



DuluxGroup Limited

ABN 42 133 404 065

ASX Announcement

14 May 2012

DULUXGROUP DELIVERS SOLID RESULT IN CHALLENGING CONDITIONS

DuluxGroup today reported net profit after tax (NPAT) attributable to the ordinary shareholders of DuluxGroup Limited for the six months ended 31 March 2012, of \$47.9 million, inclusive of a one-off tax consolidation benefit of \$3.2 million and a \$7.7 million (\$5.4 million after tax) uplift relating to insurance income associated with the Rocklea flood.

Excluding these items, adjusted NPAT¹ was \$39.4 million, an increase of 0.3% over the 2011 half year adjusted NPAT¹ of \$39.3 million.

Earnings before interest and tax (EBIT) increased 7.8% to \$72.2 million. Excluding the \$7.7 million insurance uplift, EBIT decreased 3.7% to \$64.5 million. This result includes 100% of the loss from the 51% owned DGL Camel International business in China and Hong Kong. If the 49% non-controlling interest is excluded, EBIT decreased by 1.2%.

Sales revenue increased by 7.6% to \$528.5 million. Of this revenue growth, approximately 2% relates to the 49% non-controlling interest component of DGL Camel International. Prior period sales were impacted by the loss of production at Rocklea following the Queensland flood, which we estimate affected first half 2011 sales by 2-3%.

The Board has declared an interim dividend of 7.5 cents per share fully franked, which represents a 70% payout ratio on adjusted NPAT before the tax consolidation adjustment and flood insurance uplift.

DuluxGroup Managing Director and CEO Patrick Houlihan said the result was in line with expectations in a challenging environment, given generally subdued market conditions, rising input costs and some specific operating cost increases in the Paints Australia business that have arisen as a consequence of the Queensland flood last year.

“We said at the AGM that the first half would be challenging, and that has proven to be the case. To deliver revenue growth and profit broadly in line with the prior year is a pleasing outcome, considering the significant headwinds faced during this first half. It reflects the resilience of our strategy combined with sound financial discipline,” said Mr Houlihan.

“A number of DuluxGroup’s businesses improved their market leadership positions in key product segments. This was underpinned by continued investment in our brands, innovation and customer service.

“As foreshadowed, our businesses have been subject to increased margin pressure. This has been partly mitigated by strong cost control, productivity improvements and price discipline, with the full benefit of these measures likely to take effect in the second half.”

The Paints Australia business increased sales by 9%. Whilst the prior year was adversely impacted by the Queensland flood, with flood-related lost sales in the 2011 first half estimated at 4-5%, revenue growth was generated through market share gains and price discipline in a market that was slightly down, with particular softness in the trade sector.

Paints Australia EBIT grew 15.2%, including a \$7.7m flood insurance uplift amount. EBIT excluding the flood uplift grew 0.2%. This result was achieved despite additional costs, including from the Glen Waverley site (\$1.5m), which has ceased manufacturing for now, higher depreciation (\$0.9m) and higher insurance premiums following the Queensland flood. Input costs also increased, with titanium dioxide being the most significant.

The Paints New Zealand business was impacted by weak economic conditions. Whilst sales revenue declined by 22.1% to \$38 million and EBIT declined 37.2% to \$4.9 million, most of the decline related to internal sales in the prior period associated with flood recovery and protective coatings production for Australia, which has since ceased. Revenue and earnings for the base Paints New Zealand business (i.e. excluding production for Australia) were below the prior period, driven largely by a further 3% decline in decorative market volume, some retail brand-channel realignment and the smaller scale of the business. There are some early signs of market improvement in the second half.

Selleys Yates sales were flat compared with the 2011 first half and the business delivered EBIT of \$12 million, down 7%. Although Selleys performed well in its core hardware categories, the top line sales result was negatively impacted by additional stock sell-ins during the 2011 first half, following category range review wins. Yates' sales were impacted by soft garden care markets in Australia and New Zealand. Margins were impacted by input cost increases and mix.

DuluxGroup's Offshore and Other business segment – comprising Dulux Powder, Refinish and Industrial Coatings, Dulux Papua New Guinea (PNG), the South East Asia business and the 51% owned DGL Camel International business in Hong Kong and mainland China – delivered EBIT of \$2.9 million, down \$0.2 million or 6.5%. On an equity share basis (including only 51% of the EBIT result for DGL Camel International business from 1 December 2011), EBIT for the segment increased by \$1.3 million. This was largely due to a strong performance from the Papua New Guinea business.

“DuluxGroup's strategy remains the same, focused on continuing to build on our domestic market leading positions, leveraging our strengths in adjacent product categories in Australia and New Zealand and establishing niche positions in the emerging markets of Asia,” said Mr Houlihan.

“The merger and integration of the DGL Camel International business in China and Hong Kong is progressing well. Whilst we continue to invest modest amounts, the business is being shaped to ensure we capture the opportunities offered by the increased scale, greater geographic reach, and the combined expertise and customer relationships of the merged businesses.

“DuluxGroup's recently announced bid to acquire Alesco is a logical progression of our strategy to grow our Australian and New Zealand positions in adjacent premium product categories where we can leverage our core strengths. Alesco's market leading businesses and well established brands are natural complements to DuluxGroup's positions as a marketer and manufacturer of premium branded products for residential homes and for the commercial and industrial markets. Following a successful acquisition, DuluxGroup would remain predominantly an Australian paints company, and almost two thirds of the business would remain targeted to the resilient existing homes segment.”

Subject to economic conditions and excluding any costs associated with the bid for Alesco Corporation Limited, we expect 2012 DuluxGroup Adjusted NPAT¹ to be higher than that reported in 2011 (\$77.6 million).

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1. Adjusted NPAT (profit after tax and non-controlling interest, before tax consolidation adjustments and insurance uplift)

DuluxGroup Limited results for the half year ended 31 March 2012

Results ¹ A\$M	Half year ended 31 March		
	2012 Actual	2011 Actual	% Change
Sales revenue	528.5	491.2	7.6%
EBIT ³ before insurance uplift	64.5	67.0	(3.7%)
Total EBIT ²	72.2	67.0	7.8%
Net interest expense	(10.6)	(10.9)	2.8%
Tax expense	(15.3)	(7.3)	(109.6%)
Non-controlling interests	1.6	-	nm
Net profit after tax and non-controlling interests	47.9	48.7	(1.6%)
Adjusted NPAT ⁴	39.4	39.3	0.3%
Operating cash flow ⁵	51.4	47.8	7.7%
Net debt ⁶ (closing)	223.7	190.6	(17.4%)
Diluted earnings per ordinary share (cents)	13.0	13.3	(2.3%)
Interim dividend per share (cents)	7.5	7.5	0.0%

Result Highlights

- **Sales revenue** of \$528.5M increased by \$37.3M (+7.6%) on the prior year's corresponding period (pcp). Of this sales growth, approximately 2% relates to the non-controlling interest component of DGL Camel International in China and Hong Kong. Prior period sales include the impact of the loss of production at Rocklea following the Queensland flood, which we estimate adversely affected 2011 first half sales by 2-3%.
- **EBIT ²** of \$72.2M, inclusive of a \$7.7M insurance uplift following the Queensland flood. Excluding this amount, EBIT decreased 3.7% to \$64.5M. This EBIT result includes 100% of the loss from the 51%-owned DGL Camel International business in China and Hong Kong. If the 49% non-controlling interest share is excluded, EBIT decreased by 1.2%. Note that the estimated impact from the Queensland flood on EBIT in the first half of 2011 was not material, with insurance income and cost savings offsetting lost sales and costs incurred.
- **Net profit after tax (NPAT) and non-controlling interests** was \$47.9M, inclusive of a tax consolidation benefit of \$3.2M and the \$7.7M insurance uplift (\$5.4M after tax). Excluding these items, adjusted NPAT⁴ was \$39.4M, an increase of \$0.1M (0.3%) over the 2011 half year equivalent of \$39.3M.

Outlook

Subject to economic conditions and excluding any costs associated with the bid for Alesco Corporation Limited, we expect 2012 DuluxGroup Adjusted NPAT⁴ to be higher than that reported in 2011 (\$77.6M).

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

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 Appendix 4D which has been subject to independent review.
2. **EBIT** – the equivalent of 'Profit from operations' per Appendix 4D
3. **EBIT before insurance uplift** – for 2012 represents reported 'profit from operations' of \$72.2M, less an uplift of \$7.7M (figure not directly extracted from Appendix 4D) resulting from insurance recoveries being in excess of profit and loss charges for the period. For the first half of 2011, there is no change to the reported profit from operations. Directors believe that the result excluding this uplift provides a better basis for comparison from period to period, as well as being more comparable with future performance.
4. **Adjusted NPAT** (profit after tax and non-controlling interest, before tax consolidation adjustments and insurance uplift) – first half 2012 adjustments consist of a tax consolidation adjustment (\$3.2M) and an insurance uplift (\$5.4M net of tax - figure not directly extracted from Appendix 4D); first half 2011 adjustment consists of a tax consolidation adjustment (\$9.4M). 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.
5. **Operating cash flow** – the equivalent of 'Net cash inflow from operating activities' per Appendix 4D
6. **Net debt** – represents 'interest bearing liabilities' less 'cash and cash equivalents'

Profit and Loss (continued)

Sales revenue of \$528.5M increased by \$37.3M (+7.6%) on the pcp. The sales result was driven by:

- Share gains and price discipline in the Paints Australia business
- A flat performance from Selleys Yates in relatively subdued markets;
- Growth from the Papua New Guinea business;
- Additional sales due to the consolidation of 100% of our 51%-owned DGL Camel International business in China and Hong Kong from November 2011 (the 49% non-controlling interest contributed approximately 2% to the sales growth); and
- The adverse impact on sales revenue in the prior period from the loss of production at Rocklea following the Queensland flood (estimated at 2-3% of 2011 first half DuluxGroup sales);

Partly offset by:

- Continued poor market conditions in New Zealand in general and for Powder and Industrial Coatings.

EBIT (before the flood insurance uplift) of \$64.5M decreased by \$2.5M (-3.7%) on the pcp's EBIT, due to:

- Increased operating costs in the Paints Australia business, largely attributable to the addition of the Glen Waverley site (where manufacturing has since ceased for now) and higher insurance premiums at the Rocklea site following the Queensland flood;
- Margin pressure in key segments due to increased input costs, with mitigating price rises now largely in place;
- Higher marketing spend compared to the same period last year;
- Higher depreciation expense due to the recent capital program and inclusion of 100% of depreciation from the 51%-owned DGL Camel International; and
- The inclusion of 100% of the loss from the 51%-owned DGL Camel International business in China and Hong Kong. If the 49% non-controlling interest share of the result for this business is excluded, EBIT (before flood insurance uplift) decreased by 1.2%.

Partly offset by:

- Focused cost control and continued productivity initiatives.

The '**insurance uplift**' amount refers to the difference between insurance income of \$15M and the flood-related profit and loss expenses of \$7.3M. Some further detail is included as an appendix to the investor presentation.

Please note that the prior period result for **Paints New Zealand** includes production for Australia (flood recovery and protective coatings), which has now ceased, and that this business is now smaller, as outlined in the 2011 full-year investor presentation.

Profit and Loss (continued)

Segment revenue and EBIT are shown below:

Segment Results A\$M	Half year ended 31 March		
	2012 Actual	2011 Actual	% Change
Sales revenue			
Paints Australia	310.2	284.6	9.0%
Paints New Zealand	38.0	48.8	(22.1%)
Selleys Yates	122.1	122.0	0.1%
Offshore and Other	68.3	53.7	27.2%
Eliminations	(10.1)	(17.9)	43.6%
Total sales revenue	528.5	491.2	7.6%
Other income	16.6	26.6	(37.6%)
EBIT before insurance uplift			
Paints Australia	51.5	51.4	0.2%
Paints New Zealand	4.9	7.8	(37.2%)
Selleys Yates	12.0	12.9	(7.0%)
Offshore and Other	2.9	3.1	(6.5%)
Corporate costs	(6.8)	(8.2)	17.1%
Total EBIT before insurance uplift	64.5	67.0	(3.7%)
Insurance uplift (added to Paints Australia)	7.7	-	nm
Total reported EBIT	72.2	67.0	7.8%

Segment results are discussed in more detail later in this profit report.

Other items

Corporate costs of \$6.8M were \$1.4M lower than 2011 first half costs (\$8.2M). This result included a one-off \$1.1M foreign exchange gain relating to the funding arrangements for our Papua New Guinea business and transaction costs for the China merger (\$0.4M).

Net interest expense of \$10.6M reflects an average cost of debt of approximately 7.4%. Interest expense was \$0.3M lower than the 2011 first half net interest expense, despite higher average debt levels, due to a more favourable borrowing rate following renegotiation of the Group debt facilities late in 2011.

Income tax expense of \$15.3M includes a tax consolidation benefit of \$3.2M which relates to the tax effect of recognising a deferred tax asset (associated with the revaluation of certain non-current assets for tax purposes) on the formation of the Australian tax consolidated group upon demerger. We expect that this is the last of these adjustments given our first Australian tax return will be lodged shortly. In the prior period a \$9.4M benefit was recognised. Excluding these amounts, the effective tax rate was 30.0% (2011 first half was 29.8%).

Non-controlling interest loss of \$1.6M relates to the minority shareholder's 49% share of the result for DGL Camel International.

Interim dividend of 7.5 cents per share fully franked, which represents a 70% payout ratio based on adjusted NPAT (*net profit after tax and non-controlling interests, before tax consolidation adjustments and insurance uplift*).

Balance Sheet

Balance Sheet	March	Sept	March
A\$M	2012	2011	2011
	Actual	Actual	Actual
Inventories	137.1	135.7	121.2
Trade debtors	149.4	155.9	126.3
Trade creditors	(143.8)	(159.5)	(141.3)
Total trade working capital ¹	142.7	132.1	106.2
Non trade debtors ⁴	9.1	16.8	20.8
Tax balances (DTA, ITP and DTL)	22.9	24.2	23.0
Property, plant & equipment	198.4	196.4	159.9
Intangible assets	97.4	87.0	86.3
Non trade creditors ⁵	(24.9)	(34.2)	(35.2)
Defined benefit fund liability	(20.1)	(22.6)	(10.4)
Provisions (excluding tax)	(39.8)	(42.5)	(40.3)
Net debt	(223.7)	(222.1)	(190.6)
Net other assets	3.6	3.4	3.5
Net Assets	165.6	138.5	123.2
Total equity attributable to ordinary shareholders of DuluxGroup Limited	151.3	138.5	123.2
Non-controlling interest in controlled entities	14.3	-	-
Total Shareholder's Equity	165.6	138.5	123.2

Balance sheet movements are compared to either March 2011 (for items where there is a seasonal impact, for example working capital) or September 2011 (where seasonal impacts are minimal).

- **Trade working capital** ¹ (TWC) increased by \$36.5M from March 2011, due to the following:
 - Inventory increased, largely due to the March 2011 level being abnormally low following the Queensland flood. Other adverse impacts include raw material price increases across most businesses and stock build in Papua New Guinea to mitigate supply chain bottle necks at the country's ports;
 - Trade debtors increased largely due to the earlier timing of Easter in 2012 compared to 2011 and lower sales in the prior period following the Queensland flood;
 - Whilst creditors were flat, the prior period balance included payables to toll manufacturers who were assisting with flood recovery; and
 - Inclusion of 100% of the 51%-owned DGL Camel International's trade working capital resulted in an increase in trade working capital of \$7.3M.
- **Rolling TWC to rolling sales** ^{2,3} (on a 12 month basis) at 12.8%, is higher than our "low 12%" target level, and reflects the increase in inventory levels post the Queensland flood, and the DGL Camel International and Papua New Guinea impacts described above.
- **Non trade debtors** ⁴ decreased by \$11.7M from March 2011, largely due to the receipt of the \$11.5M insurance receivable relating to the Queensland flood.
- **Property, plant and equipment** increased by \$2.0M from September 2011. Capital expenditure on replacement assets at Rocklea as a result of the flood, assets acquired as a result of inclusion of 100% of the 51%-owned DGL Camel International's assets and other capital expenditure, has been mostly offset by depreciation expense for the half.

1. Trade working capital – 'trade receivables' plus 'inventory', less 'trade payables'

2. Rolling trade working capital – the 12 month rolling average of month-end trade working capital balances

3. Rolling trade working capital to rolling sales – calculated as the rolling trade working capital (above) divided by the most recent 12 months' sales revenue. This figure is not directly extracted from Appendix 4D.

4. Non-trade debtors – represents the 'other receivables' portion of 'trade and other receivables', and 'other assets' per Appendix 4D

Balance Sheet (continued)

- **Intangible assets** have increased by \$10.4M from September 2011, mainly due to the preliminary purchase accounting adjustments on formation of DGL Camel International, resulting in an increase to goodwill, offset by amortisation expense and foreign exchange adjustments.
- **Non trade creditors**⁵ were down by \$10.3M from March 2011, mainly due to a decrease in capital expenditure creditors (high last year due to flood recovery), interest accruals (movement to monthly payment rather than quarterly to access better rates) and various other movements.
- **Defined benefit fund liability** has decreased by \$2.5M from September 2011 due to actuarial adjustments to the fund liability at March 2012.
- **Provisions** have reduced by \$2.7M from September 2011, mainly due to spend against demerger and environmental provisions.
- **Net debt** has increased by \$1.6M from September 2011 (refer cash flow for explanation).
- **Non-controlling interest in controlled entities** of \$14.3M reflects the non-controlled portion (ie. minority shareholder's 49% share) of DGL Camel International in China and Hong Kong.

5. Non-trade Creditors – represents the 'other payables' portion of 'trade and other payables' per Appendix 4D

Cash Flow

Statement of Cash Flows A\$M	Half year ended 31 March		
	2012 Actual	2011 Actual	% Change
Net operating cash flows			
EBIT	72.2	67.0	7.8%
Add: Depreciation	10.2	8.8	16.1%
Add: Amortisation	0.9	0.9	(4.2%)
EBITDA	83.3	76.6	8.7%
Trade working capital movement	(3.3)	7.7	(143.1%)
Non trade working capital movement	(5.4)	(21.1)	74.4%
Other non cash	(0.7)	6.8	(109.8%)
Operating cash flows (excl. tax and interest)	73.9	70.1	5.5%
Income taxes paid	(14.2)	(12.4)	(14.6%)
Net interest paid	(8.2)	(9.9)	16.6%
Operating cash flows	51.4	47.8	7.7%
Net investing cash flows			
Capital expenditure ¹	(13.4)	(19.0)	29.7%
Acquisitions/disposals ²	(2.0)	(4.5)	54.9%
Investing cash flows	(15.4)	(23.5)	34.5%
Net financing cash flows			
Share capital movements	(7.4)	1.5	(597.8%)
Dividends paid	(27.5)	(11.0)	(149.7%)
Financing cash flows before debt movement	(34.9)	(9.5)	(266.0%)
Total cash flow before debt movement	1.2	14.7	(92.1%)
Cash conversion ³	80%	85%	

- Current period trade and non-trade working capital movements reflect the discussion in the balance sheet section of this report.
- Total capital expenditure ¹ of \$13.4M consists of:
 - Minor capital expenditure (\$5.9M);
 - Major capital expenditure (\$2.7M), relating to the finalisation of the New Zealand upgrade and new protective coatings factory; and
 - Replacement of flood-damaged assets at Rocklea (\$4.8M).
- Acquisition/disposals ² of \$2.0M relates to the formation of DGL Camel International (cash purchase consideration less cash acquired).
- Share capital movements represents on-market share purchases for the Dividend Reinvestment Plan, Long Term Equity Incentive Plan and Employee Share Investment Plan.

1. Capital Expenditure – represents 'payments for property, plant and equipment' and 'payments for intangible assets'

2. Acquisitions/ disposals – represents 'payments for purchase of businesses and controlled entities' and 'proceeds from sale of property, plant and equipment'

3. Cash conversion is calculated as EBITDA excluding insurance uplift, 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.

Segment Commentary – Paints Australia

Paints Australia EBIT \$59.2M, including \$7.7m flood insurance uplift;
EBIT before flood insurance uplift up 0.2% to \$51.5M.

Solid result, with continued share gains in subdued market conditions, and despite additional flood-driven operating costs.

Paints Australia A\$M	Half year ended 31 March		
	2012 Actual	2011 Actual	% Change
Sales revenue	310.2	284.6	9.0%
EBIT	59.2	51.4	15.2%
EBIT before flood insurance uplift ¹	51.5	51.4	0.2%
Normalised EBIT % Sales *	16.6%	~ 17.0%	

* Normalised EBIT % Sales has been calculated by taking the EBIT before insurance uplift, divided by Actual Sales revenue plus the estimated lost sales due to the 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 \$25.6M (+9.0%)

- The Australian paint market has been slightly down compared to the same period last year, with particular weakness in the trade sector. The retail market grew, supported by store openings, and due to the prior period being impacted by the flood, but was adversely impacted by soft general economic conditions.
- Share gains were achieved versus first half 2011 across the business.
- Pricing discipline was maintained.
- Sales in the prior period were adversely impacted by the loss of production at Rocklea following the Queensland flood. The lost sales were estimated at 4-5% of segment sales (2-3% of DuluxGroup sales). The first half 2012 sales growth rate is amplified by this prior period impact.

EBIT growth of \$0.1M (+0.2%) before flood insurance uplift

- Additional operating costs incurred as a consequence of the flood, including the cost of running the Glen Waverley site (purchased in the second half of 2011) of approximately \$1.5M for the half and higher insurance premiums. The Glen Waverley site has since ceased manufacturing for now.
- Marketing investment increased over the same period last year as spend was deferred to the second half of 2011 due to the Queensland flood.
- Depreciation increased by \$0.9M, due to the newly replaced assets at Rocklea and the completion of the new protective coatings factory in Melbourne.
- Pressure on input costs, with titanium dioxide increases the most significant. After taking account of all input costs and foreign exchange effects, input costs increased at a rate greater than inflation.
- Price discipline and a focus on cost control assisted in maintaining EBIT performance.

Paints Australia – Outlook

- Despite expected market softness, the business is well-placed and supported by strong market positions, pricing discipline and effective operating cost management.

1. EBIT before insurance uplift – for 2012 represents reported 'profit from operations' of \$59.2M, less an uplift of \$7.7M (figure not directly extracted from Appendix 4D) resulting from insurance recoveries being in excess of profit and loss charges for the period.

Segment Commentary – Paints New Zealand

Paints New Zealand EBIT down 37.2% to \$4.9M

This business is now smaller, given the prior period contained the positive impact of manufacturing for Australia. Weak market conditions continue to prevail.

Paints New Zealand A\$M	Half year ended 31 March		
	2012 Actual	2011 Actual	% Change
Sales revenue	38.0	48.8	(22.1%)
EBIT	4.9	7.8	(37.2%)
<i>EBIT % Sales</i>	12.9%	16.0%	

Sales revenue down \$10.8M (-22.1%)

- The sales revenue comparison is adversely impacted by inclusion in last year of revenue associated with production support for Paints Australia following the Queensland flood and protective coatings manufacture for Australia prior to its transfer to the new factory in Australia. The majority of the revenue decline reflects this impact.
- The New Zealand decorative paint market remained weak, with further decline compared to last year. Most of the market decline has been experienced in the retail segment where discretionary spend remains subdued. While Christchurch reconstruction activities have resulted in growth in the Canterbury region, the rest of the country is experiencing market weakness.
- Revenue (excluding production for Australia) declined. This largely reflected the soft market and the impact of brand re-alignment in the retail channel.

EBIT decline of \$2.9M (-37.2%)

- For the base continuing business (excluding production for Australia and protective coatings exports), EBITDA¹ remained broadly in line with last year.
- Input costs increased, with titanium dioxide the key driver, though pricing discipline and positive brand mix outcomes mitigated the impact.
- Fixed costs were well-contained. EBIT margin was adversely impacted by increased depreciation of the upgraded Gracefield factory (\$0.4M).

Paints New Zealand – Outlook

- Housing market indicators are improving and as a result we expect to see some recovery in this market (with Christchurch reconstruction activities a key driver).
- The business is well positioned for a recovery in the New Zealand market, with a strong market position and with margins and operating costs well controlled.
- Due to the seasonality in this business, second half revenue and margins are typically lower than for the first half.

1. EBITDA – profit from operations plus depreciation and amortisation

Segment Commentary – Selleys Yates

Selleys Yates EBIT down 7.0% to \$12.0M

Subdued market conditions and the impact of strategically important share gains affect the result.

Selleys Yates A\$M	Half year ended 31 March		
	2012 Actual	2011 Actual	% Change
Sales revenue	122.1	122.0	0.1%
EBIT	12.0	12.9	(7.0%)
<i>EBIT % Sales</i>	<i>9.8%</i>	<i>10.6%</i>	

Sales revenue up \$0.1M (+0.1%)

- Revenue growth for Selleys was subdued, given market conditions, which are estimated to have been flat in Australia and declined in New Zealand. Selleys performed well in its core hardware categories, however the headline sales result was adversely impacted by the additional 'pipe fill' sales in the prior period following positive retail range review outcomes.
- Yates markets were also soft in both Australia and New Zealand and overall Yates had minor share improvement with gains in some segments offset by losses in others.

EBIT decline of \$0.9M (7.0%)

- EBIT was adversely impacted by raw material cost movements, particularly in Selleys, which have not yet been fully recovered, and by both seasonal and share related mix changes for the half within Yates.
- Fixed costs have been closely managed, resulting in a reduction in the cost base compared to the prior year while investment in new product development and marketing spend increased.

Selleys Yates – Outlook

- Retail market conditions are likely to remain subdued.
- Selleys will aim to consolidate its increased share position and focus on profitable growth.
- Yates is expected to achieve revenue growth following strategically important range review outcomes, albeit at lower margin due to mix.

Segment Commentary – Offshore and Other

Offshore and Other EBIT down 6.5% to \$2.9M

Underlying EBIT growth driven by strong PNG performance

Offshore and Other A\$M	Half year ended 31 March		
	2012 Actual	2011 Actual	% Change
Sales revenue	68.3	53.7	27.2%
EBIT	2.9	3.1	(6.5%)
<i>EBIT % Sales</i>	4.2%	5.8%	
Equity share of EBIT ¹	4.4	3.1	43.2%

The Offshore and Other segment consists of the Dulux Powder, Refinish and Industrial Coatings Australia and New Zealand business (Powder Coatings), the Papua New Guinea business, the DGL International South East Asian business and the 51% owned DGL Camel International business in China and Hong Kong.

Sales revenue up \$14.6M (+27.2%)

- Sales revenue for this segment now includes 100% of the revenue for the 51%-owned DGL Camel International business from December 2011. The 49% minority share of revenue ² for the half was approximately \$10M.
- The mature Hong Kong market has been soft while growth in the emerging China market has slowed slightly, particularly in Shanghai.
- Papua New Guinea revenue continued to grow, largely due to positive market conditions.
- Powder Coatings declined due to its exposure to the softer new housing and industrial end markets.

EBIT decline of \$0.2M (-6.5%)

- As with sales, EBIT for this segment includes 100% of the result for DGL Camel International in China and Hong Kong.
- On an equity share basis (i.e. including only our 51% of the EBIT result for DGL Camel International) EBIT for the segment increased by \$1.3M.
- PNG earnings grew, driven largely by sales growth.
- On an equity share of EBIT basis, the result for China was in line with prior year, despite the inclusion of integration costs following the merger.
- Powder Coatings declined, largely due to revenue declines and significant rises in input costs. Fixed costs have been effectively managed and are well within expectations.

Offshore and Other - Outlook

- In China and Hong Kong, we will focus on realising the synergy benefits of the DGL Camel International merger.
- Favourable market conditions are expected to continue in Papua New Guinea.
- Pressure is expected to continue within the markets served by Powder Coatings.

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. This figure is not directly extracted from Appendix 4D.

2. This figure is not directly extracted from Appendix 4D.

Other Items

Alesco Offer

On 30 April 2012, DuluxGroup acquired a 19.96% interest in Alesco Corporation Limited (Alesco) for a cash consideration of \$37.6M. Subsequently, on 1 May 2012, DuluxGroup announced its intention to make an all-cash offer to acquire all of the ordinary shares that it does not already own in Alesco at a price of \$2.00 per share, which is expected to cost approximately \$153M. Duluxgroup has negotiated a new loan facility with a limit of \$270M which together with unused capacity within existing facilities, will be used to fund the proposed acquisition and subsequent refinancing of Alesco's existing debt facilities.

The offer is conditional upon, among other things, DuluxGroup acquiring a relevant interest in 90% of Alesco shares and confirmation from Alesco of earnings and liabilities.

DGL Camel International Merger

On 30 November 2011, DuluxGroup Limited merged its DGL International entities in China and Hong Kong with the China and Hong Kong operations of National Lacquer Paint and Products Co Ltd to create 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 51% of the issued capital in DGL Camel International Limited, comprising DGL Camel International (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),
- DGL Camel Coatings (Dongguan) Company Limited (formerly Dongguan Benson Paint Company Limited).

As a result of the merger, DuluxGroup has obtained control of its joint venture with DGL Camel (Powders) 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 valuation 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 31 March 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.

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