the consumer is increasingly a critical decision maker in the purchase process, such as with Alesco's garage doors business. The addition of Alesco's construction chemicals business would continue the evolution of DuluxGroup's adjacent product expansion over the last 25 years, particularly in our Selleys, Acratex, and Protective Coatings businesses.

Following a successful acquisition, DuluxGroup would remain predominantly an Australasian paints, specialty coatings and adhesives company, and almost two thirds of DuluxGroup's business would continue to be exposed to the relatively stable markets of the renovation and maintenance of existing homes.

DuluxGroup remains focused on our existing businesses. Continued investment in marketing, technical innovation and customer service is aimed at stimulating organic growth across categories. Despite the general decline in DuluxGroup's markets this year, the business delivered pleasing revenue growth and further share gains in key markets.

A part of securing DuluxGroup's medium to long term growth, is building the company's foothold positions in China and South East Asia in a measured way. This year we have focused on completing the integration of the DGL Camel International business in Hong Kong and mainland China, in which DuluxGroup holds a 51% controlling interest. Targeted synergies have now been delivered and the business is well placed for market recovery.

Since becoming an independently listed company in July 2010, a key focus for DuluxGroup Directors has been ensuring that DuluxGroup's businesses and sites are productive and welcome participants in the communities in which they operate. During the year, the Directors continued to visit operational sites and to meet and better understand the various perspectives of customers, our employees, and local communities.

The new Royal Children's Hospital in Melbourne is finished throughout in Dulux paints. Dulux's Commercial and Specifications team worked with the architect, interior designers and trade painters to help create a vibrant, family oriented space.

During the year we made excellent progress towards our sustainability goal of 'a future without harm'. Due to the low level of direct emissions from its operating sites, DuluxGroup is not liable to pay the carbon tax. However, during the year we increased our efforts to further reduce the impact of our operations on the environment. The company reduced both water consumption and waste generation to landfill across its operating sites. DuluxGroup workplace health and safety performance improved substantially on past years.

In 2012 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 further details.

On behalf of the Board and shareholders I would like to thank Patrick Houlihan, the management team and all 2,900 employees across all of our businesses and geographic regions for their successful efforts in the face of some extremely challenging market conditions this year.

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

During the year DuluxGroup has delivered solid results and continued to build its platform for ongoing growth. It is well placed to continue to succeed and grow in the year ahead. I look forward to the next opportunity to update you on your company's performance.

PETER KIRBY
14 November 2012

THE ACQUISITION OF ALESCO IS A LOGICAL PART OF DULUXGROUP'S GROWTH STRATEGY. IT WOULD ALLOW US TO GROW DULUXGROUP'S CORE AUSTRALIAN AND NEW ZEALAND POSITION BY PLAYING TO OUR PRINCIPAL STRENGTHS AS EXPERT MARKETERS OF PREMIUM BRANDED PRODUCTS DISTRIBUTED THROUGH EXTENSIVE CONSUMER AND TRADE CHANNELS.

To GROW REVENUE *and*

DELIVER LIKE FOR LIKE PROFIT GROWTH *of* 2.6% *in an* ENVIRONMENT OF GENERALLY DECLINING MARKETS *and* SIGNIFICANT INPUT COST PRESSURE DEMONSTRATES DULUXGROUP'S RESILIENT STRATEGIC POSITION *and* SOLID FINANCIAL DISCIPLINE.

–

DEAR SHAREHOLDERS

I am pleased to report that this year DuluxGroup has continued to grow and perform well despite very difficult trading conditions across most of our markets.

To grow revenue and deliver like for like net profit growth of 2.6% in an environment of generally declining markets and significant input cost pressure demonstrates DuluxGroup's resilient strategic position and solid financial discipline.

The Paints Australia operating segment increased sales by 5.7% and, excluding a $7.7 million insurance uplift, delivered EBIT of $101 million, a 1.4% decline from 2011. Including the insurance uplift, EBIT grew by 1.8% to $108.8 million. The business incurred significant input cost pressure, particularly titanium dioxide, and additional operating costs, such as higher insurance premiums and depreciation as a consequence of the 2011 Queensland flood. Sales growth was achieved despite the overall decorative paint market declining approximately 4%. Continued investment in the marketing of our premium brands, innovation, and customer service resulted in profitable market share growth across our broad range of product categories in both retail and trade channels.

The Paints New Zealand segment delivered sales of $72.3 million, down 12.4%, and EBIT of $8.1 million, down 16.5% on the prior year. Prior year revenue and EBIT were boosted by production of paints for the Australian business following the January 2011 Queensland flood and production of protective coatings, which has now moved to a new factory in Australia. Excluding these two factors, sales and EBIT grew slightly, despite the continued general market softness and a higher depreciation charge following the completion of the Wellington factory upgrade. Although there were some signs of market recovery related to Christchurch reconstruction activity, the economy overall continued to be affected by consistent caution in household spending behaviour. However, housing indicators are improving, and the business has continued to invest in its premium brands and customer service across retail and trade channels, which have it in a strong position for market recovery.

The Selleys Yates segment delivered EBIT of $24.9 million, down 18.4% on the prior year. This disappointing result reflects deteriorating market conditions, input cost increases, and some adverse ranging outcomes and changes in product sales mix in some key retail channels. The changes in retail sales mix were the result of some strategically important range review wins which, along with continued investment in new product development and marketing, has the business well placed to benefit from market growth.

DuluxGroup's Offshore and Other business segment – comprising DGL Camel in China and Hong Kong, the Papua New Guinea (PNG) business, the Dulux Powder, Refinish and Industrial Coatings business in Australia and New Zealand (Powder Coatings) and the South East Asian business – delivered EBIT of $6.7 million, down $1 million or 13%. Sales and earnings for this segment now include 100% of the contribution from the DGL Camel International business which was formed in December 2011. On an equity share basis, including DuluxGroup's 51% share of the results of DGL Camel since December 2011, EBIT for the Offshore and Other segment actually increased by $2.1 million. This growth was largely driven by a strong performance from our PNG business which increased sales volume and benefited from a stronger local currency against the Australian dollar. Despite generally soft conditions in China, and increased costs associated with the merger and integration of the DGL International and Camel businesses, the China business grew earnings slightly on an equity share basis. The Powder Coatings business continued to be negatively impacted by the slowdown in new housing and commercial construction in Australia and New Zealand.

DuluxGroup has been thoroughly tested this year by a combination of generally weak market conditions, changing competitor and retail customer landscapes, significant input cost pressure and increased operating costs as a result of the Rocklea flood. Despite these headwinds, our business fundamentals remain in good shape, particularly in paint, with continued growth in profitable market share. Our strong strategic position has been well supported by solid cost control and productivity improvements.

I WOULD PARTICULARLY LIKE TO THANK DULUXGROUP'S EMPLOYEES FOR THEIR CONTRIBUTION IN A CHALLENGING YEAR. THEIR EFFORTS REFLECT A CLEAR SET OF VALUES AND BEHAVIOURS, WHICH HAVE BEEN COLLECTIVELY DEVELOPED AND AGREED UPON BY ALL OF OUR EMPLOYEES FROM AROUND THE WORLD.

I would particularly like to thank DuluxGroup's employees for their contribution in a challenging year. Their efforts reflect a clear set of Values and Behaviours, which have been collectively developed and agreed upon by all of our employees from around the world. These values have been designed to ensure that we not only meet our strategic goals at DuluxGroup but that, in doing so, we conduct ourselves with integrity and according to the expectations of our colleagues, our customers, shareholders and the communities within which we operate. These values are:

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

An enduring element of our culture is to take care of the safety of our employees. This year has seen a significant improvement in the level of recordable injuries amongst employees. During the year, we particularly focused on ensuring that all of our employees understand the importance of speaking up about potential safety hazards and I am especially pleased that there has been a noticeable improvement in the reporting of incidents that have the potential to cause harm. Consistent with our commitment to prevent harm and take care of the well-being of ourselves and our communities, a number of our employees continued to make a positive difference by donating funds and volunteering their time to causes ranging from Habitat for Humanity to cancer research, Surf Life Saving Australia and adult literacy throughout the year.

Melbourne's Citylink Gateway 'Red Sticks', coated in Dulux Protective Coatings specially formulated 'Citylink Cherry Red'.

During the second half of the year we have continued to make positive progress towards our bid to acquire all of Alesco Corporation Limited (Alesco). As the level of acceptances of our Offer has gradually increased we have been progressing with our integration planning. The addition of Alesco would provide a number of strategic opportunities to grow and extend our market leading Australian and New Zealand positions. There are compelling opportunities to extend our respective product ranges and to cross sell products into new end markets.

An important part of our planning has been to ensure that we have the right skills, leadership structure and resources in place to maximise the value of a successful acquisition. Towards the end of the financial year there were some changes to the DuluxGroup Executive team announced. Graeme Doyle, formerly General Manager of Selleys Yates, will now focus on supporting our new business growth initiatives. We have welcomed Mike Kirkman to DuluxGroup as General Manager of Selleys Yates. Mike comes with extensive experience across premium branded consumer and trade focused businesses.

I would like to thank the DuluxGroup Board for its ongoing support throughout the year.

This year DuluxGroup has continued to deliver solid results, despite a tough market, and to build on its platform for ongoing growth. Our company is well placed for ongoing success.

PATRICK HOULIHAN
14 November 2012

OUR VALUES

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
			

REVIEW *of* OPERATIONS *and* FINANCIAL PERFORMANCE

RESULT SUMMARY

- **Sales revenue** of $1,067.8M increased by $71.4M (+7.2%) on the prior year's corresponding period ('pcp'). Of this sales growth, approximately 3 percentage points relates to the formation of DGL Camel International (DGL Camel) in China and Hong Kong during the year. Sales in the pcp include the impact of the loss of production at Rocklea following the Queensland flood, which we estimate adversely affected sales by 2%. Excluding these impacts, sales grew approximately 2% in challenging markets.
- **EBIT**[4] of $132.2M, a decrease of 5.0%. On a like for like basis, EBIT decreased by 4.7% to $128.4M. Refer next page for a reconciliation.
- **Net profit after tax (NPAT) and non-controlling interests** was $89.5M, a decrease of 4.0%. Like for like NPAT[6] was $79.6M, an increase of 2.6% over the 2011 equivalent of $77.6M. Refer next page for a reconciliation.
- **Operating Cash Flows**[7] of $116.5M increased by $31.1M, reflecting a strong internal focus on working capital management, particularly in the second half, plus insurance proceeds.

RESULTS[1]

A$M	2012 ACTUAL	2011 ACTUAL	% CHANGE
	YEAR ENDED 30 SEPTEMBER 2012		
Headline results[2]			
Sales revenue	1,067.8	996.4	7.2
EBITDA[3]	155.5	159.2	(2.3)
Total EBIT[4]	**132.2**	**139.2**	**(5.0)**
Non-controlling interests	3.2	–	nm
Net profit after tax and non-controlling interests	**89.5**	**93.2**	**(4.0)**
Operating cash flow[7]	116.5	85.4	36.3
Net debt[8] (closing)	230.3	222.1	(3.7)
Diluted earnings per ordinary share (cents)	24.3	25.7	(5.4)
Final dividend per share (cents)	8.0	7.5	6.7
Total dividend per share (cents)	15.5	15.0	3.3
Adjusted results			
Like for like EBITDA[5]	151.0	154.7	(2.4)
Like for like EBIT[5]	128.4	134.7	(4.7)
Like for like net profit after tax[6]	79.6	77.6	2.6

Note: Numbers in this report are subject to rounding. nm = not meaningful.

1. Other than as indicated in subsequent footnotes, the financial information contained in this document is directly extracted or calculated from the Financial Statements included in the Financial Report which has been subject to audit.
2. Headline results – represent results directly extracted from the Financial Report, and are unadjusted.
3. EBITDA – represents 'profit from operations' plus 'depreciation and amortisation expense' per the Financial Report.
4. EBIT – the equivalent of 'Profit from operations' per the Financial Report.
5. Like for like EBIT – for 2012 represents 'profit from operations' of $132.2M, less an uplift of $7.7M resulting from insurance recoveries being in excess of profit and loss charges for the period, less net costs associated with the bid for Alesco of $0.8M, less the 49% non controlling interests' share in DGL Camel ($3.1M). In 2011, profit from operations is also adjusted for an insurance uplift of $4.5M. Like for like EBITDA is equal to like for like EBIT plus depreciation and amortisation expense. Directors believe that the result excluding these items provides a better basis for comparison from period to period, as well as being more comparable with future performance.
6. Like for like net profit after tax (NPAT) – for 2012 represents net profit after tax and non-controlling interests, less adjustments for a tax consolidation benefit ($6.3M), an insurance uplift ($5.4M net of tax) and Alesco transaction costs ($3.3M net of tax), dividend income ($2.8M) and interest expense ($1.3M net of tax). In 2011, like for like NPAT represents net profit after tax and non-controlling interests, less adjustments for a tax consolidation benefit ($12.5M) and an insurance uplift ($3.1M net of tax). Directors believe that the result excluding these items provides a better basis for comparison from period to period, as well as being more comparable with future performance.
7. Operating cash flow – the equivalent of 'Net cash inflow from operating activities' per the Financial Report.
8. Net debt – represents 'interest bearing liabilities' less 'cash and cash equivalents'.

PROFIT AND LOSS

RECONCILIATION BETWEEN STATUTORY AND ADJUSTED FIGURES

A$M	2012 ACTUAL	2011 ACTUAL	% CHANGE
	YEAR ENDED 30 SEPTEMBER 2012		
Total Sales Revenue	**1,067.8**	**996.4**	7.2
less Non-controlling interests' share (DGL Camel)	(29.2)	–	
add Estimated lost sales prior year (Qld flood)	–	18.0	
Estimated like for like Sales	**1,038.6**	**1,014.4**	2.4
Total reported EBITDA	**155.5**	**159.2**	(2.3)
add back Insurance uplift	(7.7)	(4.5)	
less Alesco transaction costs	3.6	–	
less Non-controlling interests' share (DGL Camel)	2.4	–	
less Alesco dividend	(2.8)	–	
Equity share of EBITDA before insurance uplift and Alesco (like for like)	**151.0**	**154.7**	(2.4)
Total reported EBIT	**132.2**	**139.2**	(5.0)
add back Insurance uplift	(7.7)	(4.5)	
less Alesco transaction costs	3.6	–	
less Non-controlling interests' share (DGL Camel)	3.1	–	
less Alesco dividend	(2.8)	–	
Equity share of EBIT before insurance uplift and Alesco (like for like)	**128.4**	**134.7**	(4.7)
Total reported net profit after tax	**86.3**	**93.2**	(7.4)
less Non-controlling interests' share (DGL Camel)	3.2	–	
Net profit after tax and non-controlling interests	**89.5**	**93.2**	(4.0)
add back Insurance uplift	(5.4)	(3.1)	
less Alesco transaction costs	3.3	–	
less Alesco dividend	(2.8)	–	
add back Interest on Alesco stake (est.)	1.3	–	
less Tax consolidation adjustment	(6.3)	(12.5)	
Like for like net profit after tax	**79.6**	**77.6**	2.6

The **insurance uplift** amount refers to the difference between insurance income of $15.0M and the flood-related profit and loss expenses of $7.3M, as reported in the first half result.

Alesco transaction costs refers to the incurred transaction costs associated with the bid for Alesco Corporation Limited (Alesco) of $3.6M before tax / $3.3M after tax.

Alesco dividend refers to the fully franked dividend income from DuluxGroup's 19.96% shareholding in Alesco ($2.8M before and after tax).

Interest on Alesco stake refers to the estimated incremental interest expense due to the $37.6M capital outlay in May 2012 to acquire the Alesco shareholding ($1.8M before tax / $1.3M after tax).

Non-controlling interests refers to deduction of the minority shareholder's (Camel's) share of the results for DGL Camel since December 2011. DGL Camel is 51%-owned by DuluxGroup, but its results are fully consolidated within DuluxGroup's accounts.

PROFIT AND LOSS *(continued)*

KEY DRIVERS OF RESULT

Sales revenue of $1,067.8M increased by $71.4M (+7.2%) on the pcp. Excluding the DGL Camel non-controlling interest in 2012 and flood impacts in 2011, sales revenue grew by approximately 2%, driven by:

- Profitable share gains in the Paints Australia segment in a significantly declining Australian Architectural and Decorative Paints market (down approximately 4%, mostly in the second half of the year);
- Market growth in Paints New Zealand, led by reconstruction activity in Christchurch;
- Sales decline in Selleys Yates driven by soft markets and some share loss; and
- Sales growth in the Offshore and Other segment, led by volume and mix improvements in the Papua New Guinea business; partly offset by declines in the Powder and Industrial Coatings business as the market fell further from what were already depressed levels and the DGL Camel business (on an equity share basis), in weak markets.

Equity share of EBIT before insurance uplift and Alesco of $128.4M decreased by $6.3M (-4.7%) on the pcp's EBIT before insurance uplift of $134.7M. This was due to the flow through impacts of revenue outcomes outlined above, and the following:

- A slight EBIT decline in the Paints Australia segment, caused by higher depreciation (attributable to newly replaced assets at Rocklea and the new protective coatings factory). EBITDA for this segment grew 0.7% despite input cost and post-flood fixed cost pressures;
- A slight EBIT improvement in Paints New Zealand, excluding earnings from inter-company sales (flood support and protective coatings manufacture) in the pcp;
- An EBIT decline of $5.6M in Selleys Yates, driven by the softer sales result and margin decline, with product mix a key driver; and
- Earnings growth in Papua New Guinea and some improvement in the China result as the DuluxGroup equity share of EBIT was favourable to the pcp.

PROFIT AND LOSS *(continued)*

SEGMENT REVENUE AND EBIT

	YEAR ENDED 30 SEPTEMBER 2012		
A$M	2012 ACTUAL	2011 ACTUAL	% CHANGE
Sales revenue			
Paints Australia	613.9	580.6	5.7
Paints New Zealand	72.3	82.5	(12.4)
Selleys Yates	244.6	248.9	(1.7)
Offshore and Other (100% of DGL Camel in 2012)	154.6	113.8	35.9
Eliminations	(17.6)	(29.4)	40.1
Total sales revenue	**1,067.8**	**996.4**	**7.2**
Other income	**20.2**	**67.2**	(70.0)
EBIT			
Paints Australia	101.0	102.4	(1.4)
Paints New Zealand	8.1	9.7	(16.5)
Selleys Yates	24.9	30.5	(18.4)
Offshore and Other (100% of DGL Camel in 2012)	6.7	7.7	(13.0)
Corporate (including Alesco dividend and costs)	(16.2)	(15.6)	(3.8)
Insurance uplift (added to Paints Australia)	7.7	4.5	71.1
Total reported EBIT	**132.2**	**139.2**	**(5.0)**
Net interest expense[1]	(21.4)	(23.1)	7.4
Income tax expense	(24.5)	(22.9)	(7.0)
Non-controlling interests	3.2	–	nm
Net profit after tax and non-controlling interests	**89.5**	**93.2**	**(4.0)**
Like for like net profit after tax	79.6	77.6	2.6

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

OTHER ITEMS

Net interest expense[1] of $21.4M reflects an average cost of debt of 7.4%. Interest expense was $1.7M lower than 2011 net interest expense, despite higher average debt levels, due to a more favourable borrowing rate following renegotiation of the Group debt facilities in November 2011 as well as lower prevailing rates. The impact of higher debt associated with the initial Alesco share purchase added an extra $1.8M to interest expense. Excluding this, interest expense was $3.5M lower than the pcp.

Income tax expense of $24.5M includes a tax consolidation benefit of $6.3M ($12.5M in pcp) which relates to the tax effect of recognising a deferred tax asset (associated with the revaluation of certain assets for tax purposes) on the formation of the Australian tax consolidated group upon demerger. Excluding this, the effective tax rate was 27.8% (30.5% in pcp), with the lower rate in 2012 driven in part by the fully franked dividend income from Alesco. Going forward, our expectation is that the effective tax rate will be in the vicinity of 29%.

Non-controlling interest loss of $3.2M relates to the minority shareholder's 49% share of the post-tax result for DGL Camel International.

Final dividend of 8.0 cents per share fully franked, which represents a 70% payout ratio based on like for like NPAT.

BALANCE SHEET

- **Trade working capital**[1] (TWC) increased by $0.4M. The inclusion of 100% of the TWC for the 51%-owned DGL Camel International business (from December 2011) resulted in an increase of $7.3M. Excluding this, TWC decreased by $6.9M. This was largely due to a reduction in inventory as the September 2011 level was abnormally high as additional stock was held as part of the Rocklea flood recovery program. Trade working capital has now been managed back to normal levels.
- **Rolling TWC to rolling sales**[2,3] (on a 12 month basis) at 13.3%, reflects the sustained level of high inventory throughout much of 2012 associated with the Queensland flood recovery activities (0.4% points), the higher level of TWC attributable to the acquired Camel business (0.4% points) and higher levels of inventory required in Papua New Guinea to mitigate supply chain bottlenecks at the country's ports (0.2% points).
- **Non trade debtors**[4] decreased by $5.1M, largely due to the receipt of the $11.5M insurance receivable relating to the Queensland flood.
- **Intangible assets** increased by $9.8M, mainly due to the formation of DGL Camel International during the year.
- **Investments** increased by $38.1M, primarily due to the acquisition of a 19.96% interest in Alesco on 30 April 2012.
- **Net debt** increased by $8.2M (refer cash flow for explanation).
- **Non-controlling interest in controlled entities** of $13.0M reflects the non-controlled portion (i.e. minority shareholder's 49% share) of DGL Camel in China and Hong Kong.

BALANCE SHEET

A$M	SEPT 2012 ACTUAL	SEPT 2011 ACTUAL
Inventories	129.2	135.7
Trade debtors	167.6	155.9
Trade creditors	(164.3)	(159.5)
Total trade working capital[1]	132.5	132.1
Non trade debtors[4]	11.7	16.8
Tax balances (DTA, ITP and DTL)	28.1	24.2
Property, plant and equipment	199.1	196.4
Intangible assets	96.8	87.0
Investments	40.6	2.5
Non trade creditors[5]	(35.4)	(34.2)
Defined benefit fund liability	(20.9)	(22.6)
Provisions (excluding tax)	(39.3)	(42.5)
Net debt	(230.3)	(222.1)
Net other assets	–	0.9
Net Assets	**182.9**	**138.5**
Total equity attributable to ordinary shareholders of DuluxGroup Limited	169.9	138.5
Non-controlling interest in controlled entities	13.0	–
Total Shareholder's Equity	**182.9**	**138.5**

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

CASH FLOW

In 2011, several line items within the cash flow were impacted by Queensland flood related activity. Refer to the 2011 Review of Operations and Financial Performance for further details.

- Net operating cash flows increased by $31.1M (+36.3%):
  - Current period EBITDA, trade and non trade working capital movements reflect the previous discussions from the profit and loss and balance sheet sections of this report;
  - Other non cash outflow of $1.5M mainly relates to the transfer of the Alesco dividend from operating to investing cash flows; and
  - Net interest paid was $8.4M lower than the pcp, reflecting the lower net interest expense incurred throughout the year and a benefit from the timing of interest payments.
- Total capital expenditure[1] of $27.4M consists of:
  - Minor capital expenditure ($18.2M);
  - Major capital expenditure ($3.8M), relating to the final payments for the New Zealand factory upgrade and the new protective coatings factory in Melbourne; and
  - Replacement of flood-damaged assets at Rocklea ($5.5M).
- Acquisition/disposals[2] of $39.7M relates primarily to the acquisition of a 19.96% interest in Alesco on 30th April 2012 ($37.6M), and the formation of DGL Camel (cash purchase consideration less cash acquired of $2.1M).
- Dividends received are largely attributable to the 19.96% shareholding in Alesco.
- Share capital movements represent on-market share purchases for Long Term Equity Incentive Plan and Employee Share Investment Plan, partly offset by the issuing of equity to satisfy the Dividend Reinvestment Plan.

STATEMENT OF CASH FLOWS

A$M	YEAR ENDED 30 SEPTEMBER 2012 2012 ACTUAL	2011 ACTUAL	% CHANGE
Net operating cash flows			
EBIT	132.2	139.2	(5.0)
Add: Depreciation	21.5	18.1	18.8
Add: Amortisation	1.8	1.9	(4.0)
EBITDA	155.5	159.2	(2.3)
Trade working capital movement	6.6	(18.9)	nm
Non trade working capital movement	0.6	(11.2)	nm
Other non cash	(1.5)	7.6	nm
Income taxes paid	(27.5)	(25.6)	(7.3)
Net interest paid	(17.2)	(25.6)	32.8
Operating cash flows	**116.5**	**85.4**	36.3
Net investing cash flows			
Capital expenditure[1]	(27.4)	(62.0)	55.7
Acquisitions/disposals[2]	(39.7)	(4.3)	(812.7)
Dividends received	3.1	0.5	514.0
Investing cash flows	**(64.0)**	**(65.9)**	2.8
Net financing cash flows			
Share capital movements	(2.6)	1.9	nm
Dividends paid	(54.4)	(38.6)	(41.0)
Financing cash flows before debt movement	**(57.0)**	**(36.7)**	(55.3)
Total cash flow before debt movement	**(4.5)**	**(17.1)**	73.4
Cash conversion[3]	**92%**	**77%**	

1. Capital expenditure – represents 'payments for property, plant and equipment, 'payments for intangible assets' and 'proceeds from sale of property, plant and equipment'.
2. Acquisitions/disposals – represents 'payments for purchase of businesses and controlled entities' and 'investments in listed equity securities'.
3. Cash conversion – is calculated as EBITDA excluding insurance uplift, Alesco transaction costs and Alesco dividend, add/less movement in working capital and other non cash, less minor capital spend (excluding flood related capital spend), as a percentage of EBITDA excluding insurance uplift, Alesco transaction costs and Alesco dividend.

REVIEW *of* BUSINESS SEGMENT PERFORMANCE

PAINTS AUSTRALIA

EBIT

$108.8M

SALES REVENUE

$613.9M

PAINTS AUSTRALIA EBIT $108.8M, INCLUDING $7.7M FLOOD INSURANCE UPLIFT.

EBIT BEFORE FLOOD INSURANCE UPLIFT DOWN 1.4% TO $101.0M.

A STRONG PERFORMANCE IN THE CONTEXT OF SIGNIFICANTLY DECLINING MARKETS, RISING INPUT COSTS AND ADDITIONAL POST-FLOOD OPERATING COSTS.

PAINTS AUSTRALIA — YEAR ENDED 30 SEPTEMBER

A$M	2012 ACTUAL	2011 ACTUAL	% CHANGE
Sales revenue	613.9	580.6	5.7
EBITDA before flood insurance uplift	112.9	112.1	0.7
*Normalised EBITDA % Sales**	*18.4%*	*~18.7%*	
EBIT	108.8	106.9	1.8
EBIT before flood insurance uplift	101.0	102.4	(1.4)
*Normalised EBIT % Sales**	*16.5%*	*~ 17.0%*	

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

SALES REVENUE UP $33.3M (+5.7%)

- The prior period was adversely impacted by the loss of production at Rocklea following the Queensland flood (estimated as approximately 3% of Paints Australia sales). If these sales are added back, sales revenue grew by approximately 3%.
- The Australian Architectural and Decorative Paint Market declined by approximately 4% in volume terms, with greatest decline in the second half of the year. The trade market experienced the largest fall, driven by low levels of residential and commercial construction activity.
- The revenue outcome for this segment was driven by profitable share growth across all businesses (with an exceptional outcome in the Trade channel) and pricing discipline.

EBIT DECLINE OF $1.4M (-1.4%) BEFORE FLOOD INSURANCE UPLIFT

- Depreciation increased by $2.3M, mainly due to the newly replaced assets at Rocklea and the completion of the new protective coatings factory in Melbourne.
- EBITDA for this segment grew 0.7% on the pcp:
  - Costs were controlled to counter additional spend incurred as a consequence of the flood (higher insurance premiums (>$1M) and the cost of running the Glen Waverley site for six months ($1.5M)).
  - Margins remained intact as titanium dioxide price increases (average price for the year up approximately 30% on the pcp) were partly offset by some price relief on other raw materials and significant internal initiatives. Overall, input costs increased at a rate slightly ahead of inflation.
- Importantly, the business continued to invest in key fundamentals with regards to brand, innovation and customer service.

PAINTS NEW ZEALAND

EBIT

$8.1M

SALES REVENUE

$72.3M

PAINTS NEW ZEALAND EBIT DOWN 16.5% TO $8.1M

A SOLID RESULT FROM THE BASE BUSINESS ALLOWING FOR THE POSITIVE IMPACT OF MANUFACTURING FOR AUSTRALIA IN THE PRIOR PERIOD. MARKET CONDITIONS WERE BOOSTED BY CHRISTCHURCH RECONSTRUCTION ACTIVITIES.

PAINTS NEW ZEALAND — YEAR ENDED 30 SEPTEMBER

A$M	2012 ACTUAL	2011 ACTUAL	% CHANGE
Sales revenue	72.3	82.5	(12.4)
EBITDA	10.6	12.0	(11.7)
EBITDA % Sales	*14.7%*	*14.5%*	
EBIT	8.1	9.7	(16.5)
EBIT % Sales	*11.2%*	*11.8%*	

SALES REVENUE DOWN $10.2M (-12.4%)

- Revenue growth for the base business of 2.3% after excluding inter-company revenue of $11.9M in the pcp (protective coatings and flood recovery support for Paints Australia).
- The New Zealand decorative paint market is expected to have grown approximately 2% during the year, led by the trade market where Christchurch reconstruction activities boosted an otherwise falling market.

EBIT DECLINE OF $1.6M (-16.5%)

- For the base continuing business (excluding earnings derived from the inter-company sales to Australia), EBIT improved against last year.
- Input costs increased, with higher titanium dioxide prices being the key driver, though pricing discipline and positive brand mix outcomes mitigated the impact.
- Fixed costs were well contained.

SELLEYS YATES

EBIT

$24.9M

SALES REVENUE

$244.6M

SELLEYS YATES EBIT DOWN 18.4% TO $24.9M

A DISAPPOINTING RESULT IN A SOFT MARKET, WITH ADVERSE MIX IMPACTING MARGINS.

SELLEYS YATES — YEAR ENDED 30 SEPTEMBER

A$M	2012 ACTUAL	2011 ACTUAL	% CHANGE
Sales revenue	244.6	248.9	(1.7)
EBITDA	28.5	34.2	(16.7)
EBITDA % Sales	*11.7%*	*13.7%*	
EBIT	24.9	30.5	(18.4)
EBIT % Sales	*10.2%*	*12.3%*	

SALES REVENUE DECLINE OF $4.3M (-1.7%)

- Both Selleys and Yates experienced continued softening in their respective markets, particularly in the second half of the year.
- Selleys revenue declined in line with the lower market and due to some ranging losses outside of the big box hardware channel.
- In contrast, Yates sales grew on the back of share gains resulting from positive outcomes of range reviews with key customers. The majority of this growth came from lower priced, entry/mid level products that also yield lower margins.

EBIT DECLINE OF $5.6M (-18.4%)

- As foreshadowed in the first half outlook statement, the outcome of strategically important range review wins for Yates came at the expense of margins due to an unfavourable product mix. This, combined with the softer market, resulted in an EBIT reduction in the Yates business.
- Selleys margin compression continued through the second half of the year and was amplified by softer market conditions and ranging losses.
- Fixed costs were tightly managed and were below prior year.

OFFSHORE AND OTHER

EBIT

$6.7M

SALES REVENUE

$154.6M

OFFSHORE AND OTHER EBIT DOWN 13.0% TO $6.7M

GROWTH IN DULUXGROUP'S EQUITY SHARE OF EBIT, DRIVEN BY STRONG PERFORMANCE IN PAPUA NEW GUINEA, SLIGHTLY IMPROVED CHINA RESULT IN SOFTER MARKETS, OFFSET BY FURTHER DECLINES IN POWDER COATINGS AS A RESULT OF DETERIORATING NEW HOUSING MARKETS.

OFFSHORE AND OTHER — YEAR ENDED 30 SEPTEMBER

A$M	2012 ACTUAL	2011 ACTUAL	% CHANGE
Sales revenue	154.6	113.8	35.9
EBITDA	11.4	11.5	(0.9)
EBITDA % Sales	*7.4%*	*10.1%*	
EBIT	6.7	7.7	(13.0)
EBIT % Sales	*4.3%*	*6.8%*	
Equity share of EBIT[1]	9.8	7.7	27.3

1. Equity share of EBIT represents the Group's share of EBIT in the Offshore and Other segment, after accounting for the 49% non-controlling interest in DGL Camel International.

The Offshore and Other segment consists of DGL Camel in China and Hong Kong, the Papua New Guinea business, the Dulux Powder, Refinish and Industrial Coatings Australia and New Zealand business (Powder Coatings) and the South East Asian business.

DGL Camel was formed following the merger of DuluxGroup's China and Hong Kong business with that of Camel in December 2011. DuluxGroup holds a 51% economic interest and control of DGL Camel. DGL Camel is fully consolidated with DuluxGroup's accounts, with Camel's 49% non-controlling interest deducted after NPAT. This segment's results include 100% of the sales and EBIT of DGL Camel. Given that the business was formed during the year, we have also included EBIT on a 51% equity share basis for comparative purposes.

SALES REVENUE UP $40.8M (+35.9%)

- The 49% minority share of DGL Camel's sales for the year was approximately $29M. Excluding this, segment sales revenue grew by approximately 10%.
- On an equity share basis, revenue for China and Hong Kong was adversely impacted by contraction in both markets.
- Papua New Guinea sales grew due to volume growth and improved mix, albeit at a slower rate in the second half of 2012 due to government elections and the construction phase of the ExxonMobil LNG project nearing completion.
- Powder Coatings revenue continued to be adversely impacted by the slowdown in new housing and commercial construction in both Australia and New Zealand.

EBIT DECLINE OF $1.0M (-13.0%)

- The 49% minority share of DGL Camel's EBIT was a loss of $3.1M. Excluding this, on an equity share basis, EBIT for the segment increased by $2.1M.
- On an equity share basis, China EBIT was marginally favourable to pcp, due to synergy realisation, and despite the inclusion of integration and compliance costs following the merger.
- PNG EBIT grew, driven largely by improved sales mix and benefits from a stronger local currency against the Australian dollar.
- Powder Coatings EBIT declined, as effective fixed cost control, procurement and production efficiencies were more than offset by revenue declines and significant rises in input costs.

OUTLOOK

Within the Paints Australia segment, the short-term outlook for the Australian Paint Market remains uncertain, with expectations of low construction activity and low consumer confidence continuing. Strong business fundamentals, a diverse product portfolio (retail and trade decorative paint, protective coatings, texture coatings and woodcare) and associated channel diversity continue to provide further opportunities for growth in this segment.

Housing market indicators are improving in New Zealand and as a result we expect to see gradual recovery in the New Zealand paint market. Christchurch reconstruction activities are expected to continue over a number of years and remain a key driver of market growth. The business is well positioned to capitalise on market growth.

Range review outcomes in both Selleys and Yates have placed this segment in a good position to benefit from market improvement. Margin improvement initiatives, focused on productivity and procurement, are well progressed.

In China and Hong Kong, the DGL Camel business remains focused on leveraging its combined scale. The economic outlook for the region remains uncertain in the near term, though positive for the long term. Economic growth is expected in Papua New Guinea, but at a slower rate as demand from projects associated with the ExxonMobil LNG project come to an end. With growth in premium product offerings, the Powder Coatings business remains strongly positioned in a depressed new housing market, awaiting recovery.

Subject to economic conditions and excluding any transaction costs associated with the bid for Alesco, we expect 2013 DuluxGroup net profit after tax for the existing business to be higher than like for like net profit after tax for 2012 ($79.6M).

An update in relation to Alesco will be provided at or prior to the 2013 half year result. Current expectation is that excluding transaction and acquisition integration costs, the acquisition will be earnings per share accretive in the first full year of ownership.

ALESCO UPDATE

On 30 April 2012, DuluxGroup acquired 19.96% of the shares in Alesco. The interest was acquired in advance of DuluxGroup's takeover offer for the remaining shares in Alesco that DuluxGroup does not already own. Details of this offer are set out in Note 31(d) in the Financial Report and further information can be obtained from DuluxGroup's bidder's statement as supplemented by various supplementary bidder's statements. These documents are available on the ASX.

As at 13 November 2012, DuluxGroup's relevant interest in Alesco plus acceptance instructions under DuluxGroup's Institutional Acceptance Facility (IAF) is 79.2%. Alesco expects to receive a draft tax ruling on or about 14 November 2012. Assuming that this tax ruling is satisfactory, and once DuluxGroup's relevant interest plus IAF acceptance instructions and Alesco shares held by nominated index funds approaches 90%, it is expected that Alesco will determine to pay an additional fully franked dividend of up to $0.27 per share. If determined, the record date for this additional dividend is expected to be 7 business days after the dividend has been determined. Assuming that remaining conditions are not breached, DuluxGroup has agreed with Alesco not to declare its Offer unconditional until at least 3 business days after the record date. If an additional dividend of $0.27 per share is determined and paid and the Offer is declared unconditional, accepting shareholders will be paid $1.63 by DuluxGroup within 5 business days. It is DuluxGroup's objective to ensure that accepting shareholders receive payment before Christmas.

DULUXGROUP SAFETY *and* SUSTAINABILITY REPORT 2012

WELCOME *to* THE 2012 DULUXGROUP SAFETY *and* SUSTAINABILITY REPORT. THROUGHOUT THE YEAR WE FOCUSED *on* IMPROVING OUR MANAGEMENT OF SIGNIFICANT RISKS *and* IT WAS PLEASING TO OBSERVE CONSIDERABLE IMPROVEMENT.

—

STRATEGY

An integrated approach to management of risk 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.

We have achieved significant improvement in the past, which is credited to the longstanding priority given to safety and sustainability by all of our employees, together with our early adoption in the 1980s and 1990s of today's standard risk management practices (e.g. hazard studies, management systems and behavioural observation programs). However, we recognise that our risk profile is constantly changing as our business changes and therefore our management of those risks needs to evolve accordingly. Achievement of our vision is currently enabled by four targeted strategies:

- **Process Safety:** prevention of major incidents from factory process hazards such as flammable solvents.
- **Fatality Prevention:** prevention of fatalities from common significant hazards such as forklifts and working at height.
- **Personal Safety:** prevention of injuries from common workplace hazards such as manual handling and sharp objects.
- **Sustainability:** prevention of community and environmental harm from all business activities.

These strategies are linked to a continuous improvement culture, reinforced by targeted improvement plans and measurable performance indicators

GOVERNANCE

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

- A Safety and Sustainability Board Committee. The Committee meets quarterly to review performance, objectives and strategies.
- A Safety and Sustainability Group Executive Council. The Council meets quarterly to review performance, approve strategy, monitor implementation, and review findings.
- An annual Safety and Sustainability Assurance process whereby all businesses report on performance and improvement progress.
- An ongoing Safety and Sustainability Audit program of all businesses to assess effectiveness of risk management.

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

PERFORMANCE

1. PEOPLE

Fatality Prevention

During 2012 we continued our focus on fatality prevention in order to protect our people and ensure we sustain our fatality free performance of more than 18 years. The current improvement actions focus on the investigation of near misses and completion of significant risk audits at sites, supported by protocols that prescribe high levels of mandatory risk controls. Significant improvements were implemented at a number of sites, including improved pedestrian segregation barriers at Yates Wyee and elimination of forklifts from significant areas of the factory at Dulux Glenfield. Our first protocol for driver safety was implemented during the year, and two further protocols (forklifts; racking) were developed and implementation is in progress.

Our levels of serious near miss incidents associated with fatality hazards continued to decline during the year, which has been a consistent trend over the last four years. The number of such incidents in 2012 was 70% lower than in 2009, when we introduced this measure. Meanwhile, our overall levels of total near miss reporting have almost quadrupled, indicating that our employees are increasingly reporting potential hazards before they cause harm.

Personal Safety

We achieved significant improvement in the personal safety performance of our established businesses. Excluding the new Camelpaint business, our Lost Workday Case Rate (per 200,000 hours) decreased to 0.64, from 0.82 in 2011, and our total Recordable Case Rate (per 200,000 hours) decreased to 1.21 from 1.96. The result of 1.21 is the best ever performance for our established businesses, representing a 35% improvement over the average performance of the prior three years and a 55% reduction from four years ago. Including Camelpaint, the lost workday and recordable case rate results were 1.21 and 1.85 respectively. These results were significantly impacted by an incident at Dongguan where 18 employees developed food poisoning after a meal provided on site.

Through participation in annual coatings industry safety surveys we know that our injury rates over the last decade have consistently been well below the Australian industry average (e.g. 35% lower in 2010). From benchmarking against international decorative coatings businesses in the US and UK/Europe completed in recent years, we also know that the F12 result of 1.21 for our established businesses is approaching best practice in those regions.

Our injuries are primarily associated with manual handling, sharp objects, and slips, trips and falls. During 2012 we maintained our focus on key activities introduced in recent years including ergonomic risk reduction, risk assessment and training, together with near miss reporting. Investment to reduce risk was undertaken at a number of sites, including a significant automation upgrade to Yates Mt Druitt liquids packaging and commencing installation of pneumatic hook lifts in Dulux Trade Centres.

Improving our reporting and investigation of near misses and hazards ("Total General Learning Incidents") also continued to show significant improvement for the fourth consecutive year. Our reporting rate per employee during 2012 increased 16% to 2.22.

Health and Well-being

Protecting employee health and well-being remained an important priority during the year. Monitoring programs to measure potential hazardous substances exposure were conducted at our manufacturing sites, and more than 99% of results were well below the occupational exposure limits. Health assessment monitoring programs to proactively monitor employees working with hazardous substances or agents were fully completed.

A number of well-being initiatives were conducted during the year, ranging from a new weight loss and health program with our Dulux NSW sales team, to continuing our program of ergonomic assessments and postural awareness training for office based Clayton employees.

Leadership Development

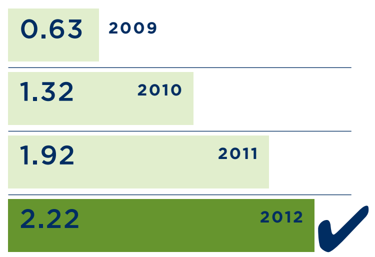
Developing safety leadership skills was an important focus during the year. Approximately 50 managers, ranging from Group Executive members to site operations managers, completed a program designed to enhance development of critical safety leadership skills (e.g. communication, leading by example) that support and enable our people to achieve safety success. This new program involves skills workshops, coaching and projects to practice for success. During the year we also redeveloped our safety and sustainability management training programs, which will be launched during 2013. These programs will focus on how to apply our strategies and systems in order to effectively manage risk.

RECORDABLE CASE RATE

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 2012 was 1.21 (excluding the new Camel business) compared with 1.96 in 2011. Including Camel, the result was 1.85.

TOTAL GENERAL LEARNING INCIDENTS (PER EMPLOYEE, PER YEAR)



TOTAL GENERAL LEARNING INCIDENTS (PER EMPLOYEE, PER YEAR).

We encourage our employees to report incidents that have the potential to cause harm. General Learning Incidents are near miss incidents and hazards that allow the company to identify and correct potential hazards before harm occurs. Total General Learning Incidents reported per employee improved to 2.22 in 2012 compared with 1.92 in 2011.

Community Engagement

Building on our strong history of engaging with local communities, the company formally adopted a community participation program during 2012 whereby all employees can undertake half a day per year of volunteer work supported by the company. This volunteer work complements the community support activities undertaken by a number of our businesses. Some examples of community engagement activities during 2012 include:

- Dulux Australia worked with Bunnings to raise $200,000 for local State Emergency Service units through a donation for all Weathershield product sold during January 2012.
- Dulux New Zealand donated paint and volunteer time to improve the surroundings for 12 community organisations, including local primary schools, scout groups and community theatres.
- Dulux New Zealand worked with Habitat for Humanity to provide paint for more than 50 community projects to help improve the living conditions for people in need, including some of those affected by the Christchurch earthquakes.
- DuluxGroup Clayton employees worked with Able Australia to paint the interior of a house for six residents with multiple disabilities, while Dulux Protective Coatings employees worked with the RSPCA to paint an animal shelter.
- To help protect and repair our environment, Yates donates a percentage of sales from our 'Nature's Way' range of products to Landcare Australia.
- Yates is also a proud sponsor of the Junior Landcare Challenge to encourage children to learn about gardening and the environment.
- Selleys, Yates and Dulux employees from our Padstow site participated in the Clean Up Australia program for the 13th consecutive year.

2. OPERATIONS

Process Safety

Our focus on ensuring effective management of process hazards in our factories (e.g. flammable solvents) in order to prevent potential high consequence incidents such as a major fire or explosion, continued during 2012. As a consequence of this improvement work over recent years, it is pleasing to observe that there have been no serious process safety near misses or incidents across our established factories in Australia and New Zealand for two years.

The key improvement activity in this area, our in-depth Periodic Hazard Study process, was completed at two more sites during the year. Our Dulux Rocklea, Selleys Padstow, Yates Wyee, Yates Mt Druitt and Dulux Glenfield factories have now all completed the program and are making good progress towards completing the identified improvement actions (e.g. capital projects, improving rigour of operating procedures, training and competency) to ensure effective critical risk controls are sustained.

Acquisition Integration

Integration of acquisitions remained an important priority during 2012, especially for operating sites with significant process safety and fatality risks. A corporate risk management audit was completed at DGL Camel Shanghai during the year, which confirmed that the site has made significant progress since acquisition in the 2009 financial year. The recently acquired DGL Camel Dongguan manufacturing sites have commenced implementation of integration improvement actions following completion of significant risk audits.

Resources and Environment

Water consumption (kilolitres per tonne of production), excluding the recently acquired Camel Dongguan site decreased for the fourth consecutive year to 0.49 kL/t, a 14% reduction since 2009. The improvement in 2012 was largely associated with reduction initiatives at the DGL Shanghai site (e.g. recycling of cooling water).

Waste generation (kilograms per tonne of production), excluding Camel Dongguan, decreased to 13.8 kg/t. Excluding the 2011 result where waste increased due to Dulux Rocklea flood recovery works, waste generation has decreased 27% from 2009 levels. This reduction in waste during 2012 was associated with continuous improvement at a number of sites (e.g. improved raw material recovery from packaging at Dulux Powders Dandenong). During the year we completed waste audits at our five largest waste generating sites and developed a multi-year reduction plan.

Total energy consumption (gigajoules per tonne of production) across the group, excluding Camel Dongguan, decreased 4% from 2011 to 0.74 GJ/t, largely due to variations in product mix. Associated carbon dioxide emissions (tonnes per tonne of production) increased from 0.15 t/t to 0.16 t/t, primarily due to improved estimation techniques.

DuluxGroup meets the Australian National Greenhouse and Energy Reporting System (NGERS) reporting criteria, primarily due to use of solvents as raw materials. Energy consumption and greenhouse gas emissions from our Australian sites and businesses (e.g. fleet car fuel) are both below the NGERS reporting and carbon tax thresholds. Our total greenhouse gas emissions (Scope 1 and 2) from DuluxGroup's Australian sites and business activities were 27,100 tonnes (CO_2-e or equivalent carbon dioxide emissions), 1.1% higher than 2011. Total energy consumed was 452,260 GJ, 6.5% higher than 2011. These increases were due to commissioning of the new Dulux Protective Coatings factory in Dandenong and a full year of production at Dulux Rocklea (compared with flood impact on operations in 2011).

Regulatory Compliance

DuluxGroup received two penalty infringement notices during 2012 compared with six penalty infringement notices and one regulatory warning for breaches of regulatory compliance conditions during 2011. Each of these non-compliances has been fully investigated and actions implemented to prevent a recurrence.

Legacy Issues

The company has undertaken a number of investigations in prior years to ensure potential soil and groundwater contamination issues are identified and managed. Further investigative work was completed during the year and no significant issues were identified. Selleys Padstow proactively remediated an area of contained polychlorinated biphenyl (PCB) soil contamination during the year.

DULUXGROUP HAS MADE GOOD PROGRESS THROUGHOUT YEAR TOWARDS ITS SUSTAINABILITY GOAL OF 'A FUTURE WITHOUT HARM'. IN 2012 WE IMPROVED AGAINST ALL OF OUR SAFETY AND SUSTAINABILITY MEASURES.

3. PRODUCTS

Product Stewardship

Our businesses have a strong heritage of continuously improving our products to reduce the potential for harm. Examples range from elimination of common heavy metals from decorative coatings in the 1970s, to the more recent introduction of water-based woodcare coatings in Australia (20% growth in sales over last three years) and low VOC tinters for all Dulux products in 2010.

A key improvement action undertaken during 2012 involved development and implementation of new product stewardship assessment and improvement planning processes. These significantly revised processes will improve our ability to identify and action product improvements that further reduce the potential for harm. Some examples implemented during the year include:

- **Community Safety:** Selleys eliminated a solvent component from All Clear multi-purpose sealant that significantly reduces the potential for substance abuse through deliberate vapour inhalation.
- **Consumer Safety:** Cabot's eliminated a hazardous solvent from Toby Aquamax Commercial that improves end user safety during application.
- **Renewable Resources:** Yates New Zealand introduced a range of peat free potting mixes that replace non-renewable peat with recycled organic matter.
- **Carbon:** Dulux AcraTex introduced InfraCOOL roof coatings that contain technology that reflects part of the sun's light energy. This assists in cooling the roof surface and can contribute to less heat penetration internally.

Community Safety

The company's emergency response service responded to 587 calls during 2012, compared with 554 calls in the prior year. This service provides emergency support 24 hours a day, with more than 98% of calls involving relatively minor human and animal exposures to products during consumer use.

Significant incidents during distribution of products to customers increased slightly from 1 in 2011 to 4 in 2012. Each of these incidents, involving our contracted carriers, was fully contained and there were no environmental or community impacts. Full investigations have been completed.

KEY FOCUS AREAS 2013

DuluxGroup's key priorities during 2013 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:** Completion of significant risk audit actions and implementation of fatality prevention protocols.
- **Personal Safety:** Further implementation of manual handling risk reduction projects and continued focus on hazard (near miss) identification.
- **Sustainability:** Continued implementation of product stewardship and waste reduction plans.
- **Leadership:** Continued delivery of our new safety leadership development and management training programs.

WATER CONSUMPTION (KL/T)

0.57	2009
0.55	2010
0.53	2011
0.49	2012 ✔

WATER CONSUMPTION (KL/T)

Water consumption (kilolitres per tonne of production) across company operating sites (excluding Camel Dongguan) decreased to 0.49 kL/t in 2012 from 0.53 kL/t in 2011. More than 40% 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)

19.0	2009
16.6	2010
18.9	2011
13.8	2012 ✔

WASTE GENERATION (KG/T)

Waste generation to landfill (kilograms per tonne of production) across company operating sites (excluding Camel Dongguan) decreased to 13.8 kg/t in 2012 from 18.9 kg/t in 2011. The significant increase in 2011 was associated with Rocklea site (Brisbane) flood recovery works.

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.

Managing Director of Heinz Australia since September 2011, and former Director of Foster's Group Limited from May 2011 to December 2011. Judith has more than 21 years experience in high profile, global, consumer facing companies. 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 more than 20 years in corporate strategy, mergers, acquisitions, legal and commercial roles in global companies including Orica Limited, where he is currently Global Head – Strategy, Planning and Merger and Acquisitions. 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 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.

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, Selleys Sales Director and Dulux Marketing 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, and chair of the Advisory Board of SESAMi (Singapore) Pte Ltd. Gaik Hean has more than 31 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

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, Orica Limited since September 2004 and Treasury Wine Estates since 1 September 2012. Garry was a director of Mitchell Communication Group Limited from 2006 until 2010, director of Nufarm Limited from 2004 until 2012, and is a former Senior Partner of Ernst & Young and Chief Executive Officer and Country Managing Partner of Arthur Andersen.

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 (Economics, Industrial Relations)

Group General Manager – Human Resources

Michael joined DuluxGroup in October 2011. Prior to joining DuluxGroup, Michael held a number of senior strategic human resources roles including, most recently, Group General Manager Human Resources for AWB and Agrium Inc. Michael has also performed a number of human resources management roles within various divisions of BHP Billiton including Group Functions, Development, Commercial, BHP Minerals and as Human Resources Manager for various mine sites in Australia.

PATRICK HOULIHAN

BSc (Hons), MBA

Managing Director and Chief Executive Officer

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

MIKE KIRKMAN

BSc, Dip Ed, BBus(Accounting)

General Manager – Selleys Yates

Mike joined DuluxGroup in his current role in October 2012. Prior to joining DuluxGroup, Mike was General Manager of Climate Systems at GWA Australia. For nine years Mike held senior executive positions at Stanley Black & Decker, including Sales Director and then Managing Director for the Australian and New Zealand business. Prior to that, he was State Manager (Victoria, Tasmania and New South Wales) for Ausco Building Systems. Mike has extensive senior leadership experience across sales, marketing, operations and business development.

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 International Asia and DGL International China

Alan has over 16 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 DuluxGroup Executive, succession planning, approving major strategic plans, monitoring the integrity and consistency of management's control of risk, agreeing business plans and budgets, approving major capital expenditure, approving acquisitions and divestments, approving funding plans and capital raisings, agreeing corporate goals and reviewing performance against approved plans.

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

Composition

The Board is currently comprised of seven directors with five non-executive directors (including the Chairman) and two executive directors (including the Managing Director).

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 26–27 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 assesses 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.

The Remuneration and Nominations Committee has responsibility for conducting assessments of the current mix of skills and experience of existing directors, the business and strategic needs of the Company, as well as broader succession planning issues, to determine if it is necessary to recruit any additional directors. Where a future need is identified or arises, the Remuneration and Nominations Committee intends to undertake a search process (with the assistance of professional consultants as necessary) to select potential candidates based on the skills required by the Board and the qualities and experience of the candidates. Shortlisted candidates will then be interviewed by the Chairman and other directors before being recommended to the full Board for appointment. Nominations for appointment to the Board are considered by the Remuneration and Nominations Committee and approved by the Board as a whole.

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

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

Induction of new directors

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

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.

2. OPERATION OF THE BOARD

Board Meetings

The Board has at least eight meetings scheduled for 2012–2013. 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 Company strategy. Directors also receive regular updates in relation to key issues facing DuluxGroup's businesses from time to time. The Board calendar also includes site visits to a range of DuluxGroup operations to meet with employees, customers and other stakeholders. During the year, the Directors conducted site visits to key DuluxGroup manufacturing and distribution sites in Wyee, Mt Druitt and Padstow.

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 carries out an evaluation of its performance against agreed Board objectives each year. This process is overseen by the Chairman. It is intended that this evaluation will be externally facilitated every third year.

The Board conducted an internal review of its performance against its objectives at its meeting in November 2011 at which time the Board also set a series of goals to guide its activity over the 2012 financial year. The Board also evaluated the performance of Mr Stuart Boxer and Mr Garry Hounsell, who are standing for re-election at the Company's 2012 Annual General Meeting, prior to the Board endorsing their nomination for re-election. In addition to reviewing the skills, knowledge and experience that Mr Boxer and Mr Hounsell bring to the Board, the Board also considered their overall performance, their attendances and participation at Board and Committee meetings, and their contributions to matters discussed.

The Board has proposed to engage an external consultant to conduct a Board performance review in December 2012. This review will focus on, among other things, 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.

Each Board committee also reviews its performance annually against the responsibilities set out in the committee's charter. 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 41 sets out details regarding the Company's remuneration policy, fees paid to directors and specific details of executive remuneration. Other than statutory superannuation contributions, the Company does not operate any schemes for the payment of retirement benefits to non-executive directors.

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.

In October 2012, the Board reviewed the Charter for each standing 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 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 26–27 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 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 37 of this Annual Report.		

In addition to the standing committees, the Board may also establish special or ad hoc committees to oversee or implement significant projects as they arise. During the year, the Board established a special committee to assist the Board with the Company's takeover bid for Alesco Corporation Limited (Alesco). Due to the complexities of the bid, a high level of involvement was required of the committee members, which met 27 times during the year. These meetings were attended by Mr Peter Kirby, Mr Garry Hounsell, Mr Andrew Larke, Mr Patrick Houlihan and Mr Stuart Boxer as members of the committee, who actively participated in the discussions and made valuable contributions. Further details of meeting attendance for members of the due diligence committee are set out in the Directors' Report on page 37 of this Annual Report.

4. DIVERSITY

About DuluxGroup's approach to diversity

The Company recognises that building a diverse leadership and employee group is a critical enabler to achieving its strategic goals, through:

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

Patrick Houlihan – Managing Director and CEO

"At DuluxGroup we have access to a wealth of talented people spanning varied cultures, genders, perspectives and leadership styles. Embracing diversity means that we recruit and develop the very best people by opening ourselves up to the views, ideas and skills of the broadest possible 'pool' of candidates. For me, it means continually challenging myself to take advantage of the broad points of view on offer, to ensure the best solutions for our consumers and customers, and ultimately, the greatest success for our business."

For DuluxGroup, diversity not only encompasses gender diversity, but also diversity in age and cultural background. The Board regularly reviews diversity within the Group and progress being made. In order to drive progress, a Diversity Council was established in April 2011. The Company has increased in its commitment to addressing diversity across all levels of its business by communicating the business case for diversity to all of its employees. In 2011, the Company adopted the following diversity policy which sets out DuluxGroup's values and approach towards diversity:

"To deliver the best outcomes for DuluxGroup and its stakeholders, we will attract, select, retain and promote the best people from a diverse range of candidates representing the whole talent pool. Through our values and behaviours, our leaders will ensure an inclusive culture that enables all employees to be engaged and to realise their full potential. Scope of the policy:

- **Gender**
- **Age**
- **Cultural Background"**

2012–2013 Measurable Objectives and Progress

In addressing the objectives established by the Board, the Diversity Council has begun a comprehensive diagnostic to understand the current state and the key drivers of change, initially in the areas of gender and age diversity.

With respect to gender diversity, this has involved building an understanding of the levels of engagement of women in the organisation, women's attitudes towards our policy suite including family leave and gender parity in respect of pay. These diagnostics are ongoing and will also include results from the Employee Engagement Survey, which was carried out in August 2012.

During the year, DuluxGroup adopted the following objectives to achieve gender diversity:

OBJECTIVE	PROGRESS
Increase the number of women across DuluxGroup	Various divisions have been tasked with recommending a plan to increase the number of women in key commercial streams of sales and operations. Attraction process updated to increase female applicant rates. Family leave policy revised with an increase in paid family leave.
Increase the number of women in senior roles	Annual talent review to highlight key women for leadership development. Mentoring capability enhanced to specifically ensure women are represented as both mentors and mentees.
Build awareness of the business case for diversity	Workplace behaviour training underway to assist managers to support diversity in achieving better business outcomes. Further training for managing flexible work being developed. Improved communications through ongoing focus on values and behaviours.

In addition to the ongoing initiatives detailed above, other high priority actions that we will continue to progress during F13 include conducting a pay equity audit, implementing measures to identify any issues and barriers for women, and providing return to work support for women returning to work after family leave.

Further, DuluxGroup also has actions underway to ensure we identify and effectively manage generational diversity and cultural representation.

Progress towards achieving our diversity objectives will be monitored through the use of a diversity work plan and scorecard, managed by the Diversity Council, and evaluated on a quarterly basis by the Remuneration and Nominations Committee. The Diversity Council comprises the Managing Director, three Executives (General Managers), General Counsel and Company Secretary and four other senior experienced DuluxGroup managers. The Diversity Council has a mixture of male and female senior executive members including both age and cultural diversity.

DULUXGROUP GENDER PROFILE

PERCENTAGE OF WOMEN	2011	2012
on Board	28.6%	28.6%
in Leadership (defined by those in senior graded roles reporting to the Managing Director or Executives)	7%	8.7%
in organisation	35%	36%

DuluxGroup is Equal Opportunity for Women in the Workplace Agency (EOWA) compliant and is a member of the Diversity Council of Australia and the National Association of Women in Operations.

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.

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 monitors and reviews the effectiveness of the Speak Up Line on a periodic basis. A report is also prepared for review by the Company's Remuneration and Nominations Committee on a quarterly basis.

Share Trading 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'. 'Inside information' means information in relation to a company which is not generally available to the market, and if it were generally available, would be likely to affect the price or value of the company's securities.

Under the policy, directors and employees are permitted to buy and sell DuluxGroup shares during the Company's 'trading windows' (being the 28 day period commencing one day after the Company's periodic results announcement and such other times as resolved by the Board) 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.

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

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

Comprehensive practices have been adopted to monitor:

- that capital expenditure and revenue commitments above a certain size obtain prior Board approval;
- safety and sustainability standards and management systems 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 22–25 of this Annual Report.

CONTENTS

FINANCIAL REPORT

2012

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 2012 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 41 to 58;
- Review of Operations and Financial Performance and Review of Business Segment Performance on pages 12 to 21; and
- details of the current Directors and the Company Secretary on pages 26 to 27.

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

Particulars of the current Directors' and the Company Secretary's qualifications, experience and special responsibilities are detailed on pages 26 to 27 of the Annual Report.

Company Secretary

Simon Black is the Company Secretary and General Counsel.

Directors' meetings

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

Director	Scheduled Board Meetings(1)		Audit and Risk Committee(1)		Remuneration and Nominations Committee(1)		Safety and Sustainability Committee(1)		Special Board/ Board Committee(1) (2)	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Peter Kirby	9	9	4	4	5	5	-	-	31	31
Patrick Houlihan	9	9	-	-	-	-	4	4	31	31
Stuart Boxer	9	9	-	-	-	-	-	-	31	31
Garry Hounsell	9	9	4	4	5	5	-	-	31	30
Gaik Hean Chew	9	9	-	-	5	5	4	4	4	3
Andrew Larke	9	9	-	-	-	-	-	-	31	30
Judith Swales	9	9	4	4	-	-	4	4	4	4

(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 were limited to the takeover of Alesco Corporation Limited (**Alesco**). A total of 31 meetings were held of which 27 were meetings of the special Board Committee comprising Peter Kirby, Patrick Houlihan, Stuart Boxer, Garry Hounsell and Andrew Larke, and 4 were special Board meetings.

Directors' interests in share capital

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

	Number of fully paid ordinary shares	Number of options(1) for fully paid ordinary shares
Peter Kirby	130,000	-
Patrick Houlihan	144,322	1,854,398
Stuart Boxer	93,226	496,899
Garry Hounsell	119,176	-
Gaik Hean Chew	68,000	-
Andrew Larke	152,156	-
Judith Swales	20,000	-

(1) These options refer to shares held pursuant to the DuluxGroup Long Term Equity Incentive Plan (which are treated as options for accounting purposes under the Australian Accounting Standards) and are subject to performance conditions.

Directors' Report (continued)

Principal activities

The principal activities of the consolidated entity in the course of the financial year were the manufacture, marketing, sale and distribution of: (a) paints and other surface coatings to consumers and professionals in the Australian and New Zealand (ANZ) decorative markets; (b) home improvement products and garden care products to consumers and professionals in ANZ; and (c) coatings and home improvement products in Papua New Guinea, China and South East Asia as well as powder and industrial coatings in ANZ. There were no significant changes in the nature of the activities during the year.

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 12 to 21 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 12 to 21 of the Annual Report.

Dividends paid in the year ended 30 September 2012

In respect of the 2011 financial year, a fully franked final dividend of 7.5 cents per ordinary share was paid on 16 December 2011. The financial effect of this dividend has been included in the financial statements for the year ended 30 September 2012.

In respect of the 2012 financial year, a fully franked interim dividend of 7.5 cents per ordinary share was paid on 17 June 2012. The financial effect of this dividend has been included in the financial statements for the year ended 30 September 2012.

Since the end of the financial year, the Directors have determined a final dividend to be paid at the rate of 8.0 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 2012 are as follows:

- Total assets of $709.8 million increased by $41.1 million on the prior year.
- Year end net debt of $230.3 million increased by $8.2 million on the prior year.
- Total equity attributable to the ordinary shareholders of DuluxGroup Limited of $169.9 million increased by $31.4 million on the prior year.
- The Company merged its DGL International entities in Hong Kong and China with the Hong Kong and China operations of National Lacquer Paint and Products Co Ltd to create DGL Camel International Group (DGCI Group). The Company holds a 51% interest in DGCI Group.
- The Company, through its wholly owned subsidiary DuluxGroup (Nominees) Pty Ltd, acquired 19.96% of the shares in Alesco Corporation Limited (Alesco). This interest was acquired preceding the Company's subsequent off-market takeover offer for the remaining shares in Alesco on 1 May 2012.

Events subsequent to balance date

On 5 October 2012, the Company exercised its option to extend Tranche A ($100.0 million) of its $400.0 million multi-currency syndicated loan facility for a further three years from 8 November 2012 to 8 November 2015.

At close of business on 13 November 2012, the Company's direct ownership of Alesco shares remains unchanged from the 19.96% held immediately preceding the off-market takeover offer for Alesco on 1 May 2012 and at 30 September 2012. The support for DuluxGroup's offer as at 12 November 2012 is 78.41% including DuluxGroup's 19.96% direct holding, acceptances under the takeover offer and acceptance instructions under DuluxGroup's Institutional Acceptance Facility. DuluxGroup's offer currently remains subject to certain conditions and is scheduled to close at 7.00pm (Melbourne time) on 7 December 2012 (unless extended). For full details of the terms and conditions of the takeover offer, refer to DuluxGroup's bidder's statement as supplemented by various supplementary bidder's statements available on ASX.

On 14 November 2012, the Directors determined that a final dividend of 8.0 cents per ordinary share will be paid in respect of the 2012 financial year. The dividend will be fully franked and payable on 17 December 2012. The financial effect of this dividend is not included in the financial statements for the year ended 30 September 2012 and will be recognised in the 2013 financial statements.

Directors' Report (continued)

The Directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2012, that has affected or may affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent years, which has not been covered in this report.

Environmental regulations

The Company recognises that commitment to sustainable management of our financial, environmental and social impacts is fundamental to the success and well-being of both our business and our stakeholders. More specific details about the Company's safety and sustainability initiatives and performance can be found in the Safety and Sustainability Report on pages 22 to 25 and at the Company's website: www.duluxgroup.com.au.

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

From time to time, the Company receives notices from relevant authorities pursuant to local environmental legislation and in relation to the Company's environmental licences. On receiving such notices, the Company investigates to determine the cause and ensure the risk of recurrence is minimised, and works with appropriate authorities to address any issues arising, which may include ongoing reporting obligations and/or development of an environmental management plan.

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 59 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 29 of the financial statements.

Directors' Report (continued)

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 2012

Directors' Report
Remuneration Report (Audited)

Remuneration Report - Contents

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 2012 prepared in accordance with the requirements of the *Corporations Act 2001* and its regulations.

A. Remuneration Report Summary

A.1 Remuneration strategy

In determining remuneration arrangements for executives within the Group’s remuneration framework and policies, the Board has the following stated key strategic aims:

- 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.

A.2 Overview of elements of remuneration

The Remuneration Report sets out the remuneration information for the Key Management Personnel (KMP) of DuluxGroup. The KMP comprises the Non-Executive Directors, Executive Directors and other members of the Group Executive Team (Other KMP) who have authority and responsibility for planning, directing and controlling the activities of DuluxGroup. In this report, ‘Executives’ refers to members of the Group Executive Team identified as KMP.

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

Table 1

	Elements of remuneration	Directors		Other KMP	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 Executive) 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.

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
Executive Directors	
Patrick Houlihan	Managing Director and Chief Executive Officer (CEO)
Stuart Boxer	Chief Financial Officer and Executive Director
Other KMP	
Graeme Doyle	General Manager, Selleys Yates
Brad Hordern	General Manager, Supply Chain
Patrick Jones	General Manager, Dulux Paints Australia
Julia Myers	General Manager, Dulux Paints New Zealand

A.4 Services from remuneration consultants

The Board has appointed PricewaterhouseCoopers (PwC) as remuneration consultants to the Board and the Remuneration and Nominations Committee. Prior to their appointment, the Board and the Remuneration and Nominations Committee considered the nature and quantum of work to be provided to DuluxGroup and developed a protocol for the provision of remuneration advice and recommendations so as to ensure such recommendations are free from undue influence by members of the KMP to whom the recommendations may relate.

During the financial year ended 30 September 2012, the Remuneration and Nominations Committee engaged PwC to provide the Company with insights on remuneration trends, regulatory updates, and market data in relation to Non-Executive Directors, the CEO and other executive remuneration. No remuneration recommendations as defined in section 9B of the *Corporations Act 2001* were provided during the financial year ended 30 September 2012.

A.5 Remuneration report approval at the Annual General Meeting (AGM)

The remuneration report for the financial year ended 30 September 2011 received shareholder support at the AGM with a vote of 99% in favour.

A.6 Summary of remuneration developments and outcomes for the year

In terms of remuneration developments and outcomes for the financial year ended 30 September 2012, the following key aspects are noted:

- An executive remuneration review was undertaken by the Board early in the 2012 financial year utilising benchmark data provided by PwC. The review identified that the CEO and some other executives were being remunerated below the market median. The Group’s stated remuneration strategy is to attract, retain and motivate appropriately qualified and experienced individuals who will contribute to the Company’s financial and operational performance and to position fixed remuneration with reference to the market median. As part of a measured approach to move these executives towards the market median and commensurate with performance since demerger in July 2010, the Board determined to increase the fixed component of remuneration for these executives from 1 January 2012.
- Despite challenging economic conditions, DuluxGroup’s performance for the 2012 financial year has been positive and the threshold NPAT performance level was achieved. For the purpose of the 2012 STI plan, the minimum performance level was set at the prior year adjusted NPAT of $77.6 million. Whilst NPAT for 2012 was $89.5 million, for STI purposes this NPAT has been adjusted down to exclude a tax consolidation benefit ($6.3 million) and flood insurance uplift ($5.4 million). In addition, the net costs ($1.8 million) associated with the offer for Alesco Corporation Limited (Alesco), including bid costs, interest costs and dividend income, have also been excluded, as this transaction was not contemplated at the time the 2012 performance conditions were set. Taking account of these adjustments, NPAT for 2012 STI purposes is $79.6 million, which exceeds the $77.6 million threshold.

Remuneration Report (Audited) (continued)

- Beyond the minimum threshold performance, executives are required to achieve financial and non-financial targets to earn their STI. For the 2012 STI plan the targets were set around the principle of year on year improvement. For example profit targets for the 2012 financial year exceeded the actual profit achieved in the previous year. In general, the Board has approved STIs reflecting the actual outcomes against agreed targets in tougher than expected economic conditions. The financial outcomes achieved for 2012 have been adjusted to exclude the tax consolidation benefit, the flood insurance uplift and the net Alesco related costs. This approach has resulted in STI outcomes which, as a proportion of STI payable at 'stretch', are generally below the levels achieved in 2011 and are consistent with the Group's financial results, outstanding safety performance and good progress on key growth objectives.
- In the case of a small number of Executives, the Board has adjusted STI outcomes based on achievements which are consistent with the Group's strategic priorities and in the opinion of the Board enhance shareholder value. In particular, the extraordinary effort on the Alesco acquisition which was not contemplated at the beginning of the STI year and material profitable market share growth outcomes have been taken into account.
- There have been two grants made to Executives, including the CEO, under the DuluxGroup Long Term Equity Incentive Plan (LTEIP) since demerger in July 2010 (the 2010 and 2011 grants). These grants are subject to a vesting period of approximately three years. Accordingly the performance periods for the 2010 and 2011 grants end following the end of the 2013 and 2014 financial years, respectively. The Board anticipates the next offer will be made in late November 2012. The Company intends to seek shareholder approval at its 2012 AGM for the LTEIP grant to be made to the Executive Directors.
- A review of Non-executive director fees was undertaken early in the 2012 financial year utilising benchmark data provided by PwC. Within the shareholder approved maximum aggregate fee amount of $1,500,000 per annum, the Board approved an increase of 3% to the fees for Non-Executive Directors so as to ensure these fees remain competitive with comparable companies, and reflect the calibre, time commitment and responsibilities of the Directors.
- The Board adopted a policy to establish a minimum shareholding for Non-Executive Directors thereby increasing the alignment of Non-Executive Director and shareholder interests.

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

Peter M. Kirby
Chairman

14 November 2012

Remuneration Report (Audited) (continued)

B. Non-Executive Directors' Remuneration

B.1 Policy and approach to setting fees

The Non-Executive Directors' fees (comprising base and committee fees inclusive of superannuation) have been set by the Board within the maximum aggregate amount of $1,500,000 per annum as approved by DuluxGroup's sole shareholder immediately prior to demerger.

In 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. However to promote further alignment with shareholders, from 1 July 2011 the Board has adopted a policy which establishes a minimum shareholding for Non-Executive Directors equivalent to the value of 1 years' pre-tax Board and Committee fees for each member. Non-Executive Directors have 3 years in which to establish this shareholding level.

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.

A review of Non-executive director fees was undertaken early in the 2012 financial year utilising benchmark data provided by PwC. Within the shareholder approved maximum aggregate fee amount of $1,500,000 per annum, the Board approved an increase of 3% to the fees for Non-Executive Directors so as to ensure these fees remain competitive with comparable companies, and reflect the calibre, time commitment and responsibilities of the Directors.

Table 3

Base fees		
Non-Executive Chairman	$337,000	
Non-Executive Director	$125,000	
Committee fees	**Committee chair**	**Committee member**
Audit and Risk Committee	$25,000	$10,000
Remuneration and Nominations Committee	$16,000	$10,000
Safety and Sustainability Committee	$16,000	$10,000

In addition, Non-Executive Directors are paid a travel allowance of $2,500 per return trip (prior to 1 January 2012 $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 a 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

2012	**Fees** $	**Super-annuation** $	**Other benefits** $	**Total** $
Peter Kirby	333,750	30,038	-	363,788
Gaik Hean Chew(1)	148,875	13,399	81,042(1)	243,316
Garry Hounsell	156,875	14,119	40,000(2)	210,994
Andrew Larke	123,750	11,138	40,000(2)	174,888
Judith Swales	143,125	12,881	-	156,006
Total Non-Executive Director Remuneration	**906,375**	**81,575**	**161,042**	**1,148,992**

(1) This benefit represents Ms Chew's allowance for international travel totaling $30,000, her fees of $25,521 as a Director of DGL Camel International Limited (a subsidiary of the Company) from 1 March 2012 and remuneration of $25,521 earned from 1 March 2012 in respect of an ongoing consulting services agreement to assist the Group in seeking strategic growth opportunities in Asia.

(2) Messrs Hounsell and Larke are entitled to receive payments of $40,000 each for the additional workload as a member of the special Board Committee formed in relation to the Company's off-market takeover offer for Alesco. The amount is payable upon winding up of this Committee.

Table 5

2011	**Fees** $	**Super-annuation** $	**Other benefits(1)** $	**Total** $
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.

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 32.

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 Australian Securities Exchange (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 2012.

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(1)	
Executive Directors				
Patrick Houlihan	967,725	50%	90%	90%
Stuart Boxer	550,000	30%	60%	40%
Other KMP				
Graeme Doyle	457,000	30%	60%	40%
Brad Hordern	395,000	20%	40%	25%
Patrick Jones	472,000	30%	60%	40%
Julia Myers	310,000	20%	40%	25%

(1) For the CEO, Target STI is set at approximately 55% of the 'Stretch' STI, whilst for other Executives Target STI is set at 50% of the 'Stretch' STI.

C.3 Fixed remuneration

All senior managers, including 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.

An executive remuneration review was undertaken by the Board early in the 2012 financial year utilising benchmark data provided by PwC. The review identified that the CEO and some other executives were being remunerated below the market median. The Group's stated remuneration strategy is to attract, retain and motivate appropriately qualified and experienced individuals who will contribute to the Company's financial and operational performance and to position fixed remuneration with reference to the market median. As part of a measured approach to move these executives towards the market median and commensurate with performance since demerger in July 2010, the Board determined to increase the fixed component of remuneration for these executives from 1 January 2012.

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 and Executives. 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 listed in the table below.
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 CEO?	The Board of Directors, on recommendation from the Remuneration and Nominations Committee, approves the targets and assesses the performance and incentive outcomes of the CEO.
Who assesses the performance of the Chief Financial Officer (CFO) 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 CFO and other Executives. The recommendations from the Remuneration and Nominations Committee are formed taking into consideration advice from the CEO.
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. Further details regarding the STI outcomes for the financial year ended 30 September 2012 are set out in section D.2.
Performance conditions	
What are the STI performance conditions?	The performance conditions comprise financial targets and non-financial targets relating to: **Financial**: Group earnings; Business/Region EBIT (where appropriate); Cash flow; Trade working capital **Non-financial**: Safety & sustainability; Personal objectives Performance conditions are set at both a DuluxGroup level and an individual business level. Accordingly achievement of individual business level performance conditions may vary. To earn their STI awards, executives are required to achieve financial and non-financial targets. For the 2012 STI plan, the targets were set around the principle of year on year improvement. For most Executives, including the CEO, financial outcomes represent at least 70% of the available STI outcome. Non-financial metrics, which for most Executives represent a maximum of 30% of the available STI outcome, are structured around strategic imperatives focusing on safety, customers, consumers, making a step change on growth and improving productivity.
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. Having a threshold performance level creates a clear link between a minimum acceptable level of group profit and executive reward. For the purpose of the 2012 STI, the minimum performance level was set at the prior year NPAT (before the benefit from the tax consolidation adjustment and uplift from the Queensland flood) of $77.6 million.
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 Table 6 in section C.2 for further details.

Can STI be greater than 100% of the available STI at 'Stretch'?	In the ordinary course of business an STI will not exceed 100% of available STI at 'stretch'. However, the Board has discretion to make any necessary adjustments to STI performance conditions or outcomes in accordance with the terms of the plan, which may in exceptional circumstances result in selected senior managers or Executives achieving greater than 100% of stretch STI. No Executive achieved greater than 100% stretch STI during the 2012 financial year.
Cessation of employment or a change of control	
If an individual ceases employment during the year, will they receive a payment?	The individual will not be eligible for a payment if terminated due to misconduct or poor performance nor in general, if they resign. 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 (including Executives). LTEIP arrangements are summarised below in question and answer form. The Board anticipates the next offer will be made in late November 2012.

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 (TSR) performance condition, promotes behaviour that will achieve superior performance over the long term.
Structure of awards (including how the 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'.

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.
What is the vesting/ performance period?	Typically the vesting/performance period is approximately three years, with the performance condition tested following the announcement of annual results in the third year after a grant is made.
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. For the 2012 offer to the CEO and the CFO under the LTEIP, the Company will seek shareholder approval to issue new shares at the 2012 AGM.
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. Details of the 'gateway' condition for the July 2010 and December 2011 LTEIP awards are set out in Table 10 of section D.3. For the offer anticipated in late November 2012, the EPS gateway is expected to be compound annual Earnings per Share (EPS) growth over the three year period from 30 September 2012 must equal or exceed 4% per annum.
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 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. The Board has not, to date, exercised this discretion.
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 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.

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).
- Total dividends paid of $6,000, 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 applied to loan balance	(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 on 12 July 2010 to 30 September 2012.

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 ASX on 12 July 2010 that is relevant in considering shareholder return.

Table 9

	2010	2011	2012
NPAT attributable to ordinary shareholders of DuluxGroup Limited ($m)	61.3	93.2	89.5
NPAT before tax consolidation adjustment, flood insurance uplift and Alesco related items ($m)	71.5[1]	77.6[2]	79.6
Diluted EPS (cents)	16.9	25.7	24.3
Diluted EPS before tax consolidation adjustment, flood insurance uplift and Alesco related items (cents)	19.7[1]	21.2[2]	21.6
Dividends paid per share (cents)	-	10.5	15.0
Opening share price ($)	2.50[3]	2.73	2.52
Closing share price at 30 September ($)	2.73	2.52	3.30
TSR % – DuluxGroup[4]	9.2%	(3.8%)	36.9%
Recordable case rate (RCR)[5]	1.81	1.96	1.21/1.85

(1) Proforma before one off demerger costs.

(2) Adjusted before tax consolidation adjustment and flood insurance uplift.

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

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

(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. 2012 RCR was 1.21 excluding the Camelpaint business acquired on 30 November 2011 and 1.85 for the total Group including the Camelpaint business.

D.2 Short term incentives

STI arrangements are discussed in detail in section C.4. STI's are paid annually in cash subject to the Group achieving a minimum threshold NPAT performance level. Despite challenging economic conditions, DuluxGroup's performance for the 2012 financial year has been positive and the threshold NPAT performance level was achieved. For the purpose of the 2012 STI plan, the minimum performance level was set at the prior year adjusted NPAT of $77.6 million. Whilst NPAT for 2012 was $89.5 million, for STI purposes this NPAT has been adjusted down to exclude a tax consolidation benefit ($6.3 million) and flood insurance uplift ($5.4 million). In addition, the net costs ($1.8 million) associated with the offer for Alesco, including bid costs, interest costs and dividend income, have also been excluded, as this transaction was not contemplated at the time the 2012 performance conditions were set. Taking account of these adjustments, NPAT for 2012 STI purposes is $79.6 million, which exceeds the $77.6 million threshold.

Once the minimum performance level is met, Executives still have to achieve a range of financial and non-financial targets to earn their STI. These are set out in section C.4. In general, the Board has approved STIs reflecting the actual outcomes against agreed targets in tougher than expected economic conditions. The financial outcomes achieved for 2012 have been adjusted to exclude the tax consolidation benefit, the flood insurance uplift and the net Alesco related costs. This approach has resulted in STI outcomes which, as a proportion of STI payable at 'stretch', are generally below the levels achieved in 2011 and are consistent with the Group's financial results, outstanding safety performance and good progress on key growth objectives.

In a small number of cases, the Board has adjusted STI outcomes based on achievements which are consistent with the Group's strategic priorities and in the opinion of the Board enhance shareholder value. In particular, the extraordinary effort on the Alesco acquisition which was not contemplated at the beginning of the STI year and material profitable market share growth outcomes have been taken into account.

The STIs payable to Executives for the 2012 financial year are set out in Table 13 of section E.2.

Directors' Report

Remuneration Report (Audited) (continued)

D.3 Long term incentives

The LTEIP is designed to encourage senior managers to focus on the key performance drivers which underpin sustainable growth in shareholder value. Long term incentives are discussed in detail in section C.5.

There have been two grants made to Executives, including the CEO, under the DuluxGroup LTEIP since demerger in July 2010. These grants are subject to a vesting period of approximately three years.

The following table sets out details of the gateway condition and expected timing of testing for the performance condition of the unvested LTEIP awards on issue:

Table 10

Grant year	July 2010 LTEIP grant	December 2011 LTEIP grant
Date for assessment of gateway condition	30 September 2013	30 September 2014
Gateway condition	Compound annual EPS growth over the three year period from 30 September 2010 must equal or exceed 2% per annum	Compound annual EPS growth over the three year period from 30 September 2011 must equal or exceed 4% per annum
Date for assessment of performance condition	Following results announcement for the 2013 financial year (expected November 2013)	Following results announcement for the 2014 financial year (expected November 2014)

The Board anticipates the next offer will be made in late November 2012. The Company intends to seek shareholder approval at its 2012 AGM for the LTEIP grant to be made to the Executive Directors.

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 2012 are included in the table below:

Table 11

For the financial year ended 30 September 2012	Short term employee benefits			Post employment benefits							
	Fixed remuneration[1,2] $	STI payment[3] $	Other benefits[4] $	Super-annuation benefits[5] $	Termination benefits $	Other long term benefits[6] $	Total excluding Share-based payment expense $	Share-based payment expense[7] $	Total $	% performance related remuneration[8]	% of remuneration consisting of options[9]
Executive Directors											
Patrick Houlihan	929,787	493,068	23,460	15,949	-	42,844	1,505,108	523,355	2,028,463	50%	26%
Stuart Boxer	521,556	270,249	8,727	15,949	-	10,544	827,025	140,559	967,584	42%	15%
Other KMP											
Graeme Doyle	436,803	64,437	(10,524)	15,949	-	7,401	514,066	131,829	645,895	30%	20%
Brad Hordern	371,801	94,706	17,318	15,949	-	7,331	507,105	62,720	569,825	28%	11%
Patrick Jones	448,060	162,040	(2,097)	15,949	-	11,825	635,777	79,314	715,091	34%	11%
Julia Myers	293,281	89,268	59,392	15,949	-	7,513	465,403	33,590	498,993	25%	7%
Total Remuneration	**3,001,288**	**1,173,768**	**96,276**	**95,694**	**-**	**87,458**	**4,454,484**	**971,367**	**5,425,851**		

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

(2) As explained in section C.3, an executive remuneration review was undertaken by the Board early in the 2012 financial year which identified that the CEO and some other executives were being remunerated below the market median. In line with the Group's stated remuneration strategy, the Board determined to increase the fixed component of remuneration for these executives from 1 January 2012. The impact of increases for the CEO and some other Executives are included in the table above.

(3) STI payment includes payments relating to 2012 performance accrued but not paid.

(4) 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).

(5) Executives receive a statutory superannuation contribution of 9% of their fixed remuneration up to a threshold limit in line with the Australian Taxation Office (ATO) published maximum superannuation contribution base.

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

(7) This amount includes the value calculated under AASB 2 *Share-based Payment*. The share-based payment expense represents the charge incurred during the year in respect of current incentive allocations to Executives, being the July 2010 and December 2011 LTEIP grant. These accounting amounts are therefore not amounts actually received by Executives during the year. Whether Executives receive any value from the allocation of long term incentives in the future will depend on the performance of the Company's shares. The mechanism which determines whether or not long term incentives vest in the future is described in section C.5.

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

(9) As explained in section E.3, shares acquired under the LTEIP are treated as options for accounting purposes under the Australian Accounting Standards. The percentages shown relate to the value of the July 2010 and December 2011 LTEIP grants calculated under AASB 2 (and not the amounts actually received by Executives during the year) as a proportion of total remuneration.

Directors' Report

Remuneration Report (Audited) (continued)

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

Table 12

For the financial year ended 30 September 2011	Short term employee benefits: Fixed remuneration[1] $	Short term employee benefits: STI payment[2] $	Short term employee benefits: Other benefits[3] $	Post employment benefits: Super-annuation benefits[4] $	Termination benefits $	Other long term benefits[5] $	Total excluding Share-based payment expense $	Share-based payment expense[6] $	Total $	% performance related remuneration[7]	% of remuneration consisting of options[8]
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 KMP											
Graeme Doyle	420,822	141,613	14,155	15,343	-	8,678	600,611	89,997	690,608	34%	13%
Brad Hordern	328,324	171,527	2,952	15,343	-	8,753	526,899	40,988	567,887	37%	7%
Patrick Jones	353,985	140,473	81,884	15,343	-	40,572	632,257	37,625	669,882	27%	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%
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	**2,826,009**	**1,321,087**	**163,158**	**93,325**	**-**	**93,966**	**4,497,545**	**663,516**	**5,161,061**		

(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) Executives receive a statutory superannuation contribution of 9% of their fixed remuneration up to a threshold limit in line with the Australian Taxation Office (ATO) published maximum superannuation contribution base.

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

(6) This amount includes the value calculated under AASB 2 *Share-based Payment*. The share-based payment expense represents the charge incurred during the year in respect of current incentive allocations to Executives, being the July 2010 LTEIP grant. These accounting amounts are therefore not amounts actually received by Executives during the year. Whether Executives receive any value from the allocation of long term incentives in the future will depend on the performance of the Company's shares. The mechanism which determines whether or not long term incentives vest in the future is described in section C.5.

(7) 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.

(8) 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.

(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)

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 financial performance at the Group level, as well as the financial performance of individual business units, in tougher than expected economic conditions. In accordance with the rules of the STI plan, the Board has in a small number of cases adjusted STI outcomes based on achievements which are consistent with the Group's strategic priorities and in the opinion of the Board enhance shareholder value. In particular, the extraordinary effort on the Alesco acquisition which was not contemplated at the beginning of the STI year and material profitable market share growth outcomes have been taken into account. 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 13

For the financial year ended 30 September 2012	2012 STI award $[1,2]	STI payable at 'Stretch' $[2]	Actual STI payment as % of 'Stretch' STI	% of 'Stretch' STI payment forfeited
Executive Directors				
Patrick Houlihan	$493,068	$870,953	57%	43%
Stuart Boxer	$270,249	$330,000	82%	18%
Other KMP				
Graeme Doyle	$64,437	$274,200	24%	76%
Brad Hordern	$94,706	$158,000	60%	40%
Patrick Jones	$162,040	$283,200	57%	43%
Julia Myers	$89,268	$124,000	72%	28%

(1) STI constitutes a cash incentive earned during the 2012 financial year, which is expected to be paid in December 2012.

(2) 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 2012.

E.3 DuluxGroup equity instruments granted to Executives

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.

The number and value of notional options granted to DuluxGroup Executives under the LTEIP is set out below. No options over DuluxGroup Limited shares were exercised by Executives during the year.

Table 14

For the financial year ended 30 September 2012	Grant date	Number held at 1 October 2011	Number granted during the year	Number exercised during the year[3]	Number lapsed during the year	Number outstanding at 30 September 2012	Exercise price[4] $	Value of options at grant date[5] $	Value of options included in compensation for the year $[6]
Executive Directors									
Patrick Houlihan	(1)	1,145,655	-	-	-	1,145,655	N/A	1,122,742	336,271
	(2)	-	708,743	-	-	708,743	N/A	666,218	187,084
Stuart Boxer	(1)	317,873	-	-	-	317,873	N/A	311,516	93,302
	(2)	-	179,026	-	-	179,026	N/A	168,284	47,257
Other KMP									
Graeme Doyle	(1)	307,453	-	-	-	307,453	N/A	301,304	90,243
	(2)	-	157,543	-	-	157,543	N/A	148,090	41,586
Brad Hordern	(1)	140,026	-	-	-	140,026	N/A	137,225	41,100
	(2)	-	81,904	-	-	81,904	N/A	76,990	21,620
Patrick Jones	(1)	128,536	-	-	-	128,536	N/A	125,965	37,728
	(2)	-	157,543	-	-	157,543	N/A	148,090	41,586
Julia Myers	(1)	58,088	-	-	-	58,088	N/A	56,926	17,050
	(2)	-	62,659	-	-	62,659	N/A	58,899	16,540

(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) While the issue and allocation of LTEIP shares to the Executives only occurred on 20 December 2011, in accordance with the requirements of Australian Accounting Standards, the 'grant date' is 2 December 2011 being the date that the Company and the Executives agreed to enter a share-based payment arrangement.

(3) 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 to 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.

(4) While shares are acquired under the plan for legal and taxation purposes, Australian Accounting Standards require that shares issued under employee incentive share plans in conjunction with non-recourse loans are accounted for as options. These shares are not subject to an exercise price. Refer to Table 15 of section E.4 for details of non-recourse loan loans provided to eligible Executives for the sole purpose of acquiring shares in DuluxGroup Limited.

(5) 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 which reflects the value (as at grant date) of options held. The minimum potential future value of grants under LTEIP is $NIL.

(6) The amortised value for accounting purposes.

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

Table 15

For the financial year ended 30 September 2012	Opening balance $	Advances during the year[1] $	Repayments during the year[2] $	Closing balance $	Interest free value $	Highest indebtedness $
Executive Directors						
Patrick Houlihan	2,879,977	2,058,615	(120,377)	4,818,215	349,571	4,892,623
Stuart Boxer	799,077	519,999	(32,693)	1,286,383	93,859	1,306,321
Other KMP						
Graeme Doyle	772,886	457,599	(30,995)	1,199,490	88,007	1,218,149
Brad Hordern	352,002	237,898	(14,523)	575,377	41,887	584,282
Patrick Jones	323,119	457,599	(16,636)	764,082	53,089	775,561
Julia Myers	146,025	181,999	(7,176)	320,848	22,475	325,694
Total	5,273,086	3,913,709	(222,400)	8,964,395	648,888	9,102,630

(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.

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

E.5 Equity instruments held by Executives and other senior managers

The number of option (LTEIP) issues, values and related loan information in relation to DuluxGroup senior managers as at 30 September 2012 is shown in the following table.

Table 16

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	3,819,099	35	11,312,817	9,294,118	2,788,235	314,382	0.98
(2)	2,641,325	2,586,143	41	7,671,993	7,407,942	2,222,383	105,983	0.94

(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) While the issue and allocation of LTEIP shares to the executives only occurred on 20 December 2011, in accordance with the requirements of Australian Accounting Standards, the 'grant date' is 2 December 2011 being the date that the Company and the executives agreed to enter a share-based payment arrangement.

(3) The assumptions underlying the options valuations are:

Table 17

	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 $
2010 LTEIP grant	$2.54	30%	NIL	4.70%	0.98
2011 LTEIP grant	$2.88	25%	NIL	3.22%	0.94

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 allocated under LTEIP are either recognised as treasury shares on consolidation or not recognised depending on whether the shares were purchased on-market or were from the issue of new shares. A share-based payment expense is recognised in the income statement over the vesting period. Repayments of share loans are recognised as share capital when the outstanding loan balance is repaid in full.

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

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 18

Name	Term of agreement	Notice period by Executive	Notice and termination benefits[2]
Executive Directors[1]			
Patrick Houlihan	Open	6 months	12 months fixed annual remuneration
Stuart Boxer	Open	6 months	12 months fixed annual remuneration
Other KMP			
Graeme Doyle	Open	6 months	12 months fixed annual remuneration
Brad Hordern	Open	6 months	12 months fixed annual remuneration
Patrick Jones	Open	6 months	12 months fixed annual remuneration
Julia Myers	Open	6 months	12 months fixed annual remuneration

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

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

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

KPMG

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 2012 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

KPMG

A Kitchen

Alison Kitchen
Partner

Melbourne

14 November 2012

Consolidated Income Statement
For the financial year ended 30 September:

	Notes	2012 $'000	2011 $'000
Revenue from sale of goods		**1,067,809**	996,425
Other income	6	**20,159**	67,218
Expenses			
Changes in inventories of finished goods and work in progress		**5,215**	(13,820)
Raw materials and consumables used and finished goods purchased for resale		**429,600**	417,983
Employee benefits expense		**221,685**	210,319
Depreciation and amortisation expense	7	**23,296**	19,973
Purchased services		**146,510**	147,496
Repairs and maintenance		**8,061**	12,965
Lease payments - operating leases		**30,848**	30,015
Outgoing freight		**45,016**	47,454
Other expenses		**47,020**	52,956
Share of net profit of joint venture accounted for using the equity method	15	**(1,500)**	(917)
		955,751	924,424
Profit from operations		**132,217**	139,219
Finance income		**493**	540
Finance expenses	7	**(21,920)**	(23,618)
Net finance costs		**(21,427)**	(23,078)
Profit before income tax expense		**110,790**	116,141
Income tax expense	8	**(24,526)**	(22,904)
Profit for the financial year		**86,264**	93,237
Attributable to:			
Ordinary shareholders of DuluxGroup Limited		**89,492**	93,237
Non-controlling interest in controlled entities		**(3,228)**	-
Profit for the financial year		**86,264**	93,237

		cents	cents
Earnings per share			
Attributable to ordinary shareholders of DuluxGroup Limited:			
Basic earnings per share	4	**24.7**	25.7
Diluted earnings per share	4	**24.3**	25.7

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

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

	Notes	2012 $'000	2011 $'000
Profit for the financial year		**86,264**	93,237
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)	**(517)**	653
Foreign currency translation (loss)/gain on foreign operations		**(1,379)**	4,115
Income tax on items that may be reclassified subsequently to the income statement	8(c)	**155**	(196)
Total items that may be reclassified subsequently to the income statement, net of tax		**(1,741)**	4,572
Items that will not be reclassified to the income statement			
Actuarial losses on defined benefit plan	8(c),23	**(875)**	(11,811)
Revaluation of other financial assets at fair value through other comprehensive income		**(752)**	-
Income tax on items that will not be reclassified to the income statement	8(c),23	**263**	3,543
Total items that will not be reclassified to the income statement, net of tax		**(1,364)**	(8,268)
Other comprehensive income for the financial year, net of tax		**(3,105)**	(3,696)
Total comprehensive income for the financial year		**83,159**	89,541
Attributable to:			
Ordinary shareholders of DuluxGroup Limited		**86,744**	89,541
Non-controlling interest in controlled entities		**(3,585)**	-
Total comprehensive income for the financial year		**83,159**	89,541

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

Consolidated Balance Sheet
As at 30 September:

	Notes	2012 $'000	2011 $'000
Current assets			
Cash and cash equivalents	9	**28,508**	39,540
Trade and other receivables	10	**170,741**	169,723
Inventories	11	**129,220**	135,727
Derivative financial assets	12	**56**	918
Other assets	13	**3,546**	2,384
Total current assets		**332,071**	348,292
Non-current assets			
Trade and other receivables	10	**22**	4
Derivative financial assets	12	**2**	221
Investment in listed equity securities	14	**36,848**	-
Investment accounted for using the equity method	15	**3,747**	2,497
Property, plant and equipment	16	**199,056**	196,359
Intangible assets	17	**96,830**	87,024
Deferred tax assets	18	**36,186**	33,994
Other assets	13	**4,998**	338
Total non-current assets		**377,689**	320,437
Total assets		**709,760**	668,729
Current liabilities			
Trade and other payables	19	**199,684**	193,380
Interest-bearing liabilities	20	**13,523**	15,721
Derivative financial liabilities	12	**39**	6
Current tax liabilities		**7,224**	8,807
Provisions	21	**17,138**	19,697
Total current liabilities		**237,608**	237,611
Non-current liabilities			
Trade and other payables	19	**43**	294
Interest-bearing liabilities	20	**245,237**	245,931
Deferred tax liabilities	22	**914**	986
Provisions	21	**22,237**	22,837
Defined benefit liability	23	**20,869**	22,614
Total non-current liabilities		**289,300**	292,662
Total liabilities		**526,908**	530,273
Net assets		**182,852**	138,456
Equity			
Contributed equity	24	**172,695**	175,629
Reserves	25	**(105,340)**	(105,232)
Retained earnings		**102,538**	68,059
Total equity attributable to ordinary shareholders of DuluxGroup Limited		**169,893**	138,456
Non-controlling interest in controlled entities		**12,959**	-
Total equity		**182,852**	138,456

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

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

	Total equity attributable to ordinary shareholders of DuluxGroup Limited									
	Contributed equity $'000	Share-based payments reserve $'000	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Common control reserve $'000	Revaluation reserve - other financial assets $'000	Retained earnings $'000	Total $'000	Non-controlling interest [1] $'000	Total equity $'000
Balance at 1 October 2011	175,629	3,148	295	(10,973)	(97,702)	-	68,059	138,456	-	138,456
Profit for the financial year	-	-	-	-	-	-	89,492	89,492	(3,228)	86,264
Other comprehensive income, net of tax	-	-	(362)	(1,022)	-	(752)	(612)	(2,748)	(357)	(3,105)
Total comprehensive income for the financial year	**-**	**-**	**(362)**	**(1,022)**	**-**	**(752)**	**88,880**	**86,744**	**(3,585)**	**83,159**
Transactions with owners, recorded directly in equity										
Shares issued under the DuluxGroup dividend reinvestment plan	4,464	-	-	-	-	-	-	4,464	-	4,464
Share-based payments expense	-	2,093	-	-	-	-	-	2,093		2,093
Purchase of treasury shares for the LTEIP and ESIP[2]	(7,815)	-	-	-	-	-	-	(7,815)	-	(7,815)
Shares vested under the LTEIP and ESIP[3]	417	(65)	-	-	-	-	-	352	-	352
Non-controlling interest on acquisition of a subsidiary	-	-	-	-	-	-	-	-	16,544	16,544
Dividends paid	-	-	-	-	-	-	(54,401)	(54,401)	-	(54,401)
Balance at 30 September 2012	**172,695**	**5,176**	**(67)**	**(11,995)**	**(97,702)**	**(752)**	**102,538**	**169,893**	**12,959**	**182,852**

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

(1) Non-controlling interest on acquisition of a subsidiary relates to the merger of DuluxGroup's DGL International entities in Hong Kong and China with the Hong Kong and China operations of National Lacquer Paint and Products Co Ltd (NLPP). Under the terms of the merger arrangement, DuluxGroup holds 51% of the issued capital in the parent entity of the merged group DGL Camel International Limited. Non-controlling interest on acquisition comprises shares issued in DuluxGroup's wholly owned subsidiary, DGL Camel International Limited, with a fair value of $12,460,000 and NLPP's retained 49% interest in Camelpaint Chemicals Company Limited and its wholly owned subsidiaries of $4,084,000. As described in Note 3, the accounting for this transaction remains provisional.

(2) DuluxGroup's 2011 Long term Executive Investment Plan (LTEIP) and Employee Share Investment Plan (ESIP) share issue requirements were largely satisfied by an on-market purchase of DuluxGroup shares. These purchased shares are held by the DuluxGroup Employee Share Plan Trust and have been accounted for as treasury shares with contributed equity reduced accordingly.

(3) Refer to Note 27 for details of the DuluxGroup LTEIP and ESIP.

Consolidated Statement of Changes in Equity (continued)

For the financial year ended 30 September:

	Total equity attributable to ordinary shareholders of DuluxGroup Limited									
	Contributed equity	Share-based payments reserve	Cash flow hedge reserve	Foreign currency translation reserve	Common control reserve	Revaluation reserve - other financial assets	Retained earnings	Total	Non-controlling interest	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 October 2010	174,323	1,925	(162)	(15,088)	(97,702)	-	21,659	84,955	-	84,955
Profit for the financial year	-	-	-	-	-	-	93,237	93,237	-	93,237
Other comprehensive income, net of tax	-	-	457	4,115	-	-	(8,268)	(3,696)	-	(3,696)
Total comprehensive income for the financial year	**-**	**-**	**457**	**4,115**	**-**	**-**	**84,969**	**89,541**	**-**	**89,541**
Transactions with owners, recorded directly in equity										
Shares issued under the DuluxGroup dividend reinvestment plan	1,258	-	-	-	-	-	-	1,258	-	1,258
Share-based payments expense	-	1,247	-	-	-	-	-	1,247	-	1,247
Shares vested under the ESIP(1)	48	(24)	-	-	-	-	-	24	-	24
Dividends paid	-	-	-	-	-	-	(38,569)	(38,569)	-	(38,569)
Balance at 30 September 2011	**175,629**	**3,148**	**295**	**(10,973)**	**(97,702)**	**-**	**68,059**	**138,456**	**-**	**138,456**

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

(1) Refer to Note 27 for details of the DuluxGroup ESIP.

Consolidated Statement of Cash Flows

For the financial year ended 30 September:

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from customers		**1,179,715**	1,085,667
Payments to suppliers and employees		**(1,044,838)**	(1,002,503)
Interest received		**493**	540
Interest paid		**(17,813)**	(26,162)
Income taxes paid		**(27,494)**	(25,638)
Insurance recoveries	2	**26,468**	53,532
Net cash inflow from operating activities	33	**116,531**	85,436
Cash flows from investing activities			
Payments for property, plant and equipment		**(26,382)**	(61,662)
Payments for intangible assets		**(1,221)**	(318)
Payments for purchase of businesses and controlled entities	3	**(2,053)**	(4,480)
Payments for investment in listed equity securites		**(37,600)**	-
Proceeds from joint venture distributions	15	**250**	500
Proceeds from sale of property, plant and equipment		**156**	101
Dividends received	6	**2,820**	-
Net cash outflow from investing activities		**(64,030)**	(65,859)
Cash flows from financing activities			
Net proceeds from short term borrowings		**(5,504)**	3,287
Net proceeds from long term borrowings		**(747)**	7,792
Proceeds from issue of ordinary shares		**4,464**	1,258
Payments for purchase of treasury shares for the LTEIP and ESIP		**(7,815)**	-
Proceeds from employee share plan repayments		**760**	620
Dividends paid		**(54,401)**	(38,569)
Net cash outflow from financing activities		**(63,243)**	(25,612)
Net decrease in cash held		**(10,742)**	(6,035)
Cash at the beginning of the financial year		**39,540**	44,681
Effects of exchange rate changes on cash		**(290)**	894
Cash at the end of the financial year		**28,508**	39,540
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	**25,298**	36,463
Cash at bank - restricted(1)	9	**3,210**	3,077
	9	**28,508**	39,540

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.

Notes to the Consolidated Financial Statements
For the financial year ended 30 September 2012

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 2012.

The consolidated financial statements were approved by the Board of Directors on 14 November 2012. 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. DuluxGroup is a for-profit entity for the purpose of preparing the consolidated financial statements.

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 2011. The standards relevant to the Group that have been early adopted during the year are:

- AASB 9 *Financial Instruments*
- AASB 13 *Fair Value Measurement*
- AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9*
- AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*
- AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting financial assets and financial liabilities*
- AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting financial assets and financial liabilities*
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 cycle*
- AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures*

For details of the impact of adopting AASB 9, AASB 2009-11 and AASB 2009-7, refer to Note 1(v). Adoption of the other standards did not have a significant impact on the consolidated financial statements or has impacted disclosures only.

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

- 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 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.
- 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 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* - applicable for annual reporting periods beginning on or after 1 January 2013.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2012

1 Accounting policies (continued)

DuluxGroup expects to adopt these standards and interpretations in the financial year ending 30 September 2013 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 2 which describes the impact on the reported results of DuluxGroup arising from the Queensland flood for the financial year ended 30 September 2011.

As permitted under the transitional provisions of AASB 9 *Financial Instruments*, the comparatives impacted by the early adoption of this standard have not been restated and therefore continue to comply with the requirements of AASB 139 *Financial Instruments: Recognition and Measurement*, which was applicable up to the financial year ended 30 September 2011. Refer to Note 1(v) for further details.

c) Consolidation

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

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

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

d) Business combinations

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

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

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed in accordance with the requirements of AASB 3 *Business Combinations*, the difference is recognised directly in profit or loss as a bargain purchase.

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

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

e) 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 four years after the initial sale.

Other income

Profits and losses from sale of businesses, controlled entities and other non-current assets are recognised when there is a signed unconditional contract of sale.

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.

f) 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.

g) 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.

h) 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.

i) 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.

j) 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.

k) 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.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2012

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.

l) 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.

m) Other financial assets

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

n) 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 least annually including at the end of the financial year.

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.

o) 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 17(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 17(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.

p) 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.

q) 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.

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.

r) 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.

Leased premises restoration

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

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

s) Employee entitlements

Annual leave

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

Long service leave

Liabilities for long service leave are accrued at the present value of expected future payments to be made resulting from services provided by employees. Liabilities for long service leave entitlements, which are not expected to be paid or settled within 12 months, are discounted using the rates attaching to Government fixed coupon bond rates with similar maturity terms. When discounting using Government bond yields, DuluxGroup now uses an average of State Government bond yields rather than Commonwealth Government bond yields. The impact for the financial year ended 30 September 2012 of this change to State Government bond yields is a decrease to the provision of $913,000 and a corresponding benefit to the income statement.

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. When discounting using Government bond yields, DuluxGroup now uses an average of State Government bond yields rather than Commonwealth Government bond yields. The impact for the financial year ended 30 September 2012 of this change to State Government bond yields is a decrease in the net obligation of $9,345,000 and a commensurate increase to other comprehensive income. The calculation is performed at least annually by a qualified actuary using the projected unit credit method.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2012

1 Accounting policies (continued)

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.

The amounts receivable from employees in relation to the non-recourse loans and any ordinary share capital issued under LTEIP are not recognised on consolidation. 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.

t) Foreign currency

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

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

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rate ruling at the date of the transaction. 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. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

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

u) Financial instruments – classification (prior to 1 October 2011)

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.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2012

1 Accounting policies (continued)

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.

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 (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 (Note 19) and its interest-bearing liabilities (Note 20).

v) Financial instruments – classification (from 1 October 2011)

From 1 October 2011, DuluxGroup classifies its financial assets in the following measurement categories:

(i) financial assets and liabilities at amortised cost;
(ii) financial assets at fair value through other comprehensive income; and
(iii) financial assets and liabilities at fair value through profit and loss.

Financial assets and liabilities at amortised cost

A financial asset is classified as at amortised cost only if both of the following criteria are met:

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

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

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

Financial liabilities at amortised cost are classified as 'Trade and other payables' (Note 19) and 'Interest-bearing liabilities' (Note 20) in the balance sheet.

Financial assets at fair value through other comprehensive income

A financial asset is classified as fair value through other comprehensive income only if both of the following criteria are met:

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

Changes to fair values are presented in the revaluation reserve in equity.

Financial assets and liabilities at fair value through profit and loss

A financial asset is classified in this category if it does not qualify for recognition in any of the categories above or if it is so designated by management.

A financial liability is classified in this category if it is acquired principally for the purpose of selling in the short term (held for trading) or if it is so designated by management.

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 categorised as held for trading. Assets and liabilities in this category are classified as current if they are expected to be realised within 12 months of the balance sheet date. 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.

1 Accounting policies (continued)

Change in accounting policy

With the adoption of AASB 9 *Financial Instruments*, there were no changes to the measurement of financial assets and liabilities held by DuluxGroup.

All financial assets that were previously classified as 'loans and receivables' (Note 37) have now been classified as 'financial assets at amortised cost'. Other than as disclosed, there were no other impact on the classification of financial assets and liabilities.

w) 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 in accordance with the requirements of both AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 9 *Financial 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.

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.

1 Accounting policies (continued)

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.

x) Financial instruments – impairment

For loans and receivables (prior to 1 October 2011) and financial assets carried at amortised cost (from 1 October 2011), the amount of any loss is measured as the extent to which the asset's carrying amount exceeds the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

y) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand and deposits held at call that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

z) Contributed equity

Ordinary shares in DuluxGroup Limited are classified as contributed equity.

When share capital recognised as contributed equity is repurchased by the Company or its controlled entities, the amount of the consideration paid, including directly attributable costs is recognised as a deduction from total equity.

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

DuluxGroup has formed a trust to administer the Group's employee share scheme. This trust is consolidated, as the substance of the relationship is that the trust is controlled by DuluxGroup.

Where ordinary shares are issued to the trust for the purpose of the employee share schemes, this ordinary share capital is not recognised on consolidation. Where shares are purchased on-market by the trust for the purpose of the employee share schemes, the purchase is accounted for as a buy-back and the amount is deducted from contributed equity as treasury shares on consolidation.

aa) Impairment of other assets

The carrying amount of the DuluxGroup's non-current assets, excluding any defined benefit fund assets, deferred tax assets, goodwill, financial assets 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 (CGU) to which the asset belongs.

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

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 CGU. 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 CGU exceeds its recoverable amount.

Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit.

Reversals of impairment

An impairment loss is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of goodwill 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.

1 Accounting policies (continued)

ab) Earnings per share

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

Diluted earnings per share is calculated by dividing the net profit attributable to the ordinary shareholders 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.

ac) 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.

ad) Goods and services tax (GST)

Revenues, expenses, assets and liabilities other than receivables and payables, are recognised net of the amount of 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.

ae) Rounding

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

2 Queensland flood

The consolidated financial results presented for DuluxGroup for the financial year ended 30 September 2012 and 30 September 2011 include accounting for the impacts arising from the Queensland flood which caused plant damage and closure to the Group's main Australian manufacturing facility at Rocklea in January 2011. The insurance claim has now been finalised and settled in full with the Group's insurers for a total compensation of $80,000,000. $15,000,000 of this claim has been recognised as other income during the financial year ended 30 September 2012 (2011 $65,000,000). Of the amount recognised as other income, $NIL is outstanding as at 30 September 2012 (2011 $11,468,000).

Impacts in the financial year ended 30 September 2012 include the cost of asset repairs, costs to rework damaged stock, stock disposal costs and claim preparation costs, and recognition of insurance income to reimburse for these costs, costs relating to replacement of assets and increased costs of production.

Impacts in the financial year ended 30 September 2011 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.

3 Businesses acquired

2012

On 30 November 2011, DuluxGroup Limited merged its DGL International entities in Hong Kong and China with the Hong Kong and China operations of National Lacquer Paint and Products Co Ltd to create the DGL Camel International Group (DGCI Group). The merger is consistent with DuluxGroup's strategy of making low-risk acquisitions to further grow DuluxGroup's position in the high growth Chinese market.

Under the terms of the merger arrangement DuluxGroup holds a 51% interest in the DGCI Group, comprising DGL Camel International Limited (a newly formed holding company) and its controlled entities, and has secured board and management control of this group. The following legal entities were acquired as part of this transaction:

- DGL Camel (Hong Kong) Limited (formerly Camelpaint Chemicals Company Limited);
- DGL Camel (China) Limited (formerly Camelpaint (China) Company Limited); and
- Dongguan Benson Paint Company Limited.

As a result of the merger, DuluxGroup has obtained control of its joint venture, DGL Camel Powder Coatings Limited (formerly known as DGL Camel Coatings Limited) through an increased board and management representation and an increase to its existing 50% ownership interest to 51%.

The results of the acquired businesses have been consolidated from close of business on 30 November 2011.

The residual 49% interest in the DGCI Group is held by National Lacquer Paint and Products Co Ltd and accordingly its share of the DuluxGroup results and equity have been recognised as non-controlling interest.

The acquisition accounting for this transaction is considered provisional due to the ongoing work to be carried out on the valuation of assets acquired and the valuation of DuluxGroup assets given up as part of the transaction. Finalisation is expected no later than 30 November 2012. The amounts recognised at 30 September 2012 are based on preliminary purchase price allocations of acquired net assets and valuation of net assets given up. Therefore, these amounts may be subject to change before 30 November 2012. As allowed under the relevant Australian Accounting Standards, adjustments made to these provisional numbers will be reflected in future financial periods.

3 Businesses acquired (continued)

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

2012	Book value $'000	Fair value adjustment $'000	Fair value total $'000
Consideration			
Shares issued in DGCI at fair value	12,460	-	12,460
Cash paid and settled via loans with related entities	4,000	-	4,000
Purchase price adjustment	(710)	-	(710)
Net cash acquired	(1,947)	-	(1,947)
Total consideration	13,803	-	13,803
Net assets of controlled entities acquired			
Trade and other receivables	13,066	-	13,066
Inventories	4,961	-	4,961
Property, plant and equipment	2,975	-	2,975
Other assets	259	-	259
Deferred tax assets	-	396	396
Trade and other payables	(11,429)	-	(11,429)
Interest-bearing liabilities	(3,571)	-	(3,571)
Other provision	(24)	-	(24)
Provision for employee entitlements	(282)	-	(282)
Net identifiable assets acquired	5,955	396	6,351
less: interest retained by non-controlling interests in acquired net assets			(4,084)
Net identifiable assets acquired, net of non-controlling interests			2,267
Goodwill on acquisition (1)			11,536

(1) As allowed by Australian Accounting Standards, DuluxGroup have elected to recognise acquired goodwill on a proportional basis. Therefore, only DuluxGroup's 51% share of goodwill arising from this transaction had been recognised.

Transaction costs recognised as an expense in respect of this acquisition during the financial year ended 30 September 2012 were $504,000 (2011 $1,000,000).

Results contributed by the acquired business since acquistion date:

	$'000
Revenue(1)	37,899
Loss before income tax expense(1)	(1,406)

(1) Represents the results of the acquired businesses only and not the entire DGCI Group as certain entities within this group were DuluxGroup businesses prior to the acquisition.

If the acquisition had occured on 1 October 2011, the results of the consolidated entity would have been:

	$'000
Revenue	1,076,808
Profit before income tax expense	110,654

The information on revenue and profit before income tax expense above was compiled by management based on financial information available during due diligence and assuming no material transactions between DuluxGroup and the acquired businesses. Goodwill on the purchase of these entities is attributable mainly to the skills and technical talent of the acquired businesses' work forces and the synergies expected to be achieved from integrating these businesses.

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 year ended 30 September 2011. This resulted in a decrease to goodwill of $1,000,000 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 which was settled for $4,480,000 during the year.

4 Earnings per share (EPS)

As reported in the consolidated income statement	2012 Cents per share	2011 Cents per share
Total attributable to ordinary shareholders of DuluxGroup Limited		
Basic earnings per share	**24.7**	25.7
Diluted earnings per share	**24.3**	25.7
	$'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	**89,492**	93,237
	Number	Number
Weighted average number of ordinary shares outstanding used as the denominator:		
Number for basic earnings per share	**361,805,421**	362,481,237
Effect of the potential vesting of shares under the LTEIP and ESIP(1)	**6,691,151**	470,900
Number for diluted earnings per share	**368,496,572**	362,952,137

(1) The calculation of the weighted average number of shares has been adjusted for the effect of these potential shares from the date of issue or the beginning of the financial year. For further details on the LTEIP and ESIP, refer to Note 27.

5 Segment report

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, dividend income, royalties, 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.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2012

5 Segment report (continued)

Reportable segments 2012 $'000	Paints Australia	Paints New Zealand	Selleys Yates	Offshore and Other	Unallocated[2]	Consolidated
Revenue						
External sales	607,977	72,274	233,514	154,044	-	1,067,809
Inter-segment sales	5,954	31	11,086	568	(17,639)	-
Total revenue from sale of goods	613,931	72,305	244,600	154,612	(17,639)	1,067,809
Other income[1]	15,430	80	(174)	1,602	3,221	20,159
Total revenue and other income	629,361	72,385	244,426	156,214	(14,418)	1,087,968
Results						
Profit/(loss) before net financing costs and income tax expense	108,759	8,087	24,911	6,680	(16,220)	132,217
Profit/(loss) from operations	108,759	8,087	24,911	6,680	(16,220)	132,217
Finance income						493
Finance expense						(21,920)
Profit before income tax expense						110,790
Income tax expense						(24,526)
Profit for the financial year						86,264
Segment assets	292,361	51,533	135,950	111,922	117,994	709,760
Segment liabilities	137,691	14,404	48,801	34,620	291,392	526,908
Investment accounted for using the equity method	-	-	3,747	-	-	3,747
Acquisitions of property, plant and equipment and intangible assets	16,349	1,969	3,737	1,845	-	23,900
Impairment of property, plant and equipment	-	-	-	513	-	513
Impairment/(reversal of impairment) of inventories	73	317	(212)	146	-	324
Impairment/(reversal of impairment) of trade and other receivables	690	123	(30)	(71)	-	712
Depreciation expense	10,974	2,393	3,003	4,486	664	21,520
Amortisation expense	951	76	538	211	-	1,776
Non-cash expenses other than depreciation and amortisation: Share-based payments	1,008	102	221	63	699	2,093
Share of net profit of joint venture accounted for using the equity method	-	-	1,500	-	-	1,500

(1) Includes foreign exchange gains/(losses) in various reportable segments and recoveries from the Queensland flood of $15,000,000 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 29% (2011 30%) of the total DuluxGroup revenue from sale of goods during the year ended 30 September 2012. This customer operated within the Paints Australia, Paints New Zealand and Selleys Yates segments.

Notes to the Consolidated Financial Statements (continued)

For the financial year ended 30 September 2012

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]	64,777	(151)	560	2,163	(131)	67,218
Total revenue and other income	645,406	82,397	249,485	115,994	(29,639)	1,063,643
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
Investment 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	8,692	2,227	3,093	3,547	562	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.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2012

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:

	2012 $'000	2011 $'000
Australia	**829,457**	802,130
New Zealand	**125,893**	124,723
Other countries	**112,459**	69,572
	1,067,809	996,425

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

	2012 $'000	2011 $'000
Australia	**231,542**	224,988
New Zealand	**35,978**	36,547
Other countries	**33,364**	22,186
	300,884	283,721

6 Other income

	2012 $'000	2011 $'000
Insurance recoveries [(1)]	**15,000**	65,000
Dividend income from listed equity securities	**2,820**	-
Net foreign exchange gains	**781**	-
Royalty income	**146**	416
Other	**1,412**	1,802
	20,159	67,218

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

7 Expenses

Profit before income tax includes the following specific expenses:

	2012 $'000	2011 $'000
Depreciation and amortisation		
Depreciation (Note 16)		
Buildings	**1,947**	1,781
Machinery, plant and equipment	**19,573**	16,340
	21,520	18,121
Amortisation (Note 17)		
Patents, trademarks and rights	**183**	191
Brand names	**225**	232
Software	**1,368**	1,429
	1,776	1,852
Total depreciation and amortisation expense	**23,296**	19,973
Provisions - net of amounts written back (Note 21)		
Environmental provision	**(404)**	-
Deferred income - customer loyalty programme provision	**1,648**	1,475
Leased properties provision	**(325)**	2,696
Other provisions	**1,509**	210
	2,428	4,381
Finance expenses		
Interest and finance charges paid/payable for financial liabilities not at fair value through profit and loss	**21,469**	24,252
Provisions: unwinding of discount (Note 21)	**531**	436
Amount capitalised (Note 16)	**(80)**	(1,070)
	21,920	23,618
Net loss on sale of property, plant and equipment	**278**	54
Net foreign exchange losses	**-**	161
Impairment of property, plant and equipment (Note 16)	**513**	6,711
Impairment of trade and other receivables	**712**	1,462
Impairment of inventories	**324**	6,880
Research and development expense	**14,816**	14,711

8 Income tax

a) Income tax expense recognised in the consolidated income statement

	2012 $'000	2011 $'000
Current tax expense	33,945	39,268
Deferred tax benefit	(1,449)	(4,903)
Over provision in prior years[1,2]	(7,970)	(11,461)
Total income tax expense in the consolidated income statement	24,526	22,904
Deferred income tax expense/(benefit) included in income tax expense comprises:		
Increase in deferred tax assets (Note 18)	(1,393)	(5,127)
(Decrease)/increase in deferred tax liabilities (Note 22)	(56)	224
	(1,449)	(4,903)

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

	2012 $'000	2011 $'000
Profit before income tax expense	110,790	116,141
Prima facie income tax expense calculated at 30% of profit before income tax expense	33,237	34,842
Tax effect of items which (decrease)/increase tax expense:		
Variation in tax rates of foreign controlled entities	13	175
Entertainment	274	262
Non allowable share-based payments	452	374
Research and development	(372)	(360)
Share of net profit of joint venture accounted for using the equity method	(450)	(275)
Net non-deductible/non-assessable income	(3,008)	(2,298)
Tax consolidation adjustment[2]	(6,250)	(12,474)
Deferred tax restatements for overseas tax legislation change	5	231
Tax offset for franked dividends	(846)	-
Tax losses not recognised	1,738	1,540
Sundry items	(267)	887
Income tax expense reported in the consolidated income statement	24,526	22,904

(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. Management has continued to refine the tax exit calculation supported by independent valuation advice and have recognised a further deferred tax asset of $6,250,000 (2011 $12,474,000) in the year ended 30 September 2012, with a corresponding credit to income tax expense.

c) Income tax expense recognised in other comprehensive income

	2012			2011		
	$'000	$'000	$'000	$'000	$'000	$'000
	Before tax	Tax benefit	Net of tax	Before tax	Tax (expense) /benefit	Net of tax
Effective portion of changes in fair value of cash flow hedges	(517)	155	(362)	653	(196)	457
Actuarial losses on defined benefit plan	(875)	263	(612)	(11,811)	3,543	(8,268)
	(1,392)	418	(974)	(11,158)	3,347	(7,811)

8 Income tax (continued)

d) Unrecognised deferred tax assets and liabilities

	2012 $'000	2011 $'000
Tax losses not recognised in:		
China[1]	3,441	1,753
Hong Kong	27	-
Singapore	23	-
	3,491	1,753

(1) Expiration dates between 2012 and 2017 (2011 between 2011 and 2016).

e) Unrecognised temporary differences

	2012 $'000	2011 $'000
Temporary differences relating to investments in subsidiaries for which deferred tax assets have not been recognised	12,352	10,973
Unrecognised deferred tax assets relating to the above temporary differences	3,706	3,292

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 Australian tax consolidated group. As the head 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.

9 Cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank and on hand	25,298	36,463
Cash at bank - restricted[1]	3,210	3,077
	28,508	39,540

(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.

10 Trade and other receivables

	2012 $'000	2011 $'000
Current		
Trade receivables	**170,144**	158,994
Less allowance for impairment	**(2,544)**	(3,137)
	167,600	155,857
Other receivables	**3,141**	2,398
Insurance receivables (Note 2)	**-**	11,468
	170,741	169,723
Non-current		
Other receivables	**22**	4

a) Trade receivables

Current trade receivables include $8,471,000 (2011 $12,526,000) 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 20.

In addition, current receivables is net of $14,183,000 (2011 $9,508,000) of rebates payable that is offset against related receivables. DuluxGroup has the legal right to offset such balances as they are with the same customers and it is DuluxGroup's intention to net settle any outstanding balances.

Refer to Note 28 for terms and conditions relating to related party trade receivables.

b) Trade receivables and allowance for impairment

	2012 Gross $'000	2012 Allowance $'000	2011 Gross $'000	2011 Allowance $'000
Not past due	**144,625**	**18**	137,389	32
Past due 0 - 30 days	**15,762**	**99**	13,416	125
Past due 31 - 60 days	**2,787**	**92**	2,060	63
Past due 61 - 90 days	**2,037**	**129**	1,316	188
Past due 91 - 120 days	**1,493**	**180**	817	251
Past 120 days	**3,440**	**2,026**	3,996	2,478
	170,144	**2,544**	158,994	3,137

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

Trade receivables are carried at amounts due. Receivables that are not past due and not impaired are considered recoverable. Payment terms are generally 30 days from the end of the month in which the invoice is issued. A risk assessment process is used for all accounts with a stop credit process in place for most long overdue accounts. Credit insurance cover is obtained where appropriate.

The collectability of trade receivables is assessed continuously and at balance date specific allowances are made for any doubtful trade receivables based on a review of all outstanding amounts at year end. Bad debts are written off during the year in which they are identified.

The following basis has been used to assess the allowance for doubtful trade receivables:

- a statistical approach to determine the historical allowance rate for various tranches of receivables;
- an individual account by account assessment based on past credit history; and
- prior knowledge of debtor insolvency or other credit risk.

No material security is held over trade receivables.

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

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2012

10 Trade and other receivables (continued)

c) Movement in allowance for impairment of trade receivables

	2012 $'000	2011 $'000
Balance at 1 October	**3,137**	2,763
Allowances made during the year	**1,022**	1,468
Allowances written back during the year	**(310)**	-
Allowances utilised during the year	**(1,263)**	(1,136)
Foreign currency exchange differences	**(42)**	42
Balance at 30 September	**2,544**	3,137

d) Movement in allowance for impairment of current other receivables

	2012 $'000	2011 $'000
Balance at 1 October	**-**	49
Allowances written back during the year	**-**	(6)
Allowances utilised during the year	**-**	(44)
Foreign currency exchange differences	**-**	1
Balance at 30 September	**-**	-

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

	2012 $'000	2011 $'000
Raw materials	**23,425**	26,935
Work in progress	**3,996**	4,480
Finished goods	**101,799**	104,312
	129,220	135,727

The cost of goods sold recognised in the consolidated income statement for the financial year ended 30 September 2012 amounted to $602,327,000 (2011 $564,799,000).

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2012

12 Derivative financial assets and liabilities

	2012 $'000	2011 $'000
Current		
Derivative financial assets		
Foreign exchange options - cash flow hedges	**56**	881
Interest rate options - cash flow hedges	**-**	37
	56	918
Derivative financial liabilities		
Foreign exchange contracts - held for trading	**39**	6
	39	6
Non-current		
Derivative financial assets		
Interest rate options - cash flow hedges	**2**	221
	2	221

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 37.

The fair value of foreign exchange options used as hedges of foreign exchange transactions at 30 September 2012 was $56,000 (2011 $881,000), comprising assets of $56,000 (2011 $881,000).

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

Vanilla European Option Contracts	Weighted average rate 2012	$'000 2012	Weighted average rate 2011	$'000 2011
Buy US dollars/sell Australian dollars				
Not later than one year	**1.0047**	**USD 5,557**	1.0422	USD 9,224
Buy US dollars/sell New Zealand dollars				
Not later than one year	**-**	**-**	0.8424	USD 372

The cash flow hedge reserve at 30 September 2012 includes a net loss of $71,000 ($50,000 net of tax) (2011 net gain of $456,000 ($319,000 net of tax)) on foreign exchange options which 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. Then depending on the nature of the underlying hedged item the amount deferred in the cash flow hedge reserve in equity will subsequently be transferred to either the income statement or the cost of the asset or liability. Refer Note 1(w) for further details.

12 Derivative financial assets and liabilities (continued)

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 $2,000 (2011 $258,000) as at 30 September 2012.

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:

	2012 $'000	2011 $'000
Floating to fixed options		
One to five years	**150,000**	175,000
Fixed interest rate range p.a.	**5.00% to 5.50%**	4.75% to 5.50%

The cash flow hedge reserve at 30 September 2012 includes a net loss of $24,000 ($17,000 net of tax) (2011 losses of $34,000 ($24,000 net of tax)) on interest rate options which is 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.

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

2012	**Level 1(1) $'000**	**Level 2(2) $'000**	**Level 3(3) $'000**	**Total $'000**
Forward foreign exchange contracts	**-**	**(39)**	**-**	**(39)**
Interest rate options	**-**	**2**	**-**	**2**
Foreign exchange options	**-**	**56**	**-**	**56**

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

(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

	2012 $'000	2011 $'000
Current		
Prepayments	**3,444**	2,114
Other	**102**	270
	3,546	2,384
Non-current		
Prepayments	**4,996**	332
Other	**2**	6
	4,998	338

14 Investment in listed equity securities

	2012 $'000	2011 $'000
Equity investments at fair value through other comprehensive income		
Ordinary shares held in Alesco Corporation Limited(1)	**36,848**	-
	36,848	**-**

(1) On 30 April 2012, DuluxGroup, through its wholly owned subsidiary, DuluxGroup (Nominees) Pty Ltd, acquired 19.96% of the shares in Alesco Corporation Limited (Alesco) for $37,600,000. The interest was acquired preceding the Group's off-market takeover offer for the remaining shares in Alesco announced on 1 May 2012. Details of this offer are set out in Note 31(d). The 19.96% interest does not provide DuluxGroup with either control or significant influence over Alesco as DuluxGroup is not represented on the Board or management of Alesco. DuluxGroup is also not involved in the financial and operating activities of Alesco.

Transaction costs of $3,596,000 associated with this takeover offer are included in the results of DuluxGroup for the financial year ended 30 September 2012. These costs are primarily related to consulting and legal fees.

Fair value of the ordinary shares held in Alesco is derived from quoted prices (unadjusted) from the Australian Securities Exchange at 30 September 2012.

15 Investments accounted for using the equity method

The consolidated entity has an interest in the following entities:

	Percentage of ownership interest held at end of the financial year		**Contribution to net profit**	
Name of entity	**2012 %**	2011 %	**2012 $'000**	2011 $'000
DGL Camel Powder Coatings Limited (formerly DGL Camel Coatings Limited, Orica Camel Coatings Limited)(1)	**-**	50.0	**-**	-
Pinegro Products Pty Ltd(2)	**50.0**	50.0	**1,500**	917
			1,500	917

(1) Incorporated on 31 October 2003. On 30 November 2011, DuluxGroup obtained control of DGL Camel Powder Coatings Limited through an increase in its ownership interest, as well as increased Board and management representation (refer Note 3 for further details).

(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 2012 (2011 $NIL).

	2012 $'000	2011 $'000
Results of joint venture		
Share of joint venture's profit before income tax	**2,143**	1,310
Share of joint venture's income tax expense	**(643)**	(393)
Share of net profit of joint venture accounted for using the equity method	**1,500**	917
Movements in carrying amounts of investments		
Balance at 1 October	**2,497**	2,080
Share of net profit of joint venture accounted for using the equity method	**1,500**	917
Less distributions from joint venture	**(250)**	(500)
Balance at 30 September	**3,747**	2,497
Summary of profit and loss of the joint venture on a 100% basis		
The revenue and net profit after tax of the joint venture is:		
Revenue	**14,778**	14,319
Net profit after tax	**2,093**	1,834
Summary of balance sheet of the joint venture on a 100% basis		
The assets and liabilities of the joint venture is:		
Current assets	**4,559**	3,410
Non-current assets	**6,407**	6,131
Total assets	**10,966**	9,541
Current liabilities	**2,759**	2,622
Non-current liabilities	**713**	1,018
Total liabilities	**3,472**	3,640
Net assets	**7,494**	5,901

16 Property, plant and equipment

	2012 $'000	2011 $'000
Land		
At cost	**28,989**	28,970
Buildings and leasehold improvements		
At cost	**67,754**	60,573
Less accumulated depreciation and impairment	**(28,628)**	(26,666)
	39,126	33,907
Machinery, plant and equipment		
At cost	**270,547**	265,537
Less accumulated depreciation and impairment	**(139,606)**	(132,055)
	130,941	133,482
Total net book value		
At cost	**367,290**	355,080
Less accumulated depreciation and impairment	**(168,234)**	(158,721)
Total net book value of property, plant and equipment	**199,056**	196,359

a) Assets under construction

Included in the above are assets under construction at 30 September 2012 of $6,566,000 (2011 $36,989,000).

b) Capitalised borrowing costs

Included in the above is capitalised interest on qualifying assets for the financial year ended 30 September 2012 of $80,000 (2011 $1,070,000). For the financial year ended 30 September 2012, the capitalisation amount is the actual interest expense incurred on borrowings used specifically to fund the capital expenditure on qualifying assets.

For the financial year ended 30 September 2011, the capitalisation rate used to determine the amount of borrowings costs to be capitalised is 7.1%, 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 and leasehold improvements $'000	Machinery, plant and equipment $'000	Total $'000
2012				
Balance at 1 October 2011	**28,970**	**33,907**	**133,482**	**196,359**
Additions	**-**	**7,699**	**14,980**	**22,679**
Additions through business acquisitions (Note 3)	**-**	**-**	**2,975**	**2,975**
Disposals	**-**	**(31)**	**(403)**	**(434)**
Offset with provisions	**-**	**(597)**[1]	**-**	**(597)**
Depreciation expense	**-**	**(1,947)**	**(19,573)**	**(21,520)**
Impairment expense	**-**	**-**	**(513)**	**(513)**
Foreign currency exchange differences	**19**	**95**	**(7)**	**107**
Balance at 30 September 2012	**28,989**	**39,126**	**130,941**	**199,056**
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

(1) Refer to footnote 1 of Note 21(e) for further details of this transfer.

17 Intangible assets

	2012 $'000	2011 $'000
Goodwill		
At cost	**54,136**	43,705
	54,136	43,705
Patents, trademarks and rights		
At cost	**4,455**	4,418
Less accumulated amortisation	**(3,645)**	(3,439)
	810	979
Brand names		
At cost	**41,211**	41,298
Less accumulated amortisation	**(1,064)**	(864)
	40,147	40,434
Software		
At cost	**20,355**	19,194
Less accumulated amortisation	**(18,618)**	(17,288)
	1,737	1,906
Total net book value		
At cost	**120,157**	108,615
Less accumulated amortisation	**(23,327)**	(21,591)
Total net book value of intangible assets	**96,830**	87,024

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
2012					
Balance at 1 October 2011	**43,705**	**979**	**40,434**	**1,906**	**87,024**
Additions	**-**	**-**	**-**	**1,221**	**1,221**
Additions through business acquisitions (Note 3)	**11,536**	**-**	**-**	**-**	**11,536**
Amortisation expense	**-**	**(183)**	**(225)**	**(1,368)**	**(1,776)**
Foreign currency exchange differences	**(1,105)**	**14**	**(62)**	**(22)**	**(1,175)**
Balance at 30 September 2012	**54,136**	**810**	**40,147**[1]	**1,737**	**96,830**
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

(1) Includes an amount of $38,358,000 (2011 $38,358,000) relating to brand names with indefinite useful lives.

17 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]	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Paints Australia	**8,063**	8,063	**23,500**	23,500
Selleys Yates	**20,210**	20,210	**14,858**	14,858
China[3]	**25,863**	15,432	**-**	-
	54,136	43,705	**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 11% and 15% (2011 14% and 16%).

As at 30 September 2012, results of the impairment testing for goodwill and intangible assets with indefinite useful lives did not result in any impairment being identified.

The calculation of recoverable amount for DuluxGroup impairment testing purposes is sensitive to changes in discount rates, terminal value growth rates applied in perpetuity, expected sales revenue growth rates in the forecast period, and earnings varying from the assumptions and forecast data used. As such, sensitivity analysis was undertaken to examine the effect of a change in a variable on each CGU. Refer below for sensitivity analysis regarding the China CGU. For all other CGUs, a reasonable possible change in these inputs would not cause the recoverable amount to be below the carrying amount.

17 Intangible assets (continued)

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

DuluxGroup's Asian presence (through Selleys, Decorative Coatings and Powder Coatings) was enhanced by the acquisition of Sopel, a China-based coatings business, in November 2008 and the Camelpaint business in November 2011.

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. The acquisition of the Camelpaint business provided DuluxGroup with additional skills and technical talent in the region. Consistent with the Group's stated strategy for growth in China, the recoverable amount of the China CGU was assessed for the year ended 30 September 2012 using fair value less cost to sell, with the recoverable amount of the CGU exceeding the carrying value of its net assets. The recoverable amount as determined by fair value less cost to sell is sensitive to sales revenue growth rate in the forecast period, terminal value growth rate applied into perpetuity and the discount rate applied. The assumptions applied are as follows:

10 year sales revenue compound annual growth rate	9.4%
Terminal value growth rate	4%
Pre-tax discount rate	15.3% for entities based in China 11.3% for entities based in Hong Kong

Assumed sales revenue compound annual growth rate reflects the anticipated growth opportunities in this market. Terminal value growth rate is based on the long term expected growth for the China market. The pre-tax discount rate has been calculated by PwC and represents the weighted average cost of capital in China and Hong Kong respectively determined with regard to the capital asset pricing model and various external indices.

The excess in recoverable amount over the carrying value of the China CGU's net assets would change should the following changes to key assumptions occur:

- 10 year sales revenue compound annual growth rate – a 0.1% reduction in the rate would result in recoverable amount being equal to carrying value.
- Terminal value growth rate – a 0.3% reduction in the rate would result in recoverable amount being equal to carrying value.
- Discount rate – An increase in the rate of 0.1% in China or 0.6% in Hong Kong would result in recoverable amount being equal to carrying amount.

No comparative sensitivity analysis is presented for the financial year ended 30 September 2011 owing to the structural change in the China CGU following the acquisition of Camelpaint business in the current financial year.

18 Deferred tax assets

	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:		
Trade and other receivables	**484**	655
Inventories	**1,934**	1,747
Property, plant and equipment	**6,094**	9,852
Intangible assets	**5,265**	2,123
Trade and other payables	**3,093**	4,585
Provisions	**1,972**	3,127
Employee entitlements	**15,723**	15,538
Tax losses	**434**	22
Other	**1,187**	876
Deferred tax assets	**36,186**	38,525
Set-off of deferred tax assets pursuant to set-off provisions (Note 22)	**-**	(4,531)
Net deferred tax assets	**36,186**	33,994
Expected to be recovered within 12 months	**13,814**	12,614
Expected to be recovered after more than 12 months	**22,372**	21,380
	36,186	33,994
Movements:		
Balance at 1 October	**33,994**	25,432
Additions through business acquisitions (Note 3)	**396**	-
Credited to profit or loss	**1,393**	5,127
Charged to other comprehensive income (Note 8(c))	**418**	3,347
Foreign currency exchange differences	**(15)**	88
Balance at 30 September	**36,186**	33,994

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2012

19 Trade and other payables

	2012 $'000	2011 $'000
Current		
Trade payables	**164,286**	159,498
Other payables	**35,398**	33,882
	199,684	193,380
Non-current		
Other payables	**43**	294
	43	294

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 28 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.

20 Interest-bearing liabilities

	2012 $'000	2011 $'000
Current		
Unsecured		
Trade cards [1]	**8,471**	12,526
Bank loan - RMB denominated[2]	**4,558**	3,195
Bank loan - HKD denominated[3]	**494**	-
	13,523	15,721
Non-current		
Unsecured		
Bank loan - USD denominated[4]	**-**	3,070
Bank loan - NZD denominated[5]	**-**	19,685
Bank loan - AUD denominated[6]	**245,237**	223,176
	245,237	245,931

(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 Chinese Renminbi (RMB) unsecured bank loan amount comprises of RMB 30,000,000 (AUD 4,558,000) (2011 RMB 20,000,000 (AUD 3,195,000)) drawn under an overseas bank loan facility.

(3) The current Hong Kong Dollar (HKD) unsecured bank loan amount comprises of HKD 4,000,000 (AUD 494,000) (2011 HKD NIL) drawn under an overseas bank loan facility.

(4) The non-current USD denominated unsecured bank loan amount comprises of USD NIL (2011 USD 3,000,000 (AUD 3,070,000)) drawn under the Group's multi-currency syndicated bank loan facility.

(5) The non-current NZD denominated unsecured bank loan amount comprises of NZD NIL (2011 NZD 25,000,000 (AUD 19,685,000)) drawn under the Group's multi-currency syndicated bank loan facility.

(6) The non-current AUD denominated unsecured bank loan amount comprises of $248,000,000 (2011 $225,000,000) drawn under the Group's multi-currency syndicated bank loan facility, net of unamortised prepaid establishment fees of $2,763,000 (2011 $1,824,000).

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, DuluxGroup (Nominees) Pty Ltd and DuluxGroup (PNG) Pte Ltd have provided a guarantee in relation to the Group's syndicated bank loan facilities 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.

21 Provisions

	2012 $'000	2011 $'000
Current		
Employee entitlements	**15,576**	13,168
Environmental	**97**	2,344
Deferred income - customer loyalty programme	**1,070**	1,026
Leased properties	**395**	315
Other	**-**	2,844
	17,138	19,697
Non-current		
Employee entitlements	**16,224**	16,111
Deferred income - customer loyalty programme	**1,763**	1,707
Leased properties	**3,681**	4,422
Other	**569**	597
	22,237	22,837

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 and contingent liabilities arising from business acquisitions. In the financial year ended 30 September 2011, this includes other costs associated with the demerger of DuluxGroup from Orica Group.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2012

21 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 2011	2,344	2,733	4,737	3,441	13,255
Provisions made during the year	-	1,648	68	2,249	3,965
Additions through business acquisitions (Note 3)	-	-	-	24	24
Provisions written back during the year	(404)	-	(393)[1]	(740)	(1,537)
Offset with property, plant and equipment	-	-	(597)[1]	-	(597)
Provisions utilised during the year	(1,843)	(1,785)	(35)	(4,364)	(8,027)
Unwind of discounting	-	237	294	-	531
Foreign currency exchange differences	-	-	2	(41)	(39)
Balance at 30 September 2012	**97**	**2,833**	**4,076**	**569**	**7,575**

(1) As required by the Australian Accounting Standards, the creation of a leased property restoration provision requires recognition of an equal and offsetting asset amount as part of property, plant and equipment at inception of the lease. When this provision is reassessed in subsequent reporting periods, to the extent possible, an equal and offsetting adjustment is made to the corresponding asset balance. Where a decrease in the provision exceeds the carrying value of the corresponding asset, any excess is written off to the income statement and is included in provisions written back during the year in the table above.

22 Deferred tax liabilities

	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:		
Trade and other receivables	**-**	3,441
Property, plant and equipment	**336**	1,358
Intangible assets	**255**	312
Trade and other payables	**322**	399
Other	**1**	7
Deferred tax liabilities	**914**	5,517
Set-off of deferred tax assets pursuant to set-off provisions (Note 18)	**-**	(4,531)
Net deferred tax liabilities	**914**	986
Expected to be settled within 12 months	**324**	499
Expected to be settled after more than 12 months	**590**	487
	914	986
Movements:		
Balance at 1 October	**986**	745
Charged to profit or loss	**(56)**	224
Foreign currency exchange differences	**(16)**	17
Balance at 30 September	**914**	986

23 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 2012 was $11,560,000 (2011 $10,800,000).

c) Defined benefit pension plans

On 1 July 2011, DuluxGroup (Australia) Pty Ltd became the sponsoring employer of the defined benefit post-employment section of The DuluxGroup Super Fund (the Fund) in Australia.

Funding for post-employment benefits is carried out in accordance with the requirements of the Trust Deed for the Fund and the advice of the Fund's actuarial adviser. During the financial year ended 30 September 2012, the consolidated entity made employer contributions of $5,594,000 (2011 $5,729,000) to the Fund. DuluxGroup's external actuaries have forecast total employer contributions to the Fund of $5,741,000 for the financial year ending 30 September 2013. The Fund is currently closed to new members.

23 Superannuation commitments (continued)

c) Defined benefit pension plans (continued)

i) Balance sheet amounts

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

	2012 $'000	2011 $'000
Present value of the defined benefit obligations	**142,259**	139,539
Fair value of defined benefit plan assets	**(121,390)**	(116,925)
Net defined benefit liability recognised in the balance sheet at the end of the financial year	**20,869**	22,614

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:

	2012	2011
Equity instruments	**41%**	40%
Fixed interest securities	**18%**	19%
Property	**14%**	14%
Cash and other assets	**27%**	27%

iii) Reconciliations

	2012 $'000	2011 $'000
Reconciliation of present value of the defined benefit obligations:		
Balance at 1 October	**139,539**	127,674
Current service cost	**4,282**	4,066
Interest cost	**6,280**	6,762
Actuarial losses	**5,387**	5,105
Contributions by plan participants	**1,474**	2,629
Benefits paid	**(13,576)**	(5,011)
Distributions	**(1,127)**	(1,686)
Balance at 30 September	**142,259**	139,539
Reconciliation of the fair value of the defined benefit plan assets:		
Balance at 1 October	**116,925**	114,405
Expected return on plan assets	**7,588**	7,565
Actuarial gains/(losses)	**4,512**	(6,706)
Contributions by employer	**5,594**	5,729
Contributions by plan participants	**1,474**	2,629
Benefits paid	**(13,576)**	(5,011)
Distributions	**(1,127)**	(1,686)
Balance at 30 September	**121,390**	116,925

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 (2011 $NIL).

23 Superannuation commitments (continued)

c) Defined benefit pension plans (continued)

iv) Amounts recognised in the consolidated income statement

	2012 $'000	2011 $'000
Current service cost	**4,282**	4,066
Interest cost	**6,280**	6,762
Expected return on plan assets	**(7,588)**	(7,565)
Total included in employee benefits expense	**2,974**	3,263

v) Principal actuarial assumptions

The principal actuarial assumptions used were as follows:

	2012	2011
Discount rate	**3.40%**[1]	3.80%
Expected return on plan assets	**7.25%**	7.25%
Future salary increases	**3.75%**	3.75%
Future inflation	**2.75%**	2.75%

(1) The discount rate assumption used for the purposes of discounting the defined benefit obligation is determined by reference to the average yield on State Government bonds (2011 Commonwealth Government bonds)

vi) Historic summary

	2012 $'000	2011 $'000	2010 $'000
Defined benefit plan obligations	**142,259**	139,539	127,674
Defined benefit plan assets	**(121,390)**	(116,925)	(114,405)
Deficit	**20,869**	22,614	13,269
Experience loss/(gain) arising on plan liabilities	**2,085**	(811)	(764)
Experience gain/(loss) arising on plan assets	**4,512**	(6,706)	2,860
Actual return on plan assets	**12,100**	859	4,883

vii) Amounts included in the consolidated statement of comprehensive income

	2012 $'000	2011 $'000
Total actuarial losses before tax	**(875)**	(11,811)
Tax benefit on total actuarial losses	**263**	3,543
Total actuarial losses after tax	**(612)**	(8,268)

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 loss (before tax) included in the consolidated statement of comprehensive income to 30 September 2012 is $12,117,000 (2011 loss of $11,242,000).

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.

24 Contributed equity

	2012 $'000	2011 $'000
Issued and fully paid		
Ordinary shares	**180,457**	175,629
Less treasury shares	**(7,762)**	-
Ordinary shares of the consolidated entity	**172,695**	175,629

Movements in fully paid ordinary shares on issue since 1 October 2010 were as follows:

Details	Number of shares	Issue price $	$'000
Ordinary shares			
Balance at 1 October 2010	366,992,120	-	174,323
Shares issued under the DuluxGroup dividend reinvestment plan[1]	464,139	2.71	1,258
Shares vested under the ESIP[2,3]	-	-	48
Balance at 30 September 2011	367,456,259		175,629
Shares issued under the DuluxGroup dividend reinvestment plan[4]	1,528,643	2.92	4,464
Shares vested under the ESIP[2,3]	-	-	77
Shares vested under the LTEIP[2,5]	-	-	287
Balance at 30 September 2012	**368,984,902**		**180,457**

(1) 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 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. No new shares were issued in relation to the dividends paid on 17 June 2011 as the required shares were purchased on-market.

(2) For details of the LTEIP and the ESIP, refer to Note 27.

(3) Upon cessation of employment and settlement of amounts outstanding for their ESIP shares, 47,824 shares vested to plan participants (2011 18,940).

(4) Pursuant to the DRP as described in footnote 1, 1,528,643 new shares were issued at a price of $2.92 for the interim dividend paid on 15 June 2012. No new shares were issued in relation to the dividends paid on 16 December 2011 as the required shares were purchased on-market.

(5) In accordance with the plan rules, 124,324 shares vested under the 2010 LTEIP.

24 Contributed equity (continued)

a) Shares issued to subsidiaries and treasury shares

The Company has the flexibility under the ESIP and LTEIP rules to purchase share on-market, issue new shares or reallocate forfeited shares to participants in the plans.

DuluxGroup has formed a trust to administer the Group's employee share schemes. DuluxGroup (Employee Share Plans) Pty Ltd, is the trustee for the plans. The trust is consolidated as the substance of the relationship is that the trust is controlled by DuluxGroup.

Where ordinary shares are issued to the trust for the purpose of the employee share schemes, this ordinary share capital is not recognised on consolidation. Where shares are purchased on-market by the trust for the purpose of the employee share schemes, the purchase is accounted for as a buy-back and the amount is deducted from contributed equity as treasury shares on consolidation.

Movements in these shares since 1 October 2010 were as follows:

	Number of shares			$'000		
Details	**Issued to subsidiaries**	**Treasury**	**Total**	**Issued to subsidiaries**	**Treasury**	**Total**
Balance at 1 October 2010	4,891,690	-	4,891,690	12,573	-	12,573
Shares vested under the ESIP(1)	(18,940)	-	(18,940)	(48)	-	(48)
Balance at 30 September 2011	4,872,750	-	4,872,750	12,525	-	12,525
Shares vested under the ESIP(1)	(29,460)	(18,364)	(47,824)	(77)	(53)	(130)
Shares vested under the LTEIP(2)	(124,324)	-	(124,324)	(320)	-	(320)
Purchase of shares for the LTEIP and ESIP(3)	-	2,690,652	2,690,652	-	7,815	7,815
Balance at 30 September 2012	**4,718,966**	**2,672,288**	**7,391,254**	**12,128**	**7,762**	**19,890**

(1) Upon cessation of employment and settlement of amounts outstanding for their ESIP shares, 47,824 shares vested to plan participants (2011 18,940).

(2) In accordance with the plan rules, 124,324 shares vested under the 2010 LTEIP and proceeds of $287,292 were received as settlement, being the residual balance after applying dividends and debt forgiveness of $32,220.

(3) DuluxGroup's December 2011 LTEIP and ESIP requirements were satisfied by an on-market purchase of 2,690,652 DuluxGroup ordinary shares and reallocation of forfeited 2010 LTEIP and ESIP shares returned to DuluxGroup during the vesting period by executives and employees leaving DuluxGroup respectively. As these shares are held by the DuluxGroup Employee Share Plan Trust, a wholly owned subsidiary of DuluxGroup Limited, these shares are either recognised as treasury shares or not recognised depending on whether the shares were purchased on-market or were from a new share issue.

25 Reserves

	2012 $'000	2011 $'000
Reserves		
Share-based payments	**5,176**	3,148
Cash flow hedge	**(67)**	295
Foreign currency translation	**(11,995)**	(10,973)
Common control	**(97,702)**	(97,702)
Revaluation - other financial assets	**(752)**	-
	(105,340)	(105,232)

a) Share-based payments reserve

The amount reported in the share-based payments reserve each year represents the share-based payments expense adjusted for amounts transferred to contributed equity on vesting of shares.

b) Cash flow hedge reserve

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

c) Foreign currency translation reserve

The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations, the translation of transactions that hedge DuluxGroup's net investment in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in a foreign operation.

d) Common control reserve

DuluxGroup Limited has elected to account for business combinations under common control at carrying value. As permitted by Australian Accounting Standards, certain of its subsidiaries, primarily DuluxGroup (New Zealand) Pty Ltd elected to apply purchase accounting in its own accounting books and records. On consolidation, the effect of this policy difference on the pre-July 2010 demerger acquisition of the business assets and liabilities in New Zealand is reversed with the recognition of a common control reserve to the extent that the fair value of the business assets and liabilities exceeded their carrying value at the date of acquisition.

e) Revaluation reserve – other financial assets

The revaluation reserve represents the cumulative net change in the fair value of listed equity investments that DuluxGroup has made an irrevocable election to revalue through other comprehensive income.

26 Dividends

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

a) Ordinary shares

2012

On 14 May 2012, the Directors declared a fully franked interim dividend of 7.5 cents per ordinary share. Dividends totalling $27,294,000 were paid on 15 June 2012.

On 14 November 2011, the Directors declared a fully franked final dividend of 7.5 cents per ordinary share. Dividends totalling $27,336,000 were paid on 16 December 2011.

2011

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 8 November 2010, 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.

26 Dividends (continued)

b) Subsequent events

On 14 November 2012, the Directors declared a final dividend of 8.0 cents per ordinary share, fully franked and payable on 17 December 2012.

The financial effect of the final dividend has not been brought to account in the financial report for the financial year ended 30 September 2012 and will be recognised in the financial report for the financial year ending 30 September 2013.

The Company's DRP will operate with respect to the final dividend. The DRP pricing period will be the five trading days from 4 December 2012 to 10 December 2012 inclusive. A discount of 2.5% will be applied to the DRP price. Ordinary shares issued under the DRP will rank equally with all other ordinary shares.

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 2012 is $NIL (2011 $949,500).

27 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:

	2012 $	2011 $
DuluxGroup Long Term Equity Incentive Plan	**1,477,201**	1,246,580
DuluxGroup Employee Share Investment Plan	**615,928**	-
	2,093,129	1,246,580

a) DuluxGroup Long Term Equity Incentive Plan (LTEIP)

The LTEIP has been established to incentivise executives to generate shareholder wealth. Under the LTEIP, eligible executives are provided with an interest free, non-recourse loan from DuluxGroup for the sole purpose of acquiring shares in the Company. Executives may not deal with the shares while the loan remains outstanding and any dividends paid on the shares are applied (on an after-tax basis) towards repaying the loan. Executives are entitled to exercise the voting rights attaching to their DuluxGroup ordinary shares from the date of allocation of those shares. The shares issued to the executives can be newly issued shares, purchased on-market or reallocated forfeited shares. Shares allocated under this plan in conjunction with non-recourse loans are accounted for as options. As a result, the amounts receivable from employees in relation to these loans are not recognised in the financial statements. New shares issued to a wholly owned subsidiary to satisfy the requirements under this plan are not recognised on consolidation (refer Note 24). Shares purchased on-market by a wholly owned subsidiary to satisfy the requirements under this plan are accounted for as a buy-back and recognised as treasury shares on consolidation (refer Note 24). Shares purchased by the Company on-market under the plan are recognised as a share buy-back. In accordance with the requirements of AASB 2 *Share-based Payment*, a share-based payments expense is recognised in the income statement over the vesting period based on the fair value of the options. Settlement of share loans upon vesting are recognised as share capital.

Under the LTEIP, the shares allocated to executives 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 approximately three years, with performance tested following the announcement of annual results in the third year after a grant is made.

Detailed remuneration disclosures, including the link between the LTEIP and shareholder wealth, are provided in the Remuneration Report section of the Directors' Report.

27 Share-based payments (continued)

a) DuluxGroup Long Term Equity Incentive Plan (LTEIP) (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[1,2] 2012 $	2011 $
2010 LTEIP grant	4,401,850	19 July 2010/5 August 2010	$2.57	**899,230**	1,246,580
2011 LTEIP grant	2,641,325	20 December 2011	$2.90	**577,971**	-
				1,477,201	1,246,580

(1) Represents the value calculated under AASB 2. 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 (2011 $NIL).

(2) Refer to Note 27(a)(ii) for details of the valuation of share options issued in accordance with AASB 2.

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 2011	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	3,603,448	-	(124,324)[5]	3,479,124	-
12 July 2010[3]	January 2014[4]	N/A	376,250	-	(36,275)	339,975	-
2 December 2011[6]	January 2015[7]	N/A	-	2,641,325	(55,182)	2,586,143	-

(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 to 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.

(5) In accordance with the plan rules, 124,324 shares vested under the 2010 LTEIP and proceeds of $287,292 were received as settlement, being the residual balance after applying dividends and debt forgiveness of $32,220.

(6) While the issue and allocation of LTEIP shares to the executives only occurred on 20 December 2011, in accordance with the requirements of Australian Accounting Standards, the 'grant date' is 2 December 2011 being the date that the Company and the executives agreed to enter a share-based payment arrangement.

(7) Expected expiry date is January 2015 coinciding with end of the trading window following the 30 September 2014 results announcement, which is expected to be in November 2014.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2012

27 Share-based payments (continued)

a) DuluxGroup Long Term Equity Incentive Plan (LTEIP) (continued)

ii) Fair value of share options granted

The fair value at grant date for the purposes of AASB 2 is independently determined using an adjusted form of the Black-Scholes option pricing model. Standard option pricing inputs include underlying share price, exercise price, expected dividends, expected risk-free interest rates and expected share price volatility. In addition, specific factors in relation to the likely achievement of performance hurdles and employment tenure have been taken into account.

The fair value inputs for share options granted and not yet vested under the DuluxGroup LTEIP are:

	LTEIP 2011	**LTEIP 2010**
Grant date	2 December 2011[(1)]	12 July 2010[(2)]
Fair value estimate at grant date ($)	$0.94	$0.98
Gateway condition[(3)]	Compound annual EPS growth over the three year period from 30 September 2011 must equal or exceed 4%	Compound annual EPS growth over the three year period from 30 September 2010 must equal or exceed 2%
Performance condition[(4)]	TSR ranking	TSR ranking
Expected life of share options (years)	3.1	3.5
Expected dividend yield (%)	NIL	NIL
Expected risk-free interest rate (%)	3.22%	4.70%
Expected share price volatility (%)	25.0%	30.0%
Grant date share price ($)	$2.88	$2.54

(1) While the issue and allocation of LTEIP shares to the executives only occurred on 20 December 2011, in accordance with the requirements of Australian Accounting Standards, the 'grant date' is 2 December 2011 being the date that the Company and the executives agreed to enter a share-based payment arrangement.

(2) 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.

(3) 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.

(4) The relative Total Shareholder Return (TSR) performance hurdle is used to determine the level of loan forgiveness under the DuluxGroup LTEIP (the forgiveness amount). There is no loan forgiveness amount if DuluxGroup's relative TSR is below the 51st percentile against a comparator group. If DuluxGroup's relative TSR is greater than or equal to the 51st percentile, a proportion of the initial loan balance (on a 'sliding scale' from 10% at the 51st percentile up to a maximum of 30% at or above the 75th percentile) is forgiven.

b) DuluxGroup Employee Share Investment Plan (ESIP)

In December 2011, eligible employees of the Group (with the exception of New Zealand employees) were invited to acquire DuluxGroup 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 NZD$390. DuluxGroup 'matched' this participation, providing shares up to the value of $500 (or NZD$390) to participating employees at no cost to the participant.

The number of DuluxGroup shares allocated was based on the market price at the time of allocation under the ESIP. The offer was only open to full time and permanent part time employees who had been continuously employed within the DuluxGroup business for a period of three months prior to the date of the offers and specifically excluded members of the senior management team and directors.

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 owed 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 1,306 employees (2011 NIL employees) participated in the plan.

27 Share-based payments (continued)

b) DuluxGroup Employee Share Investment Plan (ESIP) (continued)

In accordance with AASB 2 the accounting expense to the Group for the matching is recognised in full at the time of the offer. Details of shares issued during the financial year ended 30 September 2012 and the associated share-based payment expense is as follows:

	Number at issue date	**Issue date**	**Issue price**	**Total expense 2012 $**	2011 $
2011 ESIP grant	424,105	20 December 2011	$2.90	**615,928**	-

In addition, at 30 September 2012, there are 439,280 (2011 468,740) and 405,741 unvested shares under the 2010 and 2011 ESIP respectively.

28 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. 'Executives' refers to members of the Group Executive Team identified as KMP.

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

	2012 $	2011 $
Short term employee benefits	**5,338,749**	5,178,272
Other long term benefits	**87,458**	93,966
Post employment benefits	**177,269**	165,597
Share-based payments	**971,367**	663,516
Termination benefits	**-**	-
	6,574,843	6,101,351

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.

28 Related party disclosures (continued)

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 2011 are:

As at 30 September 2012	Balance held at date of appointment or 1 October 2011	Number acquired[(1)]	Net change other[(2)]	Number of fully paid ordinary shares held at 30 September 2012	Number of options for fully paid ordinary shares held at 30 September 2012[(3)]
Non-Executive Directors					
Peter Kirby	130,000	-	-	130,000	-
Gaik Hean Chew	49,000	19,000	-	68,000	-
Garry Hounsell	113,214	5,962	-	119,176	-
Andrew Larke	149,440	2,716	-	152,156	-
Judith Swales	-	20,000	-	20,000	-
Executive Directors					
Patrick Houlihan	124,322	20,000	-	144,322	1,854,398
Stuart Boxer	73,226	20,000	-	93,226	496,899
Other KMP					
Graeme Doyle	41,287	-	-	41,287	464,996
Brad Hordern	14,636	772	-	15,408	221,930
Patrick Jones	13,064	689	-	13,753	286,079
Julia Myers	1,610	85	-	1,695	120,747
Total	**709,799**	**89,224**	**-**	**799,023**	**3,445,049**

(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 allocated under these schemes is not included in the total contributed equity amount reported by the consolidated entity.

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 KMP					
Graeme Doyle	41,287	-	-	41,287	307,453
Brad Hordern	14,110	526[(4)]	-	14,636[(4)]	140,026
Patrick Jones	12,595	469	-	13,064	128,536
Julia Myers	1,570[(5)]	40	-	1,610	58,088
Former KMP					
Andrew Ingleton	22,681	-	-	22,681	-
Total	**529,478**	**203,002**	**-**	**732,480**	**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 allocated under these schemes is not included in the total contributed equity amount reported by the consolidated entity.

(4) The number of shares acquired by Mr Hordern was incorrectly reported in the 30 September 2011 financial statements as 1,017. This has been restated to the correct number as shown. As a result, the number of shares held by Mr Hordern at 30 September 2011 has been restated from 15,127 as previously disclosed to 14,636. This restatement does not impact the value of the shares held by Mr Hordern.

(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 the balance of her share and option holdings at 1 May 2011.

28 Related party disclosures (continued)

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.

2012

At 30 September 2012, consulting and subsidiary board fees of $7,292 remain unpaid to Ms Chew.

There were no other transactions during the financial year nor balances owing to or from KMP as at 30 September 2012.

2011

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

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 36.

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:

	2012 $	2011 $
Sales of goods to joint ventures	**243,631**	283,326
Purchases of goods from joint ventures	**2,822,366**	2,517,240
Distributions received from joint ventures	**250,000**	500,000
Royalty income received from joint ventures	**30,000**	434,216

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:

	2012 $	2011 $
Current receivables from joint ventures	**41,875**	71,912
Current payables to joint ventures	**903,425**	376,565

No provisions for doubtful debts have been raised against amounts receivable from other related parties.

In the normal course of business, the Group occasionally enters into transactions with various entities that have Directors in common with DuluxGroup. Transactions with these entities are made on commercial arm's-length terms and conditions. The relevant Directors do not participate in any decisions regarding these transactions.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2012

29 Auditors' remuneration

	2012 $	2011 $
Total remuneration received, or due and receivable, by the auditors of the Company for:		
Audit services - audit and review of financial reports		
KPMG Australia	**460,000**	470,000
Overseas KPMG firms[1]	**304,461**	108,041
	764,461	578,041
Other services[2]		
Other assurance services - KPMG Australia	**103,300**	82,500
Other assurance services - Overseas KPMG firms	**60,000**	-
	163,300	82,500

(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.

30 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 would 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 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, changes in discount rates, terminal value growth rates applied in perpetuity, expected sales revenue growth rates in the forecast period, and earnings varying from the assumptions and forecast data used. Subsequent changes to the CGU allocation or to the timing and quantum of cash flows may impact the carrying value of the respective assets.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2012

30 Critical accounting estimates and judgements (continued)

d) Defined benefit superannuation fund obligations

The expected costs of providing post-employment 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, superannuation increases, long term price inflation, discount rates and investment returns. While management believes the assumptions used are appropriate, a change in the assumptions used would impact the earnings and equity of the Group.

e) Legal proceedings

The nature of DuluxGroup's consumer products business and its geographic diversity means that the Company receives a range of claims from various parties. 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.

The outcome of currently pending and future litigation cannot be predicted with certainty. Accordingly, an adverse decision in a lawsuit could result in additional costs that are not covered, either wholly or partially, under insurance policies and that could materially affect the financial position, results of operations or cash flows of the Group. Litigation and other judicial proceedings raise difficult legal issues and are subject to many complexities. Upon resolution of a legal matter, the Group may incur charges in excess of the presently established provisions and related insurance coverage. Where it is considered probable that a future obligation will result in a material outflow of resources, then this is accounted for accordingly by the Group.

f) 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.

30 Critical accounting estimates and judgements (continued)

g) Business acquisitions

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control until such time as the Company ceases to control such entity.

The determination as to the existence of control or significant influence over an entity necessarily requires management judgement to assess the Group's ability to govern the financial and operating activities of an investee. In making such an assessment, a range of factors are considered including voting rights in an investee and Board and management representation.

A business acquisition also requires judgement with respect to the determination of the fair value of purchase consideration given and the fair value of identifiable net assets and liabilities acquired. Many of these assets and liabilities either given up or acquired are not normally traded in active markets, and thus management judgement is required in determining their fair values. Management judgement is also required in ascertaining the assets and liabilities which should be recognised, in particular with respect to intangible assets such as brand names, customer relationships, patents and trademarks.

h) Taxation

DuluxGroup is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group's estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts initially recorded, such differences will impact the current and deferred income tax provision in the period in which such determination is made.

In addition, deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable profits are available to utilise those temporary differences and losses, and the tax losses continue to be available having regard to the nature and timing of their origination and compliance with the relevant tax legislation associated with their recoupment.

Assumptions are also made about the application of income tax legislation. These assumptions are subject to risk and uncertainty and there is a possibility that changes in circumstances will alter expectations which may impact the amount of deferred tax assets and deferred tax liabilities recorded on the consolidated balance sheet and the amount of tax losses and timing differences not yet recognised. In these circumstances, the carrying amount of deferred tax assets and liabilities may change, resulting in an impact on the earnings of the Group.

31 Contingent liabilities and contingent assets

DuluxGroup had contingent liabilities at 30 September 2012 in respect of:

a) Orica Separation Deed

The Separation Deed between Orica Limited (Orica) and DuluxGroup Limited deals with certain commercial, transitional and legal issues arising in connection with the legal and economic separation of DuluxGroup from Orica. 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 will have the entire economic benefit, commercial risk and liabilities of all businesses to be conducted by Orica 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 had always owned and operated those businesses. To support this principle, DuluxGroup and Orica 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.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2012

31 Contingent liabilities and contingent assets (continued)

c) Camelpaint warranties

As part of the acquisition of the Camelpaint business (Note 3), DuluxGroup and National Lacquer Paint and Products Co Ltd (NLPP) agreed to provide general warranties to each other in respect of matters that were not disclosed during the due diligence process. In addition, the parties agreed to provide each other with indemnities in relation to environmental, tax and other specific matters in respect of the period prior to the acquisition. The warranties and indemnities are subject to certain limitations as to the period during which claims can be made and maximum claim amounts.

In addition, certain assets of DuluxGroup that were not intended to form part of the transaction but which formed part of the entities that were transferred to DGCI Group (the 'excluded DuluxGroup assets') have been segregated pending their formal transfer back to DuluxGroup. The Group and NLPP have agreed that DuluxGroup will be responsible for all costs and liabilities associated with the operation and maintenance of the excluded DuluxGroup assets as if DuluxGroup was the owner of those excluded assets from the completion of the transaction.

There are also certain assets of NLPP that were not intended to form part of the transaction but which formed part of the entities that were transferred to DGCI Group (the 'excluded NLPP assets'). These excluded NLPP assets have been segregated pending their formal transfer back to NLPP or an NLPP nominee. The Group and NLPP have agreed that NLPP will be responsible for all costs and liabilities associated with the operation and maintenance of the excluded NLPP assets as if NLPP was the owner of those excluded assets from the completion of the transaction.

d) Alesco takeover offer

On 30 April 2012, DuluxGroup, through its wholly owned subsidiary, DuluxGroup (Nominees) Pty Ltd, acquired 19.96% of the shares in Alesco Corporation Limited (Alesco) for $37,600,000. The interest was acquired preceding the Group's subsequent off-market takeover offer for the remaining shares of Alesco announced on 1 May 2012.

DuluxGroup's offer is for $2.05 per Alesco share, which is expected to cost a further $143,000,000 being $1.90 cash per share after deducting the $0.15 per share of dividends already paid to Alesco shareholders who were Alesco shareholders on the dividend record date of 17 August 2012. DuluxGroup has extended the offer until 7 December 2012 (unless further extended).

Under the terms of the offer, DuluxGroup will allow Alesco to exercise its discretion to determine an additional fully franked special dividend of up to $0.27 per share provided that this dividend is paid before 31 December 2012. Alesco's payment of the additional dividend is currently conditional on certain matters, including obtaining a favourable tax ruling from the Australian Tax Office and also DuluxGroup obtaining a 90% interest in Alesco. For the purpose of determining satisfaction of the minimum 90% interest in Alesco, the interest will include the Group's existing 19.96% direct holding in Alesco shares, shares accepted into the takeover offer, shares subject to acceptance instructions under the DuluxGroup Institutional Acceptance Facility (IAF) plus shares held by selected index funds (as agreed with Alesco). In the event that a special dividend of up to $0.27 is determined and paid, a commensurate decrease will be applied to the remaining cash payable per share of $1.90.

As part of DuluxGroup's takeover offer for Alesco, the Group has entered into arrangements with its advisers whereby further fees may become payable dependent on the outcome of the offer. The amount payable is typical for transactions of similar size and complexity and is not material to the results of the Group.

In addition, upon completion of the takeover, DuluxGroup will assume the liabilities of Alesco including any contingent liabilities and interest-bearing liabilities.

e) Australian Competition & Consumer Commission (ACCC) investigation

During the financial year, the ACCC commenced an investigation into particular marketing claims made by DuluxGroup in relation to selected DuluxGroup coatings products. The ACCC has indicated that it is likely to commence proceedings against DuluxGroup in relation to the alleged misleading nature of the claims under investigation. As at the date of this report, no such proceedings have been commenced and the ACCC has not yet informed DuluxGroup of the details of the specific claims that it intends to make. As there is currently insufficient information available to DuluxGroup to reliably assess the nature, extent and amount of remedies that will be sought by the ACCC, no provision has been raised as at 30 September 2012 for this matter.

32 Commitments

a) Capital expenditure commitments

	2012 $'000	2011 $'000
Capital expenditure on property and plant and equipment contracted but not provided for and payable:		
- No later than one year	**899**	2,886
- Later than one, no later than five years	**133**	47
	1,032	2,933

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.

	2012 $'000	2011 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
- No later than one year	**21,266**	16,122
- Later than one, no later than five years	**43,639**	34,774
- Later than five years	**12,703**	9,494
	77,608	60,390

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.

	2012 $'000	2011 $'000
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	**3,558**	3,300

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.

	2012 $'000	2011 $'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	**6,327**	5,238
- Later than one, no later than five years	**7,403**	5,839
	13,730	11,077

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 2012 (2011 $NIL).

33 Reconciliation of profit for the financial year to net cash inflow from operating activities

	2012 $'000	2011 $'000
Profit for the financial year	**86,264**	93,237
Depreciation and amortisation	**23,296**	19,973
Share-based payment expense	**2,093**	1,247
Share of joint ventures' net profit	**(1,500)**	(917)
Impairment of inventories	**324**	6,880
Impairment of trade and other receivables	**712**	1,462
Net loss on sale of property, plant and equipment	**278**	54
Amortisation of prepaid loan establishment fees	**1,124**	897
Impairment of property, plant and equipment	**513**	6,711
Dividend income from listed equity securities	**(2,820)**	-
Changes in working capital and provisions excluding the effects of acquisitions and disposals of businesses and controlled entities		
Decrease/(increase) in trade and other receivables	**8,083**	(30,461)
Decrease/(increase) in inventories	**11,144**	(29,179)
(Increase)/decrease in other assets	**(63)**	829
Decrease in deferred taxes payable	**(1,435)**	(4,707)
(Decrease)/increase in trade payables and provisions	**(9,965)**	17,437
(Decrease)/increase in current tax liabilities	**(1,517)**	1,973
Net cash inflow from operating activities	**116,531**	85,436

34 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 36. 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

	2012 $'000	2011 $'000
Profit before income tax expense	**113,751**	113,045
Income tax expense	**(20,909)**	(19,329)
Profit for the financial year	**92,842**	93,716
Retained earnings		
Balance at 1 October	**68,213**	21,334
Profit for the financial year	**92,842**	93,716
Actuarial losses on defined benefit plan recognised directly in retained earnings (net of tax)	**(612)**	(8,268)
Dividends paid - ordinary shares	**(54,468)**	(38,569)
Balance at 30 September	**105,975**	68,213

34 Deed of cross guarantee (continued)

b) Consolidated statement of comprehensive income

	2012 $'000	2011 $'000
Profit for the financial year	**92,842**	93,716
Other comprehensive income		
Items that may be reclassified subsequently to the income statement		
Effective portion of changes in fair value of cash flow hedges	**(517)**	452
Foreign currency translation gain on foreign operations	**732**	1,545
Income tax on items that may be reclassified subsequently to the income statement	**155**	(136)
Total items that may be reclassified subsequently to the income statement, net of tax	**370**	1,861
Items that will not be reclassified to the income statement		
Actuarial losses on defined benefit plan	**(875)**	(11,811)
Revaluation of other financial assets at fair value through other comprehensive income	**(752)**	-
Income tax on items that will not be reclassified to the income statement	**263**	3,543
Total items that will not be reclassified to the income statement, net of tax	**(1,364)**	(8,268)
Other comprehensive income for the financial year, net of tax	**(994)**	(6,407)
Total comprehensive income for the financial year	**91,848**	87,309

34 Deed of cross guarantee (continued)

c) Consolidated balance sheet

	2012 $'000	2011 $'000
Current assets		
Cash and cash equivalents	**17,435**	22,473
Trade and other receivables	**172,406**	172,521
Inventories	**115,476**	125,117
Derivative financial assets	**56**	918
Other assets	**3,042**	2,042
Total current assets	**308,415**	323,071
Non-current assets		
Trade and other receivables	**-**	4,512
Derivative financial assets	**2**	221
Investment in controlled entities	**55,795**	40,173
Investment in listed equity securities	**36,848**	-
Investment accounted for using the equity method	**3,747**	2,497
Property, plant and equipment	**192,675**	191,002
Intangible assets	**69,855**	70,218
Deferred tax assets	**34,872**	33,365
Other assets	**4,991**	315
Total non-current assets	**398,785**	342,303
Total assets	**707,200**	665,374
Current liabilities		
Trade and other payables	**180,498**	177,267
Interest-bearing liabilities	**15,543**	12,526
Derivative financial liabilities	**39**	6
Current tax liabilities	**4,647**	6,547
Provisions	**16,576**	19,413
Total current liabilities	**217,303**	215,759
Non-current liabilities		
Trade and other payables	**-**	8
Interest-bearing liabilities	**245,237**	245,931
Deferred tax liabilities	**596**	630
Provisions	**21,492**	22,183
Defined benefit liability	**20,869**	22,614
Total non-current liabilities	**288,194**	291,366
Total liabilities	**505,497**	507,125
Net assets	**201,703**	158,249
Equity		
Contributed equity	**192,585**	188,154
Reserves	**(96,857)**	(98,118)
Retained earnings	**105,975**	68,213
Total equity	**201,703**	158,249

35 Parent entity financial information

a) Summary financial information

The individual financial statements for the parent entity, DuluxGroup Limited, show the following aggregate amounts:

	2012 $'000	2011 $'000
Current assets	**77,220**	18,750
Non-current assets	**199,260**	212,189
Total assets	**276,480**	230,939
Current liabilities	**127**	1,365
Non-current liabilities	**37,864**	37,865
Total liabilities	**37,991**	39,230
Net assets	**238,489**	191,709
Equity		
Contributed equity [1,2]	**192,585**	188,154
Reserves	**4,163**	2,135
Retained earnings	**41,741**	1,420
	238,489	191,709
Profit before income tax expense [3]	**93,055**	31,549
Income tax benefit	**1,734**	2,105
Profit for the financial year	**94,789**	33,654
Total comprehensive income of the parent entity	**94,789**	33,654

(1) Includes $19,890,000 (2011 $12,525,000) relating to 7,391,254 (2011 4,872,750) DuluxGroup Limited ordinary shares issued to or purchased on-market by DuluxGroup (Employee Share Plans) Pty Ltd, as trustee for the employee share schemes (LTEIP and ESIP). On consolidation, where the shares were issued to the trust, the ordinary share capital is not recognised. On consolidation where the shares were purchased on market, the purchase is accounted for as a buy-back and the amount is deducted from contributed equity as treasury shares. Refer Note 24(a).

(2) Includes $4,464,000 (2011 $1,258,000) relating to 1,528,643 (2011 464,139) DuluxGroup Limited shares issued as part of the DRP.

(3) Profit before income tax expense includes dividend income of $90,119,000 and $8,754,000 (2011 $38,569,000) declared by DuluxGroup (New Zealand) Pty Ltd and DuluxGroup (Investments) Pty Ltd respectively during the financial year ended 30 September 2012 (2011 DuluxGroup (New Zealand) Pty Ltd).

b) Guarantees

Details of guarantees entered into by the parent entity in relation to external banking facilities as at 30 September 2012 are set out in Note 20(b). In addition, the parent entity is a party to the deed of cross guarantee as disclosed in Note 34.

c) Capital commitments

There were no capital commitments entered into by the parent entity as at 30 September 2012 (2011 $NIL).

d) Contingent liabilities and contingent assets

Refer to Note 31 for information relating to contingent liabilities and contingent assets of the parent entity.

36 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 2012 %	2011 %
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]	Australia	**100**	100
Dulux Holdings Pty Ltd[1]	Australia	**100**	100
DuluxGroup (Employee Share Plans) Pty Ltd[1]	Australia	**100**	100
DuluxGroup Employee Share Plan Trust	Australia	**100**	100
DuluxGroup (Nominees) Pty Ltd[1,2]	Australia	**100**	-
DGL International (Shenzhen) Co Ltd	China	**100**	100
DGL Camel Coatings (Shanghai) Limited (formerly known as DGL International (Shanghai) Co Ltd)[4]	China	**51**	100
DGL Camel Powder Coatings (Dongguan) Limited[3,4]	China	**51**	50
Dongguan Benson Paint Company Limited[3,4]	China	**51**	-
DGL International (Hong Kong) Ltd	Hong Kong	**100**	100
DGL Camel Powder Coatings Limited (formerly known as DGL Camel Coatings Limited)[3,4]	Hong Kong	**51**	50
DGL Camel International Limited (formerly DGL Camel Coatings Limited)[4]	Hong Kong	**51**	100
DGL Camel (Hong Kong) Limited (formerly known as Camelpaint Chemicals Company Limited)[3,4]	Hong Kong	**51**	-
DGL Camel (China) Limited (formerly known as Camelpaint (China) Company Limited)[3,4]	Hong Kong	**51**	-
DGL International (Malaysia) Sdn Bhd	Malaysia	**100**	100
Dulux Holdings (PNG) Ltd	Papua New Guinea	**100**	100
DGL Camel (Singapore) Pte Ltd (formerly known as DGL International (Singapore) Pte Ltd)[4]	Singapore	**51**	100
DuluxGroup (PNG) Pte Ltd	Singapore	**100**	100
DGL International (Singapore) Pte Ltd (formerly known as DGL International (Singapore NewCo) Pte Ltd) [2]	Singapore	**100**	-
DGL International (Vietnam) Limited Company	Vietnam	**100**	100

(1) These controlled entities have each entered into a Deed of Cross Guarantee with DuluxGroup Limited in respect of relief granted from specific accounting and financial reporting requirements in accordance with the ASIC Class Order 98/1418. The deed was dated 27 September 2010 and all of these controlled entities, with the exception of DuluxGroup (Nominees) Pty Ltd, have been members since inception. On 26 September 2012, DuluxGroup (Nominees) Pty Ltd acceded to the deed with effect from the date of its incorporation in 2012.

(2) Incorporated during the financial year ended 30 September 2012.

(3) Acquired during the financial year ended 30 September 2012.

(4) These entities form part of the DGL Camel International Group.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2012

37 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:

	2012 $'000	2011 $'000
Interest-bearing liabilities	**261,523**	263,476
Less:		
Prepaid loan establishment fees	**2,763**	1,824
Trade cards	**8,471**	12,526
Cash and cash equivalents	**28,508**	39,540
Net debt	**221,781**	209,586
Earnings before interest, tax, depreciation and amortisation	**155,513**	159,192
Net Debt to EBITDA (times)	**1.4**	1.3

The interest cover ratio is calculated as follows:

	2012 $'000	2011 $'000
Earnings before interest, tax, depreciation and amortisation	**155,513**	159,192
Net finance costs [(1)]	**20,303**	22,181
Interest cover ratio (times)	**7.7**	7.2

The accounting gearing ratio is calculated as follows:

	2012 $'000	2011 $'000
Net debt [(2)]	**221,781**	209,586
Net debt plus total equity	**404,633**	348,042
Net debt to net debt plus total equity	**55%**	60%

(1) Net finance costs exclude the amortisation of prepaid loan establishment fee of $1,124,000 (2011 $897,000).

(2) Refer calculation of net debt presented above for the Net Debt to EBITDA metric.

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 seek to mitigate these risks and reduce the 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 option contracts.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2012

37 Financial and capital management (continued)

Financial risk factors (continued)

During the financial year ended 30 September 2012, DuluxGroup adopted AASB 9 *Financial Instruments.* As permitted under the transitional provisions of this standard, the comparatives presented below have not been restated and therefore continues to comply with the requirements of AASB 139 *Financial Instruments: Recognition and Measurement.* Refer to Note 1(v) for an explanation regarding this change of accounting policy. The consolidated entity held the following financial instruments as at 30 September:

2012	**Cash and cash equivalents $'000**	**Financial assets at amortised cost $'000**	**Financial liabilities at amortised cost $'000**	**Derivative instruments designated as hedges $'000**	**Financial assets at fair value through other comprehensive income $'000**	**Total carrying amount $'000**
Financial assets						
Cash at bank and on hand	**25,298**	**-**	**-**	**-**	**-**	**25,298**
Cash at bank - restricted	**3,210**	**-**	**-**	**-**	**-**	**3,210**
Trade and other receivables (current)	**-**	**170,741**	**-**	**-**	**-**	**170,741**
Trade and other receivables (non-current)	**-**	**22**	**-**	**-**	**-**	**22**
Derivative financial assets (current)	**-**	**-**	**-**	**56**	**-**	**56**
Derivative financial assets (non-current)	**-**	**-**	**-**	**2**	**-**	**2**
Investment in listed equities (non-current)	**-**	**-**	**-**	**-**	**36,848**	**36,848**
	28,508	**170,763**	**-**	**58**	**36,848**	**236,177**
Financial liabilities						
Trade and other payables (current)	**-**	**-**	**199,684**	**-**	**-**	**199,684**
Trade and other payables (non-current)	**-**	**-**	**43**	**-**	**-**	**43**
Derivative financial liabilites (current)	**-**	**-**	**-**	**39**	**-**	**39**
Interest-bearing liabilities (current)	**-**	**-**	**13,523**	**-**	**-**	**13,523**
Interest-bearing liabilities (non-current)	**-**	**-**	**245,237**	**-**	**-**	**245,237**
	-	**-**	**458,487**	**39**	**-**	**458,526**

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

37 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 rate 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 30 September 2012 (2011 30 September 2011) are:

	Note	2012 $'000	2012 %p.a.	2011 $'000	2011 % p.a.
Cash at bank and on hand	9	25,298	1.3	36,463	2.1
Cash at bank - restricted	9	3,210	2.5	3,077	4.0
Derivative financial assets (current)	12	56	-	918	-
Derivative financial assets (non-current)	12	2	-	221	-
Total financial assets		28,566		40,679	
Bank loan	20	253,052	6.4[(1)]	250,950	8.4[(1)]
Trade cards	20	8,471	9.9	12,526	10.0
Derivative financial liabilities	12	39	-	6	-
Total financial liabilities		261,562		263,482	
Net financial liabilities		232,996		222,803	

(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.

	2012 $'000	2011 $'000
Increase/(decrease) in profit before income tax expense		
If interest rates were 10% higher, with all other variables held constant	(916)	(936)
If interest rates were 10% lower, with all other variables held constant	916	1,004
Increase/(decrease) in profit after income tax expense		
If interest rates were 10% higher, with all other variables held constant	(641)	(655)
If interest rates were 10% lower, with all other variables held constant	641	703
Increase/(decrease) in total equity		
If interest rates were 10% higher, with all other variables held constant	(641)	(634)
If interest rates were 10% lower, with all other variables held constant	641	703

37 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 forward exchange contracts and vanilla option 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 into Australian Dollar (AUD) had the rates been 10% higher or lower than the year end rate of AUD/USD 1.0368 (2011 AUD/USD 0.9774) with all other variables held constant would increase or decrease in profit before income tax expense of $466,000 ($326,000 net of tax) (2011 $217,000 or $152,000 net of tax) and $570,000 ($399,000 net of tax) (2011 $266,000 or $186,000 net of tax) respectively with a corresponding movement in total equity. The Directors cannot nor do not seek to predict movements in exchange rates.

In addition, 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 1.0368 (2011 AUD/USD 0.9774) with all other variables held constant would have been a decrease in total equity of $36,000 (2011 $382,000) and an increase in total equity of $228,000 (2011 $656,000) respectively. Refer Note 12 for further details. The Directors cannot nor do not seek to predict movements in exchange rates.

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. The Board approved policies allow hedging of this exposure in order to reduce the volatility of full year earnings resulting from changes in exchange rates. At 30 September 2012, the Group did not have any derivative contracts to hedge foreign currency earnings translation exposures (2011 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.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2012

37 Financial and capital management (continued)
d) Liquidity risk management

Liquidity risk arises from the possibility that there will be insufficient funds available to make payments 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:

	2012 $'000	2011 $'000
Unsecured bank overdraft facilities[1]		
Unsecured bank overdraft facilities available	**3,865**	3,937
Amount of facilities undrawn	**3,865**	3,937
Committed standby and loan facilities		
Committed standby and loan facilities available[2,3]	**681,303**	404,792
Amount of facilities unused	**428,251**	153,842

(1) The bank overdrafts are payable on demand and are subject to an annual review.

(2) The repayment dates of the committed loan facilities range from 20 May 2013 to 8 November 2016.

(3) Includes the AUD 400,000,000 unsecured syndicated bank loan facility, which is a multi-currency (USD, NZD, AUD) revolving cash facility. Refer Note 20(b) for details of the related guarantee.

Includes the AUD 270,000,000 unsecured syndicated loan facility established on 30 April 2012 to fund the acquisition of Alesco. This facility comprises of two tranches, AUD 50,000,000 maturing on 31 October 2013 and AUD 220,000,000 maturing on 30 April 2015. The facility is only available to fund the acquisition of Alesco. Refer Note 20(b) for details of the related guarantee.

Includes the RMB 50,000,000 (AUD 7,598,000) unsecured bank loan facility established in China and two unsecured bank loan facilities established in Hong Kong for HKD 20,000,000 (AUD 2,470,000) and HKD 10,000,000 (AUD 1,235,000) respectively. DuluxGroup has a 51% share in all three of these facilities.

Notes to the Consolidated Financial Statements (continued)
For the financial year ended 30 September 2012

37 Financial and capital management (continued)
d) Liquidity risk management (continued)

The contractual maturity of DuluxGroup's fixed and floating rate financial liabilities and derivatives, based on the financing arrangements in place at 30 September 2012 (2011 30 September 2011), are shown in the table below. The amounts shown represent the future undiscounted principal and interest cash flows:

2012	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]	**199,727**	**199,684**	**43**	**-**	**199,727**
Trade bills and trade cards	**8,471**	**8,471**	**-**	**-**	**8,471**
Bank loan	**250,289**	**21,938**	**16,430**	**273,104**[3]	**311,472**
Derivative financial liabilities	**39**	**39**	**-**	**-**	**39**
	458,526	**230,132**	**16,473**	**273,104**	**519,709**
2011					
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	19,502	16,781	143,036	179,319
Derivative financial liabilities	6	6	-	-	6
	455,332	225,414	17,075	143,036	385,525

(1) Excludes derivative financial instruments.

(2) On 8 November 2011, DuluxGroup renewed its $400,000,000 unsecured syndicated bank loan facility. The contractual maturity of principal borrowed under the renewed facility falls between two and five years. The impact of this renewal is reflected in the table above.

(3) On 5 October 2012, DuluxGroup exercised its option to extend Tranche A (AUD 100,000,000) of its AUD 400,000,000 unsecured syndicated bank loan facility for a further three years from 8 November 2012 to 8 November 2015. The contractual maturity of principal borrowed under the extended Tranche falls between two and five years. The impact of this renewal is reflected in the table above.

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 2012, DuluxGroup did not have any outstanding commodity contracts in relation to these inputs (2011 $NIL). Accordingly, no analysis of the impact of reasonable possible changes in commodity prices is presented.

38 Events subsequent to balance date

On 5 October 2012, DuluxGroup exercised its option to extend Tranche A (AUD 100,000,000) of its AUD 400,000,000 unsecured multi-currency syndicated bank loan facility for a further three years from 8 November 2012 to 8 November 2015.

At close of business on 13 November 2012, DuluxGroup's direct ownership of Alesco shares remains unchanged from the 19.96% held immediately preceding the off-market takeover offer for Alesco on 1 May 2012 and at 30 September 2012. The support for DuluxGroup's offer as at 12 November 2012 is 78.41% including DuluxGroup's 19.96% direct holding, acceptances under the takeover offer and acceptance instructions under DuluxGroup's Institutional Acceptance Facility. DuluxGroup's offer currently remains subject to certain conditions and is scheduled to close at 7.00pm (Melbourne time) on 7 December 2012 (unless extended). For full details of the terms and conditions of the takeover offer, refer to DuluxGroup's bidder's statement as supplemented by various supplementary bidder's statements available on the ASX.

On 14 November 2012, the Directors declared a final dividend of 8.0 cents per ordinary share, fully franked and payable on 17 December 2012. The financial effect of this dividend is not included in the financial report for the year ended 30 September 2012 and will be recognised in the financial report for the year ending 30 September 2013.

The Directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2012 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.

Directors' Declaration

For the financial year ended 30 September 2012

In the directors' opinion:

(a) the financial statements and notes, and the remuneration report in the Directors' report, set out on pages 41 to 127, 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 2012 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 36 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 34; 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 2012.

This declaration is made in accordance with a resolution of the directors.

Peter M. Kirby
Chairman

Melbourne
14 November 2012

KPMG

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 2012, 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 38 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*.

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 2012 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 2012. 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 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Alison Kitchen
Partner

Melbourne

14 November 2012

SHAREHOLDER STATISTICS

AS AT 26 OCTOBER 2012

DISTRIBUTION OF ORDINARY SHAREHOLDERS AND SHAREHOLDINGS

RANGE	TOTAL HOLDERS	UNITS	% OF ISSUED CAPITAL
1 – 1,000	20,127	10,206,612	2.77
1,001 – 5,000	13,467	28,971,652	7.85
5,001 – 10,000	2,076	14,859,528	4.03
10,001 – 100,000	1,198	26,034,953	7.06
100,001 – 9,999,999,999	79	288,912,157	78.30
Rounding			**-0.01**
Total	**36,947**	**368,984,902**	**100.00**

Included in the above total are 847 shareholders holding less than a marketable parcel of 145 shares.
The holdings of the 20 largest holders of fully paid ordinary shares represent 73.77% of that class of shares.

TWENTY LARGEST ORDINARY FULLY PAID SHAREHOLDERS

NAME	UNITS	% OF UNITS
JP Morgan Nominees Australia Limited	82,860,259	22.46
HSBC Custody Nominees (Australia) Limited	59,549,732	16.14
National Nominees Limited	41,206,856	11.17
Citicorp Nominees Pty Limited	22,573,066	6.12
BNP Paribas Noms Pty Ltd <Master Cust Drp>	12,497,030	3.39
Perpetual Trustee Company Limited	11,516,499	3.12
JP Morgan Nominees Australia Limited <Cash Income A/C>	9,796,742	2.66
RBC Investor Services Australia Nominees Pty Limited <Bkcust A/C>	5,890,016	1.60
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	5,734,253	1.55
RBC Investor Services Australia Nominees Pty Limited <Pi Pooled A/C>	2,646,726	0.72
Australian Foundation Investment Company Limited	2,509,072	0.68
BNP Paribas Noms Pty Ltd <Drp>	2,320,265	0.63
Argo Investments Limited	2,064,698	0.56
RBC Investor Services Australia Nominees Pty Limited <Gsam A/C>	1,997,111	0.54
Mr Patrick Houlihan	1,943,720	0.53
HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	1,883,615	0.51
AMP Life Limited	1,466,830	0.40
Pacific Custodians Pty Limited <Orica Emp LTEIP Holding A/C>	1,406,780	0.38
UBS Wealth Management Australia Nominees Pty Ltd	1,194,784	0.32
Suncorp Custodian Services Pty Limited <Sgaeat>	1,154,555	0.31
Total	**272,212,609**	**73.77**

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
2 October 2012	Commonwealth Bank Of Australia And Subsidiaries	26,323,605	7.13
11 September 2012	Schroder Investment Management Australia Limited	38,680,297	10.48
15 February 2012	BT Investment Management Limited	27,481,035	7.48
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:
PO Box 60
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 2013	DuluxGroup 2013 Half Year End
13 May 2013	Announcement of Half Year Financial Results
30 September 2013	DuluxGroup 2013 Year End
13 November 2013*	Announcement of Full Year Financial Results
20 December 2013*	Annual General Meeting 2013

* Timing of events is subject to change

ANNUAL REPORT 2012

DuluxGroup Limited
1956 Dandenong Road
Clayton, Victoria 3168
Australia