DuluxGroup Limited

ABN 42 133 404 065

ASX Announcement

16 May 2011

DULUXGROUP DELIVERS SOLID EARNINGS GROWTH

DuluxGroup today reported a net profit after tax (NPAT) of $48.7 million, for the half year ended 31 March 2011. NPAT excluding a one-off tax consolidation adjustment of $9.4 million was $39.3 million.

The Board has declared an interim dividend of 7.5 cents per share, fully franked.

On a like-for-like comparison with the first half of 2010 (i.e. before the new costs associated with becoming a standalone listed company), earnings before interest and tax (EBIT) increased by 6.1% across the business segments and by 10.5% overall to $71.8 million.

Sales revenue for the first half increased by 0.2% to $491.2 million.

The floods that devastated parts of Queensland in January 2011 caused the temporary shutdown of DuluxGroup's main Australian paint factory at Rocklea.

The estimated sales lost in the half as a result of the loss of production at Rocklea following the Queensland floods is in the order of 3%, mainly impacting the Paints Australia business segment. However, from an EBIT perspective, taking into account the adverse profit impact from lost sales and flood related costs and the positive impact from insurance income as well as some deferred operating costs, it is estimated that the net first half impact on the group is not material.

The reinstatement of production at Rocklea is progressing to plan, with water-based paint production (which is typically 80% of Rocklea production) at pre-flood levels and solvent-based paint production due to recommence in late June or early July. While stock re-building is progressing well, we expect a further modest impact on sales in the second half. Importantly, we do not anticipate any long term loss of market share.

DuluxGroup Managing Director & CEO Patrick Houlihan said that, given the challenges presented by natural disasters and subdued conditions in some markets, the result reinforced the company's strategic direction.

"We have faced significant headwinds during this first half, so to deliver strong earnings growth while maintaining strategic momentum is particularly pleasing," Mr Houlihan said.

"We have continued to invest in our premium brands and capabilities to ensure that we are well positioned for ongoing growth. This is reflected in the fact that a number of our businesses have strengthened their strategic leadership positions, benefiting from share growth and favourable range review outcomes from major retail customers during the first half."

The Australian Paints business delivered earnings of $51.4 million, up 4.9% on the prior period. This reflected continued momentum in the trade and texture coatings businesses. Sales were slightly down for the half as a result of the flood-driven supply disruption at Rocklea. This mostly affected the retail business and, to a lesser extent, the trade and protective coatings businesses. The retail market recovered from a weak weather-affected October and November with subsequent months showing good consumer demand.

Earnings in the New Zealand Paints business were up 11.4% to $7.8 million with sales revenue boosted by increased production to supply shortfalls in Australia as a result of the flooding at Rocklea. On a constant currency basis and excluding the Paints Australia support sales, New Zealand domestic EBIT was down 9% on the previous year, reflecting soft market conditions and input cost pressures. The New Zealand architectural and decorative paint market business is estimated to have declined by approximately 5% during the first half due to low consumer confidence in the face of increasing costs of living. This is expected to continue during the second half.

The Selleys Yates business delivered earnings of $12.9 million, up 16.2%. Selleys grew sales revenue, reflecting market share gains, new product launches and positive outcomes from range reviews by major retail customers in Australia. The Yates business benefited from improved conditions in the Australian garden care market, driven by the easing of water restrictions, ongoing productivity gains and the absence of the Spring stock overhang which adversely impacted the prior year result.

DuluxGroup's Offshore and Other business segment – comprising Dulux Powder and Industrial Coatings Australia and New Zealand, Dulux Papua New Guinea (PNG), and the South East Asian and China businesses (known as DGL International) – achieved earnings of $3.1 million, down 18.4% on the prior year. This reflected challenging market conditions, particularly in our core Shanghai woodcare market in China. In addition, despite solid revenue growth, PNG earnings were adversely impacted by some margin pressure and by foreign exchange translation. Powder Coatings grew mildly despite a small flood related impact.

Overall DuluxGroup delivered an improvement in trade working capital management measured by rolling trade working capital to sales, which decreased from 12.3% to 12.1% compared with March 2010.

"At the same time, we have continued to reinvest in the assets and capabilities to capture long term growth," said Mr Houlihan.

"Our significant upgrade of the paints factory in Wellington, New Zealand is progressing to plan and is due for completion in September 2011. Our new Protective Coatings plant in Melbourne has recently commenced production.

"We have also continued to invest in our brands and relationships with our retail and trade customers.

"In the second half we see opportunities to outperform in modestly growing Australian markets, though the New Zealand market remains challenging. We do anticipate increased pressure on input costs during the second half, with titanium dioxide and oil-based inputs being key drivers.

"We are well placed strategically and we continue to see good opportunities to grow profitable market share in our core markets by building on our market-leading positions. We are also seeking logical, close-to-the-core, bolt-on acquisitions and we continue to target medium to long term growth in higher growth Asian markets," said Mr Houlihan.

Subject to economic conditions and insurance recoveries, we expect 2011 DuluxGroup net profit after tax to be higher than $71.5 million (being the 2010 pro forma net profit after tax before one-off demerger costs).

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DuluxGroup Limited results for the half year ended 31 March 2011

Please Note:

1. **The 2011 first half result has been impacted by the supply disruption at our Rocklea decorative paint factory due to the Queensland Floods in January 2011.**
2. **The results for the prior period (2010) as outlined in the Half Year Report are impacted by the restructuring activities in preparation for the demerger from Orica. In general, the prior year figures in this report are "pro forma" to represent a full six months' performance.**

Please refer to the Appendix 4D Half Year Report for further information.

Results	**March**		
A$M	**2011 Actual**	**2010 Pro forma**	**% Change**
Sales revenue	491.2	490.2	0.2%
Business EBIT	75.2	70.9	6.1%
EBIT before standalone costs	**71.8**	**65.0**	**10.5%**
Standalone costs	(4.9)	*	*
EBIT after standalone costs	**67.0**	*	*
Net interest expense	(10.9)	*	*
Tax expense	(7.3)	*	*
NPAT	**48.7**	*	*
Operating cash flow, excl. tax and interest	75.2	76.0	(1.2%)
Net debt (closing)	190.6	*	*
Diluted earnings per ordinary share (cents)	13.3	*	*
Interim dividend per share (cents)	7.5	*	*

* Not calculated for 2010 H1.

Result Highlights

- **Sales revenue** of $491.2M increased by $1.0M (+0.2%).
- **EBIT before standalone costs** of $71.8M increased by $6.8M (+10.5%). **Business EBIT** (i.e. before Corporate costs) increased by $4.3M (6.1%).
- **Queensland Flood Impact -** We estimate sales lost as a result of the loss of production at Rocklea following the Queensland floods was approximately 3%. Importantly, from an EBIT perspective, the estimated net first half impact on the group is not material.
- **Net Profit after Tax (NPAT)** was $48.7M, inclusive of a one-off tax consolidation adjustment of $9.4M benefit. Excluding the tax consolidation adjustment, NPAT was $39.3M.
- **Operating Cash Flow** (before tax, interest and dividends and standalone costs) of $75.2M, decreased marginally by $0.8M (-1.2%), adversely impacted by insurance related items, with other key metrics positive.
- **Net Debt** at $190.6M, down from $204.9M at September 2010 and $245.0M at demerger.

Outlook

Subject to economic conditions and insurance recoveries, we expect 2011 DuluxGroup net profit after tax to be higher than $71.5 million (being the 2010 pro forma net profit after tax before one-off demerger costs).

Profit and Loss

Sales revenue of $491.2M increased by $1.0M (+0.2%) on last year. The sales result was driven by:

- Continued momentum in Paints Australia, particularly in the trade and texture coatings businesses;
- Strong growth in Selleys Yates due to market share gains within Selleys following positive outcomes from major retailer range reviews and growth in Yates, largely due to a stronger start to the financial year and easing of water restrictions; and
- Softer Retail sales in October/November (impacted by weather and lack of government stimulus) followed by stronger performance for the remainder of the half.

Partly offset by:

- Lost sales as a result of the loss of production at Rocklea following the Queensland floods (estimated at approximately 3% of DuluxGroup sales);
- Continued poor market conditions in New Zealand;
- Challenging conditions in our core Shanghai woodcare market (post-Expo); and
- Adverse impact on translation of foreign revenue to A$ (approximately $4M).

EBIT (before standalone costs) of $71.8M increased by $6.8M (+10.5%) on the previous year's pro forma EBIT, due to:

- Flow through effects of sales revenue variance in all businesses;
- Insurance recoveries (refer below);
- Disciplined cost management, including some cost deferrals to the second half due to the timing of Easter and the Queensland floods; and
- Corporate costs well below prior year (largely due to timing impacts in the prior year).

Partly offset by:

- Continued investment in marketing, innovation and sales initiatives; and
- Adverse impact on translation of foreign income to A$ (approximately $0.5M).

Queensland Flood Impact

We estimate sales lost as a result of the loss of production at Rocklea following the Queensland floods was approximately 3%, predominantly in the Paints Australia segment.

From a cost perspective, the accounting for the flood takes account of the following items:

- Clean-up of the site;
- Repair of damaged plant and equipment;
- Write-off of irreparable plant and equipment and unrecoverable inventory; and
- Increased costs of production – e.g. third party toll manufacture arrangements.

DuluxGroup has insurance arrangements in place to cover the above costs as well as profit associated with lost sales. For the first half, insurance income of $26M has been recognised as other income. Of this, $14.5M had been received in cash at 31 March 2011 and a further $8M has since been received.

In addition, the business has deferred some marketing expenditure to the second half, partially as a result of the flooding and partially due to the late timing of Easter.

From an EBIT perspective, taking into account the adverse profit impact of lost sales and all the flood related costs, and the positive impact of insurance income, together with some deferred marketing costs, we estimate that the net first half impact on the group overall is not material.

Profit and Loss

Segment revenue and EBIT results are shown below:

Segment Results	**March**		
A$M	**2011 Actual**	**2010 Pro forma**	**% Change**
Sales revenue			
Paints Australia	284.6	287.7	(1.1%)
Paints New Zealand	48.8	45.5	7.3%
Selleys Yates	122.0	113.2	7.8%
Offshore and Other	53.7	58.3	(7.9%)
Unallocated/eliminations	(17.9)	(14.5)	(23.4%)
Total sales revenue	**491.2**	**490.2**	**0.2%**
EBIT			
Paints Australia	51.4	49.0	4.9%
Paints New Zealand	7.8	7.0	11.4%
Selleys Yates	12.9	11.1	16.2%
Offshore and Other	3.1	3.8	(18.4%)
Total Business EBIT	**75.2**	**70.9**	**6.1%**
Corporate costs excluding standalone costs	(3.4)	(6.0)	43.3%
Total EBIT excluding standalone costs	**71.8**	**65.0**	**10.5%**
Standalone costs	(4.9)	*	*
Total EBIT including standalone costs	**67.0**	*	*

The revenue and EBIT result for Paints New Zealand was positively impacted by the production of paint for Australia following the floods at Rocklea. Segment results, including the above impact, are discussed in more detail later in this profit report.

Corporate costs. The prior year figure included a number of timing adjustments within the half, many of which reversed in the second half. **Standalone costs** are running below our guidance of $13M on an annualised basis. This reflects both the progressive ramp up of these costs, as well as savings achieved. We expect that full year total corporate costs will be approximately $18M.

Net interest expense of $10.9M reflects an average cost of debt of approximately 9%.

Income tax expense reflects an effective tax rate of 29.8%, adjusted to include a one-off tax consolidation benefit of $9.4M. This adjustment relates to the tax effect of recognising a deferred tax asset on the formation of the Australian tax consolidated group upon demerger.

Net Profit after Tax (NPAT) was $48.7M, inclusive of the one-off tax consolidation adjustment of $9.4M benefit. Excluding the tax consolidation adjustment, NPAT was $39.3M. Given that this is the first half year result for DuluxGroup as a standalone company, a comparative NPAT result for the six months ended 31 March 2010 is not presented.

Interim Dividend of 7.5 cents per share fully franked, representing a 70% payout ratio on NPAT before the tax consolidation adjustment, in line with our previous guidance.

Balance Sheet

Balance Sheet A$M	March 2011 Actual	Sept 2010 Actual	March 2010 Pro forma
Inventories	121.2	113.4	104.0
Trade debtors	126.3	137.8	127.1
Trade creditors	(139.3)	(135.4)	(119.8)
Total trade working capital	108.2	115.8	111.3
Net property, plant & equipment	159.9	153.9	
Intangible assets	86.3	89.0	
Non trade debtors	20.8	6.7	
Non trade creditors	(37.2)	(44.0)	
Provisions (excluding tax)	(40.3)	(40.1)	
Net other assets	3.5	3.6	
Net Assets - before demerger items	**301.2**	**284.9**	
Tax balances (DTA, ITP and DTL)	23.0	18.3	
Defined benefit fund liability	(10.4)	(13.3)	
Net Assets before net debt	**313.8**	**289.9**	
Net debt	(190.6)	(204.9)	
Net Assets	**123.2**	**85.0**	
Shareholders' Equity	**123.2**	**85.0**	

Key movements in the Balance Sheet since **September 2010** are:

- **Trade working capital** (TWC) has decreased by $7.6M, due to seasonal differences in trade working capital levels at March compared to September. Whilst the overall total is in line with our expectations, the mix between inventory and creditors in particular has been impacted by the Rocklea floods:
  - Inventory increased by $7.8M from September 2010, largely due to post-flood production at Rocklea, our other sites (e.g. New Zealand) and toll manufacturers;
  - Trade Debtors decreased, reflecting seasonal factors (compared to March 2010, debtors decreased by $0.8M); and
  - Trade Creditors increased, particularly compared to March 2010, reflective of the increased post-flood production at Rocklea, our other sites and toll manufacturers, together with clean up and repair activity at Rocklea.
- **Rolling TWC to rolling sales** (on a 12 month basis) improved from 12.3% at September 2010 to 12.1% at March 2011.
- **Net property, plant and equipment** increased by $6.0M from last year, largely due to spend on the New Zealand factory upgrade and the new protective coatings factory in Melbourne and sustenance capital expenditure, offset by depreciation and assets written off at the Rocklea site in Queensland following the flood.
- **Non trade debtors** increased by $14.1M, largely due to the recognition of the $11.5M insurance receivable relating to the Queensland floods.
- **Non trade creditors** were down by $6.8M, predominantly due to timing.
- **Tax balances** as a whole have increased by $4.7M, largely due to the tax consolidation adjustment.
- **Defined benefit fund liability** has decreased by $2.9M due to actuarial adjustments to the fund liability at March 2011.
- **Net debt** has decreased by $14.3M (refer cash flow for explanation).

Cash Flow

Abridged Statement of Cash Flows *	Half year ended 31 March		
A$M	2011 Actual	2010 Pro forma	% Change
Net operating cash flows			
EBIT	71.8	65.0	10.5%
Add: Depreciation	8.8	8.6	1.8%
Add: Amortisation	0.9	1.0	(7.4%)
EBITDA	81.5	74.6	9.2%
Trade working capital movement	7.7	4.0	93.3%
Non trade working capital movement	(20.9)	(2.6)	nm
Other non cash	6.8	0.1	nm
Operating cash flows (excl. standalone costs, tax and interest)	**75.2**	**76.0**	(1.2%)
Standalone costs	(4.9)	*	
Income taxes paid	(12.4)	*	
Net interest paid	(9.9)	*	
Operating cash flows	**48.0**	*	
Net investing cash flows			
Capital expenditure	(19.0)	(9.3)	(104.5%)
Acquisitions	(4.5)	-	nm
Investing cash flows	**(23.5)**	**(9.3)**	(152.7%)
Net financing cash flows			
Net movement financing	(37.8)	*	
Proceeds from issue of ordinary shares	1.3	*	
Dividends paid	(11.0)	*	
Financing cash flows	**(47.5)**	*	
Total cash flow	**(23.0)**		
Cash conversion [1]	**85.8%**	**94.7%**	
Cash conversion excl. NTWC movt and non cash	**103.1%**	**98.2%**	

** Due to the demerger in the second half of 2010, the prior year (2010) cash flow only includes operating items presented on a pro forma basis*

[1] Cash conversion is calculated as EBITDA add/less movement in working capital and other non cash, less sustenance capital spend, as a percentage of EBITDA.

- Net operating cash flows before interest and tax payments decreased by $0.8M (-1.2%):
  - This result reflects the continued growth in cash profit and strong working capital management, adversely impacted by a number of flood-related items.
- Investing cash outflows increased by $14.2M:
  - $9.7M increase in capital expenditure, predominantly related to the New Zealand factory upgrade and the new protective coatings factory in Melbourne (which are both on track for completion in 2011 in line with the combined $38M budget). Sustenance capital expenditure ($5.2M) was flat on prior year; and
  - Acquisition spend of $4.5M in 2011 related to the final earn out payment attributable to the acquisition of SOPEL in China in November 2008.
- Cash conversion remains high at 85.8%, though below the prior year level of 94.7%, predominantly due to the flood related items (within non-trade working capital and other non-cash). Excluding the movement in non-trade working capital and other non-cash, cash conversion improved from 98.2% to 103.1%.

A comparison of the key line items between the prior year (2010) pro forma cash flows and the statutory cash flow statement is included as an appendix to this report.

Segment Commentary – Paints Australia

Paints Australia EBIT up 4.9% to $51.4M

A strong result despite the impact of the Queensland floods

Paints Australia	**Half year ended 31 March**		
A$M	**2011 Actual**	**2010 Pro forma**	**% Change**
Sales revenue	284.6	287.7	(1.1%)
EBIT	51.4	49.0	4.9%
EBIT % Sales	*18.1%*	*17.0%*	

Sales revenue down $3.1M (-1.1%)

- Continued momentum particularly in trade facing businesses. Retail demand recovered after a subdued first two months (impacted by weather and lack of government stimulus).
- The business secured increased ranging in Bunnings for both Retail Paints and Cabot's following range reviews.
- Lost sales due to the loss of production at Rocklea following the Queensland floods estimated at approximately 5% of segment sales (~3% of DuluxGroup sales), with the greatest impact within the Retail business.

EBIT growth of $2.4M (+4.9%)

- Continued pressure on input costs (e.g. titanium dioxide), with some offset due to the stronger Australian dollar.
- Some cost savings achieved, together with some marketing costs deferred to the second half due to the later timing of Easter in 2011 and the floods.
- The majority of the flood-related costs and insurance recoveries are included within this segment.

Flood Recovery

- The recovery of production at Rocklea has been in line with our expectations:
  - Rocklea has returned to full production levels of water-based paints (which is typically ~80% of Rocklea production) and filling and palletising automation will soon be fully operable; and
  - Solvent-based production will commence in June or July, at which point Rocklea will be fully operational.
- Our third party tolling arrangements have continued successfully. We have entered a conditional agreement to acquire the Freeworld site in Glen Waverley, with completion expected in the second half.
- We will incur further flood-related costs in the second half due to the completion of the repair work and continuing toll manufacturing arrangements.
- Whilst stock levels are improving, we expect a modest further impact on sales in the second half.
- Importantly, we do not anticipate any long term loss of market share.

Paints Australia – Outlook

- Continued modest market conditions expected in the second half of 2011.
- Raw material prices are expected to further increase, even after taking account of the strong Australian dollar.
- Continued investment in marketing and R&D.
- The new dedicated Protective Coatings manufacturing facility at South Dandenong, Victoria, is largely complete and has begun production.
- We see the significant investment into the hardware sector by a number of our retail customers as a positive.
- We continue to see opportunities for profitable share growth within this business.

Segment Commentary – Paints New Zealand

Paints New Zealand EBIT up 11.4% to $7.8M

Solid result in a weak market, augmented by revenue and EBIT from goods manufactured to support Australian operations

Paints New Zealand	**Half year ended 31 March**		
A$M	**2011 Actual**	**2010 Pro forma**	**% Change**
Sales revenue	48.8	45.5	7.3%
EBIT	7.8	7.0	11.4%
EBIT % Sales	*16.0%*	*15.4%*	

Sales revenue up $3.3M (+7.3%)

- Sales revenue was boosted by the New Zealand business providing production support for Paints Australia operations affected by Queensland floods ($6.6M) and adversely impacted by foreign exchange translation ($1.6M).
- On a constant currency basis and prior to the Paints Australia support sales, domestic sales were down 3.5% on the previous period.
- The market remained very weak and is estimated to have declined approximately 5% in volume terms during the first half of the financial year. Most of the market decline has been experienced in the retail segment where discretionary spend remains weak in the face of rising cost of living. The Christchurch earthquakes in September 2010 and February 2011 have also contributed to the market weakness.
- Pricing discipline, particularly in trade, contributed to the sales result.

EBIT growth of $0.8M (11.4%)

- On a constant currency basis and prior to the impact of the Paints Australia flood support, EBIT was down 8.8% on the previous year.
- Continued pressure on input costs (e.g. titanium dioxide).
- Fixed costs flat on prior period despite one-off costs associated with the factory upgrade and the addition of two new trade stores.
- Small adverse impact due to Christchurch trade store damage in the February 2011 earthquake.

Paints New Zealand – Outlook

- Poor market conditions are expected to continue for the remainder of 2011.
- Any positive impact of the Christchurch reconstruction is expected from 2012.
- As per the Paints Australia outlook, input costs are expected to come under increasing pressure.
- The transfer of protective coatings manufacture to the new factory in Australia will adversely impact the second half, though this will be offset to some extent by flood support for Rocklea.
- Investment in the New Zealand paint factory is progressing to plan. Completion is due by September 2011.

Segment Commentary – Selleys Yates

Selleys Yates EBIT up 16.2% to $12.9M
Growth driven by market share gains in Selleys and a stronger start for Yates.

Selleys Yates	Half year ended 31 March		
A$M	2011 Actual	2010 Pro forma	% Change
Sales revenue	122.0	113.2	7.8%
EBIT	12.9	11.1	16.2%
EBIT % Sales	*10.6%*	*9.8%*	

Sales revenue up $8.8M (+7.8%)

- Sales revenue for Selleys grew as a result of market share gains in Australia, driven by positive outcomes from range reviews in Bunnings and the ongoing launch of new products.
- Yates revenue grew due to improved market conditions following the easing of water restrictions.
- In addition, the first quarter sales performance returned to more usual levels compared to the prior period (which had a poor start due to excess Spring stock in retail channels).

EBIT growth of $1.8M (+16.2%)

- Profit improvement was achieved through sales growth and leveraging the fixed cost base, particularly in Yates.

Selleys Yates – Outlook

- Further moderate market growth is expected for both Selleys and Yates in Australia, with New Zealand expected to remain subdued.
- The Australian Garden Care market is experiencing favourable conditions with all states except WA having received heavy rainfall over recent months. This is expected to have a positive flow-on effect for Yates volumes leading into Spring.
- Focus will remain on stimulating consumer market demand and growing market share through new product development and adjacent category growth.
- We reiterate that in addition to the organic growth opportunities within Selleys Yates, we continue to seek out bolt-on acquisitions within these categories.

Segment Commentary – Offshore and Other

Offshore and Other EBIT down 18.4% to $3.1M

Softness in China and adverse FX dilutes first half earnings

Offshore and Other	**Half year ended 31 March**		
A$M	**2011 Actual**	**2010 Pro forma**	**% Change**
Sales revenue	53.7	58.3	(7.9%)
EBIT	3.1	3.8	(18.4%)
EBIT % Sales	*5.8%*	*6.5%*	

The "Offshore and Other" segment consists of the Dulux Powder and Industrial Coatings Australia and New Zealand business, the Dulux Papua New Guinea business and the South East Asian and China businesses (known as DGL International).

Sales revenue down $4.6M (-7.9%)

- The ***DGL International Asia*** business in China experienced a challenging trading environment in the first half of this year, particularly in the core Shanghai woodcare market:
  - Volumes impacted by government constraints being imposed to regulate growth within the residential property sector; and
  - Prior year benefitted from stronger sales prior to Shanghai Expo.
- PNG revenue grew in local currency, largely due to continued market growth.
- Powder and Industrial Coatings grew mildly.
- Total segment revenue was adversely impacted by the translational of foreign revenue to A$ ($2.0M).

EBIT decline of $0.7M (-18.4%)

- A weaker result in China, driven largely by the revenue softness.
- PNG was adversely impacted by some margin compression and foreign exchange translation.
- Powder & Industrial Coatings experienced modest earnings growth despite a minor adverse impact due to the closure of the distribution centre at Rocklea following the Queensland floods.

China Strategy Update

- Whilst the operating performance in China was softer, we remain committed to developing a long term profitable position.
- We have made progress in relation to Selleys, Acratex and decorative paint, and are also reaching the end of a considerable restructure of the sales force.

Offshore and Other - Outlook

- Market conditions are expected to remain similar, though some improvement in China is anticipated in the last quarter.
- Earnings growth is expected to be tempered as we continue to invest in China in a measured way with a view to longer term growth.

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Appendix: Prior Year comparison between Statutory (Appendix 4D) and Pro forma Figures

Profit and Loss comparison (A$M)	Appendix 4D 2010	Pro forma 2010	%
Revenue	308.4	490.2	62.9%
EBIT	36.5	65.0	56.2%
Net Interest	2.9	-	nm
Tax expense	10.0	-	nm
NPAT	23.7	-	nm

As stated earlier, the 2010 statutory results in the Appendix 4D include the progressive transfer of DuluxGroup's operations into the DuluxGroup Limited ownership structure, and therefore do not reflect a full six month operating result. The Australian and New Zealand businesses were transferred in on 1 December 2009 and Malaysian operations on 1 March 2010, whilst the others were progressively transferred in the second half of 2010, as outlined at the front of this report. Therefore, for revenue and EBIT, the variation between statutory Appendix 4D numbers and the pro forma numbers in 2010 is predominantly due to the trading results before the businesses were transferred. In relation to net interest expense, the statutory Appendix 4D figures represent inter-company interest which was incurred pre-demerger. There is no external interest shown for the period to 31 March 2010, as such costs were only incurred post-demerger. There have been no pro forma figures calculated for interest for the six months to 31 March 2010. The statutory Appendix 4D tax expense reflects the lower income (for the reasons outlined above).

Appendix: Prior Year comparison between Statutory (Appendix 4D) and Pro forma Figures

Cash flow comparison (A$M)	Appendix 4D 2010	Pro forma 2010
Cash flows from operating activities		
EBITDA	43.0	74.6
Movement in trade working capital	(96.5)	4.0
Movement in non-trade working capital	25.6	(2.6)
Interest received	0.0	*
Interest paid	(2.9)	*
Income taxes paid	(5.8)	*
Other	(0.3)	0.1
Net cash inflow from operating activities	**(36.9)**	**76.0**
Cash flows from investing activities		
Payments for property, plant and equipment	(6.7)	(9.3)
Payments for intangibles	(0.1)	*
Payments for purchase of businesses and controlled entities	(305.9)	*
Proceeds from joint venture distributions	0.5	*
Other	0.0	*
Net cash outflow from investing activities	**(312.2)**	**(9.3)**
Net cash inflow from financing activities	**426.9**	*

* Not calculated in 2010 for pro forma.

The above table is provided to compare key line items between the statutory cash flow in the Appendix 4D and the abbreviated pro forma cash flow for the half year to 31 March 2010.

The abbreviated pro forma cash flow has been based on the underlying operating figures of the DuluxGroup businesses as if they were owned by DuluxGroup Limited for the full six months. However, the pro forma cash flow has not been adjusted to reflect the impact of a “capital structure”. Therefore, interest, tax, debt and equity movements (including dividends) have not been included. For any other items where there is a value in the Appendix 4D statutory cash flow and no corresponding value in the pro forma cash flow, this typically reflects demerger related transactions.

The EBITDA difference is due to the same drivers as outlined in the profit and loss comparison on the previous page. The significant adverse trade working capital movement in the statutory cash flow reflects the structuring within the demerger itself, predominantly relating to the transfer of working capital balances for the Australian businesses in December 2009.

For all other items where there is a comparison, the differences primarily relate to the progressive transfer of the assets from Orica to DuluxGroup.