DULUXGROUP LIMITED

Appendix 4D
Half Year Report
For the half year ended 31 March 2018

ABN: 42 133 404 065

ASX Code: DLX

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Disclaimer: Statements contained in the Review of Operations contained on pages 6 to 22, particularly those regarding possible or assumed future performance, estimated Company earnings, potential growth of the Company, industry growth or other trend projections are or may be forward looking statements. Such statements relate to future events and expectations and therefore involve unknown risks and uncertainties. Actual results may differ materially from those expressed or implied by these forward looking statements.

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Results for Announcement to the Market

DuluxGroup Limited and its subsidiaries results for announcement to the market are set out in the table below.

	31 March 2018 $'000	31 March 2017 $'000	Change $'000	Change %
Consolidated revenue from operations	918,114	881,177	36,937	4.2%
Profit for the period attributable to ordinary shareholders of DuluxGroup Limited	79,240	72,706	6,534	9.0%

Dividends

	Amount per security cents	Franked amount per security at 30% tax cents
Interim dividend on ordinary shares for the current period (record date 29 May 2018; payment date 12 June 2018)	14.0	14.0
Interim dividend on ordinary shares for the previous corresponding period	13.0	13.0

The Company's Dividend Reinvestment Plan (DRP) will operate with respect to the interim dividend. The last date for receipt of election notices for participation in the interim dividend under the DRP is 30 May 2018.

Explanation of Results

Please refer to 'Review of Operations' contained on pages 6 to 22 for an explanation of the results.

Other Information

	31 March 2018 cents	30 September 2017 cents
Net tangible assets backing per ordinary security	52.2	45.9

Contents

Directors' Report

The Directors of DuluxGroup Limited (the 'Company') present the financial report for the Company and its subsidiaries (collectively 'the Group' or 'DuluxGroup') in the form of Appendix 4D of the Australian Securities Exchange (ASX) Listing Rules for the half year ended 31 March 2018 and the auditor's review report thereon.

Directors

The directors of the Company during the half year and up to the date of this report are:

Peter Kirby, Chairman
Patrick Houlihan, Managing Director and Chief Executive Officer
Stuart Boxer, Executive Director and Chief Financial Officer
Andrew Larke
Judith Swales
Graeme Liebelt
Garry Hounsell (resigned 31 December 2017)
Jane Harvey (appointed 1 February 2018)
Joanne Crewes (appointed 1 February 2018)

Directors were in office for the entire period, unless otherwise noted.

Review and results of operations

A review of the operations of the Group for the half year ended 31 March 2018, the results of those operations and the financial position of the Group is contained on pages 6 to 22.

Lead auditor's independence declaration

A copy of the lead auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 38.

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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

Signed on behalf of the Board in accordance with a resolution of the directors of the Company.

Peter M. Kirby
Chairman
17 May 2018

Review of Operations

Result summary

- **Sales revenue** of $918.1M, an increase of $36.9M or 4.2%
  - All segments achieved revenue growth, led by a strong performance from Dulux ANZ (+5.7%)
- **Business EBIT** of $126.8M, an increase of $6.4M or 5.3%
  - Dulux ANZ delivered a $4.6M (+5.2%) EBIT increase, continuing its track record of consistent earnings growth
  - The other ANZ segments (Selleys & Parchem ANZ, B&D Group and Lincoln Sentry) delivered a combined $1.7M (+6.5%) EBIT increase
- **EBIT** of $114.0M, increased 7.5% or $8.0M
  - Corporate was favourable by $1.7M, or 11.7%, due to the Glen Waverley site profit on sale
- **Net profit after tax (NPAT)** of $79.2M, an increase of 9.0%
- **Operating cash flow** was $36.9M, a decrease of 25.8%, due to higher tax payments and impacts associated with the sale of China and Glen Waverley
- **Cash conversion** was 56%, reflecting typical first-half seasonality and the China and Glen Waverley impacts
- The **Dulux Merrifield** paint factory is fully commissioned, is operating well at near to full production levels and remains within budget
- **Net debt to EBITDA** improved slightly, to 1.4x
- **An interim dividend** of 14.0 cents per share, fully franked, an increase of 7.7% on the prior corresponding period (pcp)

Results	**Half year ended 31 March**		
A$M	**2018**	**2017**	**% Change**
Sales revenue	918.1	881.2	4.2%
EBITDA	130.7	121.3	7.7%
Depreciation and Amortisation	(16.7)	(15.4)	(8.4%)
EBIT	**114.0**	**106.0**	**7.5%**
Net profit after tax (NPAT)	**79.2**	**72.7**	**9.0%**
NPAT excluding write back of tax provision	*76.5*	*69.6*	*9.9%*
Operating cash flow	36.9	49.7	(25.8%)
Cash Conversion	56%	64%	*(8.0) pts*
Net debt inclusive of USPP hedge value	368.5	353.3	(4.3%)
Net debt to EBITDA	1.4	1.5	6.7%
Diluted earnings per ordinary share (EPS) (cents)	20.4	18.7	9.1%
Interim dividend per share (cents)	14.0	13.0	7.7%

Note: Numbers in the report are subject to rounding. 'nm' = not meaningful. '~' = approximately

Review of Operations (continued)

Result by segment

Key components of the result include:

- Consistent EBIT growth from Dulux ANZ driven by revenue growth and good cost control in a rising input price environment;
- Revenue and EBIT growth from Selleys & Parchem ANZ in generally positive markets;
- Good EBIT growth from B&D Group, driven by revenue growth and margin improvement;
- Continued revenue and EBIT growth from Lincoln Sentry;
- Flat EBIT in Other businesses, with profit on sale of the DGL China coatings businesses offsetting planned investment in the UK and Indonesia; and
- A favourable result for Corporate, impacted by profit on sale of Glen Waverley (refer page 8). Excluding this, Corporate was in line with expectations.

Sales and EBIT by segment	**Half year ended 31 March**		
A$M	**2018**	**2017**	**% Change**
Sales revenue			
Dulux ANZ	500.7	473.7	5.7%
Selleys & Parchem ANZ	130.2	125.8	3.5%
B&D Group	88.4	86.4	2.3%
Lincoln Sentry	97.7	93.6	4.4%
Other businesses	108.9	108.4	0.5%
Eliminations	(7.9)	(6.7)	nm
Total sales revenue	**918.1**	**881.2**	**4.2%**
EBIT			
Dulux ANZ	93.1	88.5	5.2%
Selleys & Parchem ANZ	14.4	13.7	5.1%
B&D Group	6.8	6.2	9.7%
Lincoln Sentry	6.5	6.1	6.6%
Other businesses	6.0	5.9	1.7%
Business EBIT	**126.8**	**120.4**	**5.3%**
Corporate	(12.8)	(14.5)	11.7%
Total EBIT	**114.0**	**106.0**	**7.5%**

Further discussion on the results of the segments follows from page 12.

Review of Operations (continued)

Other items

Other Items Results A$M	Half year ended 31 March 2018	2017	% Change
Business EBIT	**126.8**	**120.4**	**5.3%**
Corporate	(12.8)	(14.5)	11.7%
EBIT	**114.0**	**106.0**	**7.5%**
Net finance costs	(7.6)	(8.7)	12.6%
Tax expense	(27.4)	(26.3)	(4.2%)
Non-controlling interests	0.2	1.7	nm
NPAT	**79.2**	**72.7**	**9.0%**
NPAT excluding write back of tax provision	*76.5*	*69.6*	*9.9%*
Effective tax rate	*25.7%*	*27.0%*	
Effective tax rate excluding write back of tax provision	28.4%	*29.8%*	

Corporate

- The Corporate result for the half includes the profit from the sale of the Glen Waverley site ($6.1M), partially offset by $2.0M of Merrifield factory start-up costs and $1.2M of other one-off expenses. Excluding these impacts, the underlying Corporate result was in line with expectations.
- During the second half, further investment in Merrifield start-up costs and other one-off expenses will result in the Glen Waverley profit being fully offset by one-off expenses across the year.
- Corporate for the full year is expected to be ~$30M inclusive of the above impacts, consistent with previous guidance.

  Refer table below.

Profit on sale of Glen Waverley site and one-off costs

A$M	H1 actual	FY18 forecast
Profit on sale of Glen Waverley site	6.1	6.1
Merrifield paint factory start-up costs	(2.0)	~(3)
Other growth projects	(1.2)	~(3)
Net result	**2.9**	**-**

Review of Operations (continued)

Net finance costs

- Total finance costs were $1.1M lower than the pcp due partly to lower prevailing base interest rates and lower discounting of provisions – refer table below for details.

Net finance costs	**Half year ended 31 March**		
A$M	**2018**	**2017**	**% Change**
Net finance costs	**7.6**	**8.7**	**12.6%**
Discounting of provisions	(1.1)	(2.0)	45.0%
Capitalised interest on Merrifield	1.4	1.1	(27.3%)
Interest component of tax write-back	-	0.6	*nm*
Underlying finance costs	**7.9**	**8.4**	**6.0%**
All-in net cost of debt[1]	*3.7%*	*4.4%*	

Income tax expense

- Includes a $2.8M favourable tax provision write-back, which is no longer required as the matter under investigation has been closed (pcp included a $2.5M tax write-back plus an associated $0.6M positive impact on interest).
- Excluding the tax provision write-back, the effective tax rate was 28.4% for the period, driven by the utilisation of carried forward capital losses partially offsetting Glen Waverley profit.
- The effective rate in the second half is expected to revert to ~30%.

Non-controlling interests

- Lower non-controlling interest add back due to the impact of the China coatings sale.

1. All-in net cost of debt – calculated as Net finance costs excluding the $1.1M unwinding of the discount on provisions and defined benefit fund interest and including $1.4M of capitalised interest associated with the Dulux Merrifield paint factory

Review of Operations (continued)

Cash Flow

Operating cash flow was $36.9M, $12.8M (25.8%) lower than the pcp. The key drivers of the decrease were:

- An increase in income taxes paid of $7.5M (due to growth in taxable income);
- A $5.9M decline in operating cash flow compared to the pcp in China, driven by impacts of the China coatings sale structure and restructuring costs. Sale proceeds of $20.0M (recognised within investing cash flows) more than offset this decline;
- A $3.2M outflow due to one-off costs, including Merrifield start-up costs and other one-off projects. Sale proceeds for Glen Waverley of A$1.8M (the deposit, recognised within investing cash flows) were received during the half, with the remainder ($11.0M) to be received in the second half; and
- Trade working capital movement was broadly in line with prior year

Cash conversion was 56%, 8% points unfavourable to the pcp, driven by the above impacts related to the sale of the China coatings business and the sale of the Glen Waverley site (~7% point impact). Other components were within expectations.

Given our seasonally stronger second half cash flow, we expect full-year cash conversion to be consistent with our 80%+ guidance, prior to the impact of China and the Glen Waverley sale (~7-8% points impact for the full year) and non-recurring cash items (payment of the Rocklea redundancy provision).

Statement of Cash Flows	**Half year ended 31 March**		
A$M	**2018**	**2017**	**% Change**
Operating cash flows			
EBITDA	130.7	121.3	7.7%
Trade working capital movement	(32.8)	(32.3)	(1.5%)
Other	(18.0)	(3.3)	(445%)
Income taxes paid	(36.7)	(29.2)	(25.7%)
Net interest paid	(6.3)	(6.9)	8.7%
Operating cash flow	**36.9**	**49.7**	(25.8%)
Net investing cash flows			
Minor capital expenditure	(6.9)	(7.5)	8.0%
Major capital expenditure (paint factory)	(24.4)	(41.6)	41.3%
Acquisitions	(0.0)	(0.5)	*nm*
Disposals	22.0	0.1	*nm*
Dividends received	-	-	*nm*
Investing cash flow	**(9.4)**	**(49.5)**	81.0%
Dividends paid and equity movements	**(60.9)**	**(52.1)**	(16.9%)
Total cash flow before debt movement	**(33.4)**	**(51.9)**	35.6%
Cash conversion	**56%**	**64%**	

Refer to glossary on page 22 for definition of terms

Review of Operations (continued)

Balance Sheet

Balance sheet movements are compared to March 2017 for point in time Trade Working Capital (TWC), given seasonality, and September 2017 for other items. Comments by exception are as follows:

- **Rolling** (or average) **TWC** as a percent of sales was 16.0%, unfavourable to 15.8% at March 2017. This was impacted by an inventory build associated with the Merrifield manufacturing transition and an increase in debtors due to customer mix (compliance to terms remained steady);
- Point in time **TWC** weakened on a percent to sales basis (17.0% versus 16.7% at March 2017), as the inventory build mentioned above was at its peak in March. This was also affected by the period ending on a weekend, impacting collections;
- **Non-trade debtors** increased due to the receivable relating to the sale of the Glen Waverley site (which will be settled in the second half); and
- **Net debt** inclusive of the USPP hedge value increased by $34.3M during the first half of FY18, with expenditure on the Dulux Merrifield paint factory a key driver (refer cash flow). Net debt to EBITDA is at 1.4x.

Balance sheet **A$M**	**Mar** **2018**	**Sep** **2017**	**Mar** **2017**
Inventories	246.4	229.4	226.8
Trade debtors	253.6	274.5	249.3
Trade creditors	(190.4)	(220.6)	(184.4)
Total trade working capital	309.6	283.3	291.7
Non trade debtors	30.7	12.9	18.6
Deferred tax balances (net)	21.6	22.3	22.9
Property, plant & equipment	379.1	371.8	338.8
Intangible assets	225.8	228.7	232.0
Assets held for sale	-	6.8	-
Investments	8.9	7.8	7.2
Non trade creditors	(42.3)	(44.5)	(44.4)
Defined benefit fund liability	(40.3)	(37.0)	(38.1)
Provision for income tax	(7.1)	(18.6)	(8.1)
Provisions (excluding tax)	(86.5)	(90.7)	(79.6)
Net debt inclusive of USPP hedge value	(368.5)	(334.2)	(353.3)
Other	(2.1)	(1.3)	(3.4)
Net Assets	**428.8**	**407.3**	**384.0**
TWC to rolling sales (point in time) %	17.0%	15.9%	16.7%
Rolling TWC to rolling sales %	16.0%	15.8%	15.8%
Net debt to EBITDA	1.4	1.4	1.5

Refer to glossary on page 22 for definition of terms

Review of Operations (continued)

Dulux ANZ - Paints and Coatings

EBIT of $93.1M, up $4.6M or 5.2%

Continued strong performance in Australia, partially offset by a weaker New Zealand

Dulux ANZ	**Half year ended 31 March**		
A$M	**2018**	**2017**	**% Change**
Sales revenue	500.7	473.7	5.7%
EBITDA	101.8	95.8	6.3%
EBIT	93.1	88.5	5.2%
EBIT % Sales	*18.6%*	*18.7%*	

Sales revenue up $27.0M (+5.7%)

- Revenue grew ~6.5% in the Australian business (~90% of segment) and declined ~3% in New Zealand (flat in local currency).
- In Australia, revenue reflected strong market growth, modest share gains and positive price benefits.
- Australian market growth was ~4%
  - The decorative paint market grew at ~5%, above historical growth rates:
    - The renovation and repaint market (typically ~75% of market volume) grew ~7% driven by cycling a lower pcp, which was impacted by Masters liquidation and wet weather
    - New housing market (~20% of market volume) was flat
    - Commercial market (~5% of market volume) grew at ~ 5%
  - The woodcare, powder coatings and protective coatings markets also grew.
- Market share gains in Australia reflected the benefits of our retail customer alignment strategies.
- Positive selling price outcome reflected price increases to partially mitigate significant raw material price increases.
- In New Zealand, the flat revenue outcome reflected share gains in trade channels and other key retail customers, offset by the exit of woodcare products from Mitre 10 New Zealand.

EBIT growth of $4.6M (+5.2%)

- Strong EBIT growth in Australia, reflecting the revenue growth and effective cost control, partially offset by raw material price increases (titanium dioxide and latex increased well above inflation) and higher depreciation ($1.4M) due to Merrifield.
- $2.0M of Merrifield start-up expenses (duplicated costs between the existing Rocklea factory and the new Merrifield factory during ramp-up of Merrifield), have been recognised in the Corporate segment, as foreshadowed at the 2017 full-year results.
- In New Zealand, the EBIT decline was due to the exit of woodcare products from Mitre 10.
- EBIT margin was maintained in Australia.

Review of Operations (continued)

FY18 outlook

- In the second half, we expect overall market growth, driven by renovation and repair, and commercial segments.
- The Merrifield factory will complete its ramp-up to full production during the half
  - Additional start-up expenses of ~$1M (double-up of costs between Rocklea and Merrifield) will be recognised in Corporate in the second half
  - Second half depreciation is expected to be, on a pro-rata basis, consistent with the full annualised rate of ~$7M.
- Raw material costs are expected to continue to increase at well above inflation rates, driven by titanium dioxide and latex. Consistent with history, strategies to mitigate the impact are being implemented.
- Full year EBIT margins are expected to be in line with FY17.

Review of Operations (continued)

Selleys & Parchem ANZ - Sealants, adhesives, fillers and construction chemicals

EBIT of $14.4M, up $0.7M or 5.1%

Revenue-led earnings growth in both Selleys and Parchem

Selleys & Parchem ANZ	**Half year ended 31 March**		
A$M	**2018**	**2017**	**% Change**
Sales revenue	130.2	125.8	3.5%
EBITDA	15.8	15.1	4.6%
EBIT	14.4	13.7	5.1%
EBIT % Sales	*11.1%*	*10.9%*	

Sales revenue up $4.4M (+3.5%)

- Selleys revenue growth reflected consistent overall share in positive markets and price gains.
- Parchem revenue growth in flat markets, driven by strong performance of the core Fosroc construction chemicals business.

EBIT growth $0.7M (+5.1%)

- Selleys EBIT increased, reflecting revenue growth.
- Parchem EBIT increased due to revenue growth, good cost control and ongoing product mix optimisation.

FY18 outlook

- Selleys is positioned for continued growth.
- Parchem is repositioned for growth as markets are stabilising and the cost base and product mix continue to be optimised.

Review of Operations (continued)

B&D Group - Garage Doors and Openers

EBIT of $6.8M, up $0.6M or 9.7%

Earnings growth driven by revenue and margin improvement

B&D Group	**Half year ended 31 March**		
A$M	**2018**	**2017**	**% Change**
Sales revenue	88.4	86.4	2.3%
EBITDA	10.0	9.5	5.3%
EBIT	6.8	6.2	9.7%
EBIT % Sales	*7.7%*	*7.2%*	

Sales revenue up $2.0M (+2.3%)

- Modest overall market growth, led by the Australian existing home market, largely offset by declines in detached new housing.
- Revenue growth reflected positive price outcomes driven by improved mix towards premium products.

EBIT growth of $0.6M (+9.7%)

- EBIT increase was driven by revenue growth and margin improvement, while increasing investment in marketing.

FY18 outlook

- The business continues to target profit growth driven by ongoing investment in marketing and distribution.

Review of Operations (continued)

Lincoln Sentry - Cabinet and Architectural Hardware Distribution

EBIT of $6.5M, up $0.4M or 6.6%

Continued revenue and profit growth

Lincoln Sentry	**Half year ended 31 March**		
A$M	**2018**	**2017**	**% Change**
Sales revenue	97.7	93.6	4.4%
EBITDA	7.2	7.2	0.0%
EBIT	6.5	6.1	6.6%
EBIT % Sales	*6.7%*	*6.5%*	

Sales revenue up $4.1M (+4.4%)

- Revenue growth was led by the cabinet hardware business, in generally positive markets.
- Price outcomes were positive.

EBIT growth of $0.4M (+6.6%)

- EBIT growth was driven by revenue, good fixed cost control and lower amortisation, partly offset by margin pressures.

FY18 outlook

- The business remains well positioned for continued growth.

Review of Operations (continued)

Other businesses - Yates garden care, Dulux PNG, DGL SE Asia, DGL UK, PT Avian-Selleys Indonesia (50.01% owned) and DGL China & Hong Kong (51% owned)

EBIT of $6.0M, up $0.1M or 1.7%

Growth from Yates and PNG plus the profit on sale of China coatings businesses offsetting a weaker SE Asia result and the planned, increased investment in the UK and Indonesia

Other businesses	**Half year ended 31 March**		
A$M	**2018**	**2017**	**% Change**
Sales revenue	108.9	108.4	0.5%
EBITDA	7.5	7.3	2.7%
EBIT	6.0	5.9	1.7%
EBIT % Sales	*5.5%*	*5.4%*	

- **Yates ANZ** increased revenue and EBIT due to share gains and favourable market conditions.
- The **Dulux PNG** business increased revenue and EBIT in continued weak economic conditions, with good cost control.
- **DGL China & Hong Kong** EBIT improved, driven by a net profit on sale of the China coatings businesses of $2.5M (refer page 19 for details of the transaction).
- The **DGL UK** business increased revenue. The EBIT loss was higher due to the planned investment in sales, marketing and product innovation.
- The **PT Avian-Selleys Indonesia** joint venture (formed in August 2017) made a small EBIT loss due to planned establishment costs. The joint venture is expected to commence trading in the second half of this calendar year.
- The **DGL South East Asia** business revenue and EBIT declined, driven by lower Acratex revenue in Malaysia.

FY18 outlook

- We expect FY18 EBIT for the Other businesses segment to be in line with FY17. In the second half, further restructuring and exit costs associated with China are expected to be offset by the combined EBIT growth in the remaining businesses.

Review of Operations (continued)

Dulux Merrifield paint factory

During the period, commissioning was completed, beneficial production was achieved (1 February 2018) and the factory is now ramping up to full production. The project remains within budget, with the factory operating to expectations.

The timing of production ramp-up has resulted in minor impacts to the FY18 financial outcomes:

- In addition to the $2.0M of start-up expenses (double-up of costs between Rocklea and Merrifield) that were recognised in Corporate in the first half (as foreshadowed last year), a further ~$1M of start-up expenses are expected to be recognised in Corporate during the second half;
- First half depreciation was slightly lower than guided, however second half depreciation is expected to be, on a pro-rata basis, consistent with the full annualised rate of ~$7M; and
- The majority of the Rocklea restructuring provision is expected to be utilised in the second half. $0.8M was utilised in the first half, with the remainder (~$8M) deferred into the second half. This will impact cash flow, not profit.

During the period, capital of $24.4M was spent on the factory, inclusive of $1.4M of capitalised interest. Most of the remaining capital expenditure (which relates to final payments for works completed, optimisation works and ancillary equipment such as solar panels) will occur during the second half.

DuluxGroup Merrifield paint factory

A$M	pre-2017	2017	2018	2019	Total
Capital expenditure (cash)	49	78	35	3	165

Review of Operations (continued)

Transactions

Sale of DGL China & Hong Kong Coatings portfolio

Following a strategic review of the joint venture businesses in China and Hong Kong, DGL Camel International (51% owned by DuluxGroup) entered into an agreement to sell most of the coatings portfolio, including the Camel brand, to Yip's Chemical Holdings Limited in January 2018. The sale transaction was completed on 1 February 2018, with $20.0M of proceeds received in the period. A total profit impact of $2.5M ($1.3M attributable to DuluxGroup) was recognised during the period, consisting of a profit on sale and associated restructuring costs. For further detail, refer Note 10.

Additional restructuring costs are likely during the second half of the financial year.

DGL China & Hong Kong has retained the Selleys business and some other small coatings businesses. DuluxGroup expects to move to 100% ownership during the next year. It is expected that the retained businesses EBIT will be approximately breakeven once restructuring is completed.

Sale of Glen Waverley site

The Glen Waverley site, which was acquired just after the Rocklea flood in 2011 and retained as back-up during construction of the Merrifield factory, was sold during the period. A $1.8M cash deposit was received during the period, with settlement of the remainder ($11.0M) to occur in the second half of FY18. A $6.1M profit on sale has been recognised. This profit is being offset across the year by start-up expenses for Merrifield and investment in one-off growth and other initiatives (refer table on page 8).

Review of Operations (continued)

Outlook

Overall

Subject to economic conditions, and excluding non-recurring items, we expect that 2018 net profit after tax will be higher than the 2017 equivalent of $142.9M.

Directors expect to maintain a dividend payout ratio on NPAT before non-recurring items of at least 70% on a full year basis.

Markets

Lead indicators for our key markets remain largely positive.

The key existing home segment exposure (~65%[1] of DuluxGroup revenue) is expected to continue providing resilient and profitable growth, underpinned by:

- 10 million existing dwellings in Australia, of which two thirds are detached homes; and
- 70% of these are more than 20 years old.

Underlying market demand for this end market is generally consistent given that many of the projects that use our products focus on maintenance activities of the existing home, are individually of relatively small value and often are, or can be, do-it-yourself in nature.

The new housing construction market (~15%[1] of DuluxGroup revenue, late cycle) is expected to remain relatively strong in FY18 due to the solid pipeline of work. DuluxGroup businesses are strategically less exposed to this sector.

Commercial and engineering construction markets (~15%[1] of DuluxGroup revenue). Non-residential construction markets are expected to remain strong. Engineering construction and maintenance markets are expected to be flat.

The outlook for the PNG economy remains weak, with an improvement in economic conditions dependent on international investment in major resources projects.

Outlook comments from the Business Segments

Dulux ANZ

- In the second half, we expect overall market growth to continue, driven by renovation and repair, and commercial segments.
- The Merrifield factory will complete its ramp-up to full production during the half
  - Additional start-up expenses of ~$1M (double-up of costs between Rocklea and Merrifield) will be recognised in Corporate in the second half
  - Second half depreciation is expected to be, on a pro-rata basis, consistent with the full annualised rate of ~$7M.
- Raw material costs are expected to continue to increase at well above inflation rates, driven by titanium dioxide and latex. Consistent with history, strategies to mitigate the impact are being implemented.
- Full year EBIT margins are expected to be in line with FY17.

Selleys & Parchem ANZ

- Selleys is positioned for continued growth.
- Parchem is repositioned for growth as markets are stabilising and the cost base and product mix continue to be optimised.

1. Indicative revenue splits for DuluxGroup

Review of Operations (continued)

B&D Group

- The business continues to target profit growth driven by ongoing investment in marketing and distribution.

Lincoln Sentry

- The business remains well positioned for continued growth.

Other businesses

- We expect FY18 EBIT for the Other businesses segment to be in line with FY17. In the second half, further restructuring and exit costs associated with China are expected to be offset by the combined EBIT growth in the remaining businesses.

Other items:

- Annual depreciation expense for FY18 is expected to be ~$36M.
- Corporate costs for the FY18 year are expected to be ~$30M.
- FY18 Net Finance costs are expected to be ~$18M, slightly lower than previous guidance.
- The effective tax rate in the second half is expected to revert to ~30%.
- Capital expenditure excluding the Merrifield capital is expected to be $20-25M in FY18.
- We expect full-year cash conversion to be consistent with our 80%+ guidance, prior to the impact of China and the Glen Waverley sale (~7% points impact) and non-recurring cash items (payment of the Rocklea redundancy provision).

Review of Operations (continued)

Glossary

1. EBITDA – represents EBIT plus depreciation and amortisation.
2. EBIT – represents earnings before interest and tax.
3. Net profit after tax (NPAT) – represents 'Profit for the half year attributable to ordinary shareholders of DuluxGroup Limited' per the financial statements.
4. Operating cash flow – the equivalent of 'Net cash inflow from operating activities'.
5. Net debt inclusive of USPP hedge value and Net debt to EBITDA – are calculated by taking closing net debt, adjusted to include the asset balance relating to the cross currency interest rate swap and interest rate swap established to hedge the United States dollar (USD) currency and interest rate exposures relating to the US Private Placement (USPP) debt. Net Debt to EBITDA reflects this measure as a multiple of the most recent twelve months of EBITDA before non-recurring items.
6. Trade working capital (TWC) – represents the net trade receivables portion of 'trade and other receivables' plus 'inventory', less the trade payables portion of 'trade and other payables', per the financial statements.
7. Rolling TWC to rolling sales – calculated as the 12 month rolling average of month end TWC balances divided by the most recent 12 months sales revenue. This figure is not directly extracted from the financial statements.
8. Non trade debtors – represents the 'other receivables' portion of 'trade and other receivables', and 'other assets', per the financial statements.
9. Non trade creditors – represents the 'other payables' portion of 'trade and other payables', per the financial statements.
10. Capital expenditure – represents the 'payments for property, plant and equipment' and 'payments for intangible assets' per the financial statements.
11. Acquisitions – represents 'payments for purchase of businesses, net of cash acquired'.
12. Disposals – represents 'proceeds from sale of property, plant and equipment'.
13. Cash conversion – is calculated as EBITDA, less movement in trade working capital and other operating cash flow movements excluding interest and tax, less minor capital spend (capital expenditure projects less than $5.0M), as a percentage of EBITDA.

Consolidated Income Statement

For the half year ended 31 March:

	Notes	**2018 $'000**	2017 $'000
Revenue		**918,114**	881,177
Other income	3	**19,527**	2,513
Expenses			
Changes in inventories of finished goods and work in progress		**(11,095)**	(4,288)
Raw materials and consumables used and finished goods purchased for resale		**387,855**	357,376
Employee benefits		**206,668**	191,961
Depreciation and amortisation		**16,666**	15,392
Repairs and maintenance		**6,979**	6,675
Operating leases		**26,981**	26,160
Outgoing freight		**37,721**	35,439
Other expenses(1)		**152,975**	149,661
Share of net profit of equity accounted investment	4	**(1,105)**	(643)
		823,645	777,733
Earnings before interest and income tax expense (EBIT)		**113,996**	105,957
Finance income		**157**	98
Finance expenses		**(7,732)**	(8,789)
Net finance costs		**(7,575)**	(8,691)
Profit before income tax expense		**106,421**	97,266
Income tax expense	5	**(27,387)**	(26,292)
Profit for the half year		**79,034**	70,974
Attributable to:			
Ordinary shareholders of DuluxGroup Limited		**79,240**	72,706
Non-controlling interest in controlled entities		**(206)**	(1,732)
Profit for the half year		**79,034**	70,974

		Cents	Cents
Earnings per share			
Attributable to the ordinary shareholders of DuluxGroup Limited:			
Basic earnings per share	6	**20.7**	19.0
Diluted earnings per share	6	**20.4**	18.7

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

(1) Largely comprises of advertising and marketing expenditure, commissions, royalties and other fixed and variable costs.

Consolidated Statement of Comprehensive Income

For the half year ended 31 March:

	2018 $'000	2017 $'000
Profit for the half year	**79,034**	70,974
Other comprehensive income		
Items that may be reclassified to the income statement		
Cash flow hedge reserve		
Effective portion of changes in fair value of cash flow hedges	**(309)**	881
Income tax benefit/(expense)	**93**	(264)
Foreign currency translation reserve		
Foreign currency translation gain/(loss) on foreign operations	**2,736**	(4,849)
Total items that may be reclassified to the income statement, net of tax	**2,520**	(4,232)
Items that will not be reclassified to the income statement		
Retained earnings		
Actuarial (losses)/gains on defined benefit plan	**(3,400)**	19,700
Income tax benefit/(expense)	**1,020**	(5,910)
Total items that will not be reclassified to the income statement, net of tax	**(2,380)**	13,790
Other comprehensive income for the half year, net of tax	**140**	9,558
Total comprehensive income for the half year	**79,174**	80,532
Attributable to:		
Ordinary shareholders of DuluxGroup Limited	**80,056**	82,107
Non-controlling interest in controlled entities	**(882)**	(1,575)
Total comprehensive income for the half year	**79,174**	80,532

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

Consolidated Balance Sheet

As at:

	Notes	**31 March 2018 $'000**	30 September 2017 $'000	31 March 2017 $'000
Current assets				
Cash and cash equivalents		**53,127**	38,974	32,788
Trade and other receivables		**268,681**	277,677	253,314
Inventories		**246,447**	229,394	226,766
Derivative financial assets		**4,390**	3,847	3,281
Other assets		**12,862**	6,613	10,934
Assets held for sale		**-**	6,814	-
Total current assets		**585,507**	563,319	527,083
Non-current assets				
Other receivables		**38**	35	61
Derivative financial assets		**34,767**	36,945	41,087
Equity accounted investment	4	**8,858**	7,753	7,161
Property, plant and equipment		**379,053**	371,805	338,755
Intangible assets		**225,773**	228,670	231,962
Deferred tax assets		**49,919**	50,436	51,140
Other assets		**2,704**	3,138	3,602
Total non-current assets		**701,112**	698,782	673,768
Total assets		**1,286,619**	1,262,101	1,200,851
Current liabilities				
Trade and other payables		**232,340**	264,912	228,519
Interest-bearing liabilities		**70,264**	16,570	14,912
Derivative financial liabilities		**702**	619	2,086
Current tax liabilities		**7,078**	18,567	8,150
Provisions		**73,724**	77,369	65,949
Total current liabilities		**384,108**	378,037	319,616
Non-current liabilities				
Other payables		**377**	249	259
Interest-bearing liabilities		**391,920**	398,116	416,924
Deferred tax liabilities		**28,351**	28,096	28,271
Provisions		**12,764**	13,339	13,687
Defined benefit liability		**40,265**	36,964	38,106
Total non-current liabilities		**473,677**	476,764	497,247
Total liabilities		**857,785**	854,801	816,863
Net assets		**428,834**	407,300	383,988
Equity				
Share capital	9	**288,782**	277,282	276,767
Treasury shares	9	**(41,060)**	(22,286)	(22,286)
Reserves		**(99,314)**	(101,444)	(104,490)
Retained earnings[(1)]		**281,823**	257,101	235,627
Total equity attributable to ordinary shareholders of DuluxGroup Limited		**430,231**	410,653	385,618
Non-controlling interest in controlled entities		**(1,397)**	(3,353)	(1,630)
Total equity		**428,834**	407,300	383,988

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

[(1)] The retained earnings of the Group includes the profits reserve of the parent entity, DuluxGroup Limited.

Consolidated Statement of Changes in Equity

For the half year ended 31 March:

	Total equity attributable to ordinary shareholders of DuluxGroup Limited									
	Share capital $'000	Treasury shares $'000	Share-based payments reserve $'000	Cash flow hedge reserve[3] $'000	Foreign currency translation reserve $'000	Common control reserve[4] $'000	Retained earnings $'000	Total $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 October 2017	**277,282**	**(22,286)**	**8,103**	**(1,492)**	**1,155**	**(109,210)**	**257,101**	**410,653**	**(3,353)**	**407,300**
Profit/(loss) for the half year	**-**	**-**	**-**	**-**	**-**	**-**	**79,240**	**79,240**	**(206)**	**79,034**
Other comprehensive income/(loss), net of tax	**-**	**-**	**-**	**(216)**	**3,412**	**-**	**(2,380)**	**816**	**(676)**	**140**
Total comprehensive income for the half year	**-**	**-**	**-**	**(216)**	**3,412**	**-**	**76,860**	**80,056**	**(882)**	**79,174**
Transactions with owners, recorded directly in equity										
Purchase of treasury shares	**-**	**(23,282)**	**-**	**-**	**-**	**-**	**-**	**(23,282)**	**-**	**(23,282)**
Shares allocated under the dividend reinvestment plan (DRP)	**-**	**4,501**	**-**	**-**	**-**	**-**	**-**	**4,501**	**-**	**4,501**
Sale of treasury shares	**-**	**7**	**-**	**-**	**-**	**-**	**-**	**7**	**-**	**7**
Non-controlling interest on incorporation of a subsidiary[1]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,838**	**2,838**
Share-based payments	**-**	**-**	**2,641**	**-**	**-**	**-**	**-**	**2,641**	**-**	**2,641**
Shares vested under the LTEIP and ESIP[2]	**11,500**	**-**	**(3,707)**	**-**	**-**	**-**	**-**	**7,793**	**-**	**7,793**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**(52,138)**	**(52,138)**	**-**	**(52,138)**
Balance at 31 March 2018	**288,782**	**(41,060)**	**7,037**	**(1,708)**	**4,567**	**(109,210)**	**281,823**	**430,231**	**(1,397)**	**428,834**
Balance at 1 October 2016	264,886	(10,658)	8,763	(2,886)	5,481	(109,210)	197,409	353,785	(55)	353,730
Profit/(loss) for the half year	-	-	-	-	-	-	72,706	72,706	(1,732)	70,974
Other comprehensive income/(loss), net of tax	-	-	-	617	(5,006)	-	13,790	9,401	157	9,558
Total comprehensive income for the half year	-	-	-	617	(5,006)	-	86,496	82,107	(1,575)	80,532
Transactions with owners, recorded directly in equity										
Purchase of treasury shares	-	(14,835)	-	-	-	-	-	(14,835)	-	(14,835)
Shares allocated under the DRP	-	3,207	-	-	-	-	-	3,207	-	3,207
Share-based payments	-	-	1,516	-	-	-	-	1,516	-	1,516
Shares vested under the LTEIP and ESIP[2]	11,881	-	(3,765)	-	-	-	-	8,116	-	8,116
Dividends paid	-	-	-	-	-	-	(48,278)	(48,278)	-	(48,278)
Balance at 31 March 2017	276,767	(22,286)	6,514	(2,269)	475	(109,210)	235,627	385,618	(1,630)	383,988

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

(1) Represents the non-controlling interest on establishment of the PT Avian Selleys business. PT Avian Selleys was incorporated on 19 September 2017.

(2) The total amount of $7,793,000 (31 March 2017: $8,116,000) comprises the following:
- Proceeds of $6,642,000 (31 March 2017: $7,316,000) (being the net loan repayable after taking account of debt repaid via dividends and any loan forgiveness) were received as repayment for shares vested under the 2014 Long Term Equity Incentive Plan (LTEIP).
- Amounts totalling $1,151,000 (31 March 2017: $800,000) were applied as settlement for shares vested under the Employee Share Investment Plan (ESIP). Under the ESIP, proceeds collected from employees by way of a salary sacrifice are recognised by DuluxGroup as a liability until such time as an employee has the right to on-sell the shares, at which time the amount is recognised in contributed equity.

(3) Includes the foreign currency basis reserve which represents changes in the fair value of the Cross Currency Interest Rate Swap attributable to movement in the foreign currency basis spread.

(4) The prior year Common control reserve has been restated to account for the deferred tax liability on indefinite life intangibles. Further details are available in the Group's 30 September 2017 Annual Report.

Consolidated Statement of Cash Flows

For the half year ended 31 March:

	2018 $'000	2017 $'000
Cash flows from operating activities		
Profit before income tax expense	**106,421**	97,266
Adjustments for:		
Depreciation and amortisation	**16,666**	15,392
Amortisation of prepaid supply agreements	**651**	649
Share-based payments expense	**2,641**	1,516
Defined benefit service cost	**2,108**	2,875
Research and development grant income	**(371)**	(504)
Share of net profit of equity accounted investment	**(1,105)**	(643)
Profit on disposal of business	**(11,852)**	-
Impairment of inventories, trade and other receivables	**2,290**	2,228
Impairment of property, plant and equipment	**1,932**	-
Impairment of intangible assets	**54**	-
Net (profit)/loss on sale of property, plant and equipment	**(5,944)**	111
Net foreign exchange losses/(gains) on operating items	**735**	(826)
Net finance cost	**7,575**	8,691
	121,801	126,755
Changes in assets and liabilities:		
Decrease/(increase) in trade, other receivables and other assets	**9,458**	(5,057)
Increase in inventories	**(17,807)**	(10,943)
Decrease in trade and other payables and provisions	**(33,583)**	(25,002)
Cash generated from operations	**79,869**	85,753
Interest received	**157**	98
Interest paid	**(6,469)**	(7,004)
Income taxes paid	**(36,697)**	(29,179)
Net cash inflow from operating activities	**36,860**	49,668
Cash flows from investing activities		
Payments for property, plant and equipment	**(30,618)**	(48,945)
Payments for intangible assets	**(750)**	(200)
Payments for purchase of businesses	**(31)**	(505)
Proceeds from disposal of business	**19,961**	-
Proceeds from disposal of property, plant and equipment	**2,015**	124
Net cash outflow from investing activities	**(9,423)**	(49,526)
Cash flows from financing activities		
Proceeds from borrowings	**1,273,628**	1,364,505
Repayments of borrowings	**(1,226,518)**	(1,318,065)
Payments for purchase of treasury shares	**(23,282)**	(14,835)
Proceeds from sale of treasury shares	**7**	-
Proceeds from employee share plan repayments	**7,199**	7,845
Dividends paid (net of shares allocated/issued as part of the DRP)	**(47,637)**	(45,071)
Contribution from non-controlling interest on establishment of a business	**2,838**	-
Net cash outflow from financing activities	**(13,765)**	(5,621)
Net increase/(decrease) in cash held	**13,672**	(5,479)
Cash at the beginning of the half year	**38,974**	39,068
Effects of exchange rate changes on cash	**481**	(801)
Cash at the end of the half year	**53,127**	32,788

The above consolidated statements of cash flows should be read in conjunction with the accompanying notes.

Notes to the Half Year Report

1 Accounting policies

DuluxGroup Limited (the 'Company') is a company domiciled in Australia. The significant accounting policies adopted in preparing the consolidated financial statements of the Company and its subsidiaries (collectively 'the Group' or 'DuluxGroup') are stated below to assist in a general understanding of this financial report.

Except as described below, the accounting policies and methods of computation applied by the Group in this Half Year Report are the same as those applied by the Group in its financial statements for the year ended 30 September 2017.

a) Basis of preparation

This general purpose financial report for the half year ended 31 March 2018 ('Financial Report') has been prepared in accordance with the requirements of applicable Australian Accounting Standards including AASB 134 *Interim Financial Reporting* , Australian Interpretations and the *Corporations Act 2001* .

The Financial Report was approved by the Board of Directors on 17 May 2018 and is presented in Australian dollars, which is DuluxGroup Limited's functional and presentation currency. The Financial Report has been prepared on a historical cost basis, except for derivative financial instruments, investments in financial assets (other than subsidiaries and joint ventures) and defined benefit obligations which have been measured at fair value.

The Financial Report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 September 2017 prepared under Australian Accounting Standards including Australian Interpretations and the *Corporations Act 2001* , changes in accounting policies for the requirements summarised below and any public announcements made by the Company during the half year ended 31 March 2018 in accordance with the continuous disclosure requirements of the *Corporations Act 2001* .

DuluxGroup has adopted the following new and amended accounting standards.

Reference	Title	Application
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 Oct 2017
AASB 2017-2	Amendments to Australian Accounting Standards - Further Annual Improvements 2014-2016 Cycle	1 Oct 2017
AASB 2017-4	Amendments to Australian Accounting Standards - Uncertainty over Income Tax Treatments	1 Oct 2017
AASB 2017-5	Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	1 Oct 2017
AASB 2017-7	Amendments to Australian Accounting Standards - Long-term interests in Associates and Joint Ventures	1 Oct 2017
AASB 2018-1	Amendments to Australian Accounting Standards - Annual Improvements 2015-2017 Cycle	1 Oct 2017

The adoption of these standards did not have a significant impact on the consolidated financial statements and has impacted disclosures only.

Issued but not yet effective

The following Australian Accounting Standards have recently been issued or amended but are not yet effective and have not been adopted for this half year reporting period. Other than the implications of AASB 16 *Leases* outlined below, these standards are not expected to have a material impact on the Group's financial position and performance. However, increased disclosures will be required in the Group's financial statements.

Reference	Title	Application
AASB 15	Revenue from Contracts with Customers	1 Oct 2018
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15	1 Oct 2018
AASB 2015-8	Amendments to Australian Accounting Standards - Effective Date of AASB 15	1 Oct 2018
AASB 2016-3	Amendments to Australian Accounting Standards - Clarifications to AASB 15	1 Oct 2018
AASB 16	Leases	1 Oct 2019
AASB 2017-6	Amendments to Australian Accounting Standards - Prepayment Features with Negative Compensation	1 Oct 2019

Notes to the Half Year Report

1 Accounting policies (continued)

a) Basis of preparation (continued)

Issued but not yet effective (continued)

AASB 16 Leases

AASB 16 Leases was released in February 2016 by the Australian Accounting Standards Board. AASB 16 requires companies to bring on-balance sheet most leases, in particular those leases that were previously classified as operating leases under the previous standard, by recognising a right-of-use asset (ROU) and a lease liability. The lease liability represents the present value of future lease payments, with the exception of short-term and low value leases. An interest expense will be recognised on the lease liabilities and a depreciation charge will be recognised for the ROU assets. There will also be additional disclosure requirements under the new standard.

AASB 16 is mandatory for annual reporting periods beginning after 1 January 2019, but is available for early adoption.

As at 30 September 2017, the Group had non-cancellable undiscounted lease commitments of $206,477,000, as disclosed in the Group's 30 September 2017 Annual Report. These commitments predominantly relate to property, equipment and vehicle leases and will require ROU assets and associated lease liabilities.

The Group is continuing to assess the impact of the new standard, however it is expected that the Group's consolidated balance sheet will be materially "grossed-up" and in turn key financial ratios will be impacted. A project team, including members from finance, treasury and property functions has been established to perform a detailed assessment of the impact of the new standard and to ensure a high quality implementation. Since 30 September 2017, the project team has progressed in documenting an implementation plan, identifying data, system and resource requirements and continues in its financial assessment impact.

More detailed quantitative and qualitative disclosures will be provided in the 2018 annual report as the assessment progresses.

AASB 15 Revenue from Contracts with Customers

AASB 15 Revenue from Contracts with Customers was released in December 2015 by the AASB and requires the identification of discrete performance obligations within a transaction and an allocation of an associated transaction price to these obligations. Under the new standard, revenue is recognised based on the transfer of control of ownership, rather than the transfer of risk and reward of ownership under the previous standard.

AASB 15 is mandatory for reporting periods beginning after 1 January 2018, but is available for early adoption. The Group continues to assess the impact of the new standard by undertaking an analysis of a cross-section of material customer contracts. Based upon this assessment to date, the impact of AASB 15 is not expected to be material. More detailed quantitative and qualitative disclosures will be provided in the 30 September 2018 annual report as the impact assessment is finalised.

b) Fair values of financial instruments

The carrying amounts and estimated fair values of the Group's financial instruments recognised in the financial statements are materially the same. The methods and assumptions used to estimate the fair value of the financial instruments are as follows:

	Instruments	Valuation technique
Carrying amount approximates fair value	Cash	Carrying amount is fair value due to the liquid nature of these assets
	Receivables/payables	Carrying amount approximates fair value due to the short term nature of these financial statements
Measured at fair value[1]	Interest rate swaps and interest rate options	Fair value is determined using present value of estimated future cash flows based on observable yield curves and market implied volatility
	Forward exchange foreign contracts	Fair value is determined using prevailing forward exchange rates
	Other financial instruments (including interest bearing liabilities)	Fair value is determined using discounted cash flow

[1] The Group holds Level 2 financial instruments, as defined under the accounting standards, which are valued using observable market data.

c) Rounding

The amounts shown in this financial report have been rounded off, except where otherwise stated, to the nearest thousand dollars with the Company being in a class specified in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

Notes to the Half Year Report

2 Segment report

The 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.

Major products and services from which DuluxGroup's segments derive revenue are:

Defined reportable segments	**Products/services**
Dulux ANZ	Dulux decorative paints, woodcare, texture, protective, powder and industrial coatings in Australia and New Zealand for both consumer and professional trade markets.
Selleys & Parchem ANZ	Selleys adhesives, sealants and other household repair and maintenance products for the consumer and professional trade markets; and Parchem construction chemicals, decorative concrete solutions and related equipment in Australia and New Zealand.
B&D Group	B&D garage doors and electronic openers for residential, commercial and industrial use in Australia and New Zealand.
Lincoln Sentry	Lincoln Sentry, a specialist trade distributor of premium branded cabinet hardware and architectural hardware to the cabinet making industry, and the window, door and glazing industries in Australia.
Other businesses	Yates garden care and home improvement products in Australia and New Zealand, DGL International specialty coatings and adhesives businesses in South East Asia, Papua New Guinea coatings business and Craig & Rose paints business and Selleys business in the United Kingdom. Also includes the 51% owned DGL business in China and Hong Kong and the 50.01% owned PT Avian Selleys business in Indonesia.

Notes to the Half Year Report

2 Segment report (continued)

For the half year ended 31 March:

	Dulux ANZ		Selleys & Parchem ANZ		B&D Group		Lincoln Sentry		Other businesses		Unallocated[3]		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue														
External revenue	**499,452**	472,281	**126,163**	121,000	**88,430**	86,387	**97,702**	93,552	**106,367**	107,957	**-**	-	**918,114**	881,177
Inter-segment revenue	**1,276**	1,450	**4,027**	4,819	**-**	-	**22**	23	**2,564**	435	**(7,889)**	(6,727)	**-**	-
Total revenue	**500,728**	473,731	**130,190**	125,819	**88,430**	86,387	**97,724**	93,575	**108,931**	108,392	**(7,889)**	(6,727)	**918,114**	881,177
Other income[1]	**1,386**	1,889	**156**	219	**(123)**	170	**7**	-	**11,932**	446	**6,169**	(211)	**19,527**	2,513
Total revenue and other income	**502,114**	475,620	**130,346**	126,038	**88,307**	86,557	**97,731**	93,575	**120,863**	108,838	**(1,720)**	(6,938)	**937,641**	883,690
Results														
EBITDA[2]	**101,751**	95,843	**15,802**	15,148	**10,034**	9,500	**7,175**	7,234	**7,484**	7,349	**(11,584)**	(13,725)	**130,662**	121,349
Depreciation and amortisation	**(8,689)**	(7,308)	**(1,375)**	(1,411)	**(3,276)**	(3,337)	**(656)**	(1,090)	**(1,470)**	(1,498)	**(1,200)**	(748)	**(16,666)**	(15,392)
EBIT	**93,062**	88,535	**14,427**	13,737	**6,758**	6,163	**6,519**	6,144	**6,014**	5,851	**(12,784)**	(14,473)	**113,996**	105,957
Finance income													**157**	98
Finance expenses													**(7,732)**	(8,789)
Profit before income tax expense													**106,421**	97,266
Income tax expense													**(27,387)**	(26,292)
Profit for the half year													**79,034**	70,974
Attributable to:														
Ordinary shareholders of DuluxGroup Limited													**79,240**	72,706
Non-controlling interest in controlled entities													**(206)**	(1,732)
Profit for the half year													**79,034**	70,974
Acquisitions of property, plant and equipment and intangible assets	**20,322**	38,804	**595**	902	**441**	891	**173**	137	**1,775**	941	**-**	-	**23,306**	41,675

(1) Included in other income in the Unallocated segment is the net profit on disposal of the Glen Waverley site of $6,063,000.

(2) Earnings before interest, income tax expense, depreciation and amortisation.

(3) Comprises of centrally managed income, costs, assets and liabilities relating to properties, tax, treasury and the Group's defined benefit pension plan. Within EBITDA, $2,000,000 of costs associated with the start-up of the Merrifield paint factory has been recognised within the Unallocated segment.

Notes to the Half Year Report

3 Other income

For the half year ended 31 March:

	2018 $'000	2017 $'000
Net profit on disposal of a business (Note 10)	**11,852**	-
Net profit on disposal of property, plant and equipment[1]	**5,944**	-
Royalty income	**124**	841
Rental income	**700**	537
Research and development grant income	**371**	504
Other	**536**	631
	19,527	2,513

[1] Includes $6,063,000 of profit on disposal of the Glen Waverley site during the period. The net book value of this site of $6,814,000 was presented as an asset held for sale within the Consolidated Balance Sheet as at 30 September 2017. Proceeds of $1,845,000 net of agency fees have been received during the reporting period with the remaining $11,032,000 recorded within trade and other receivables as at 31 March 2018.

4 Equity accounted investment

The Yates garden care business (reported as part of the 'Other businesses' segment) has an interest in the following joint venture arrangement:

For the half year ended 31 March:

	2018 $'000	2017 $'000
Pinegro Products Pty Ltd		
Percentage of ownership interest held[1]	**50%**	50%
Opening balance	**7,753**	6,518
Share of net profit	**1,105**	643
Closing balance	**8,858**	7,161

[1] Acquired on 1 December 2009 and incorporated on 10 April 1979.

5 Income tax expense

The current year tax expense of $27,387,000 (31 March 2017: $26,292,000) represents an effective tax rate of 25.7% (31 March 2017: 27.0%). The current period effective tax rate is below the Australian company tax rate of 30% primarily due to the release of a tax provision established in previous years.

Notes to the Half Year Report

6 Earnings per share (EPS)

For the half year ended 31 March:

	2018 Cents per share	2017 Cents per share
Attributable to the ordinary shareholders of DuluxGroup Limited		
Basic earnings per share	**20.7**	19.0
Diluted earnings per share	**20.4**	18.7
	$'000	$'000
Earnings used in the calculation of basic and diluted earnings per share		
Profit for the half year attributable to ordinary shareholders of DuluxGroup Limited	**79,240**	72,706
	Number	Number
Weighted average number of ordinary shares outstanding used as the denominator:		
Number for basic earnings per share	**382,894,047**	382,917,184
Effect of the potential vesting of shares under the LTEIP and ESIP[(1)]	**4,901,253**	6,284,021
Number for diluted earnings per share	**387,795,300**	389,201,205

[(1)] The calculation of the weighted average number of shares has been adjusted for the effect of these potential ordinary shares from the earlier of the date of issue or the beginning of the half year.

7 Intangible assets

Allocation of goodwill and intangible assets with indefinite useful lives

The allocation of goodwill and brand names with indefinite lives to cash-generating units is as follows:

	Goodwill		Brand Names	
	31 March 2018 $'000	30 September 2017 $'000	**31 March 2018 $'000**	30 September 2017 $'000
Dulux ANZ	**29,272**	29,272	**26,900**	26,900
Selleys & Parchem ANZ	**43,295**	43,285	**3,400**	3,400
Yates	**10,052**	10,039	**14,858**	14,858
B&D Group	**39,537**	39,537	**15,000**	15,000
Lincoln Sentry	**18,193**	18,193	**2,400**	2,400
DGL International UK	**4,617**	4,311	**-**	-
	144,966	144,637	**62,558**	62,558

8 Impairment testing

At the end of each half year reporting period, a review is undertaken to determine whether there is an indicator that a cash-generating unit (CGU) or asset may be impaired. This review takes account of both internal and external sources of information, reviews the performance of each CGU or asset against expectations, and considers changes in market value and discount rates. Apart from the China CGU, the review for impairment at 31 March 2018 did not result in any impairment charges recognised by the Group.

Subsequent to the sale of businesses within the China CGU (refer Note 10), an impairment charge of $1,986,000 has been recorded in relation to plant and equipment and software.

Notes to the Half Year Report

9 Contributed equity

Movements in fully paid ordinary shares on issue since 1 October 2017 were as follows:

	Ordinary shares		Treasury shares		Total contributed equity	
Details	**Number of shares**	**2018 $'000**	**Number of shares**	**2018 $'000**	**Number of shares**	**2018 $'000**
Balance at 1 October 2017	389,250,252	277,282	(1,535,463)	(22,286)	387,714,789	254,996
Purchase of treasury shares	-	-	(2,960,499)	(23,282)	(2,960,499)	(23,282)
Shares allocated under the DRP[1]	-	-	567,237	4,501	567,237	4,501
Sale of treasury shares	-	-	932	7	932	7
Shares vested under the LTEIP and ESIP	-	11,500	2,031,660	-	2,031,660	11,500
Balance at 31 March 2018	**389,250,252**	**288,782**	**(1,896,133)**	**(41,060)**	**387,354,119**	**247,722**

[1] The Company has established a DRP under which holders of ordinary shares may be able to elect to have all or part of their dividend entitlements satisfied by the issue of new fully paid ordinary shares or shares purchased on-market.

(a) Shares issued to subsidiaries

The Group has formed a trust to administer the Group's employee share schemes. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Company. Shares held by the trust for the purpose of the employee share schemes are either recognised as treasury shares if they were originally purchased on-market, or where new ordinary share capital is issued to the trust and continues to be held at balance date, this ordinary share capital is not recognised in contributed equity on consolidation.

Movements in shares held by the trust since 1 October 2017 are as follows:

	Number of shares		
Details	**Issued ordinary capital**	**Treasury**	**Total**
Balance at 1 October 2017	4,858,174	1,535,463	6,393,637
Shares purchased under the 2017 LTEIP and ESIP	-	2,392,330	2,392,330
Shares vested under the LTEIP and ESIP	-	(2,031,660)	(2,031,660)
Balance at 31 March 2018	**4,858,174**	**1,896,133**	**6,754,307**

In the event that all shares held by the trust vest in full with no debt forgiveness, the maximum outstanding proceeds expected to be received from employee share plan repayments is $37,173,000.

Notes to the Half Year Report

10 Business disposed

Following a strategic review of the DGL Camel coatings portfolio, DGL Camel International (joint venture company 51% owned by DuluxGroup) entered into an agreement to sell most of the coatings portfolio to Yip's Chemical Holdings Limited on 3 January 2018.

The transaction was completed on 1 February 2018, with cash consideration received during the half year ended 31 March 2018.

Profit on disposal before tax has been calculated as follows:

	2018 $'000
Cash consideration	**20,264**
Deferred consideration	**963**
Transaction costs	**(705)**
Net proceeds	**20,522**
Book value of assets sold:	
Trade receivables	**5,600**
Inventory	**1,412**
Brand names	**1,497**
Property, plant and equipment	**161**
Profit on disposal of business assets	**11,852**
Attributable to:	
Ordinary shareholders of DuluxGroup Limited	**6,045**
Non-controlling interest in controlled entities	**5,807**
Profit on disposal of business assets	**11,852**

The profit on disposal is included in 'Other income' in the income statement (refer Note 3) and is disclosed as part of 'Other businesses' in the segment report (refer Note 2).

As a consequence of the sale, the Group has incurred further one-off restructuring costs of $9,310,000, comprising redundancies, impairment of property, plant and equipment, software intangible assets, onerous lease and other provisions. These costs are included as part of other expenses and employee benefits expense in the Consolidated Income Statement.

Accordingly, the impact of the disposal together with the associated restructuring costs on net profit was $2,542,000, with $1,296,000 attributable to DuluxGroup shareholders.

Notes to the Half Year Report

11 Dividends

For the half year ended 31 March:

	2018	2017
	$'000	$'000
Dividends paid		
Final dividend for 2017 of 13.5 cents per share fully franked (2017: Final dividend for 2016 of 12.5 cents per share fully franked)	**52,138**	48,278

(a) Dividends declared after balance date

On 17 May 2018, the Directors determined that an interim dividend of 14.0 cents per ordinary share will be paid in respect of the 2018 financial year. The dividend will be fully franked and payable on 12 June 2018. The financial effect of this dividend is not included in the financial statements for the half year ended 31 March 2018 and will be recognised in the 2018 annual financial statements.

The Company's DRP will operate with respect to the interim dividend. The DRP pricing period will be the five trading days from 31 May 2018 to 6 June 2018 inclusive. Ordinary shares issued under the DRP will rank equally with all other ordinary shares.

12 Events subsequent to balance date

Details of the interim dividend declared since balance date are set out in Note 11.

The Directors have not become aware of any other significant matter or circumstance that has arisen since 31 March 2018, that has affected or may affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years, which has not been covered in this report.

Directors' Declaration

The Directors of DuluxGroup Limited (the Company) declare that in the Directors' opinion:

(a) the financial statements and notes of the Company and its subsidiaries (the Group) for the half year ended 31 March 2018 set out on pages 23 to 36 are in accordance with the *Corporations Act 2001* , including:

(i) giving a true and fair view of the Group's financial position as at 31 March 2018 and of its performance for the half year ended on that date; and

(ii) complying with the Australian Accounting Standards 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.

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

Peter M. Kirby
Chairman
Melbourne
17 May 2018

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 review of DuluxGroup Limited for the half-year ended 31 March 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Gordon Sangster
Partner

Melbourne

17 May 2018

Independent Auditor's Review Report

To the members of DuluxGroup Limited

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying ***Half-year Financial Report*** of DuluxGroup Limited (the Group).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of the Group is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 March 2018 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Half-year Financial Report*** comprises:

- Consolidated balance sheet as at 31 March 2018;
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date;
- Notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The ***Group*** comprises DuluxGroup Limited and the entities it controlled at the Half-year's end or from time to time during the Half-year.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year 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 Half-year Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 March 2018 and its performance for the Half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of DuluxGroup Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual Financial Report.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

Gordon Sangster

Partner

Melbourne

17 May 2018