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DuluxGroup

DuluxGroup Limited

ABN 42 133 404 065

ASX Announcement

14 November 2012

DULUXGROUP DELIVERS SOLID RESULTS IN CHALLENGING MARKETS

DuluxGroup today reported statutory net profit after tax and non-controlling interests of $89.5 million for the 12 months ended 30 September 2012. This included a $6.3 million tax consolidation benefit, a $7.7 million ($5.4 million after tax) uplift relating to insurance income and $2.6 million ($1.8 million after tax) of net costs associated with the bid to acquire Alesco Corporation Limited (Alesco). The Alesco net costs include transaction costs and the dividend income and interest expense associated with DuluxGroup's 19.96% shareholding in Alesco, acquired in April 2012.

Excluding these items, like for like net profit after tax (NPAT) was $79.6 million, an increase of 2.6% over the 2011 equivalent NPAT of $77.6 million.

Earnings before interest and tax (EBIT) decreased 5% to $132.2 million. Equity share of EBIT before the insurance uplift and Alesco net costs decreased by 4.7% to $128.4 million.

Sales revenue increased by $71.4 million, or 7.2%, to $1.07 billion. Of this sales growth, approximately $29 million, or 3 percentage points related to the formation of DGL Camel International (DGL Camel) during the year, following the merger of DuluxGroup's China and Hong Kong business with that of Camel in December 2011. Sales in the 2011 full year were adversely impacted by an estimated 2% as a result of lost production at our Rocklea factory following the Queensland flood. Excluding the impact of these two items, sales grew approximately 2% in very challenging markets.

The Board has declared a final dividend of 8.0 cents per share fully franked, taking the full year dividend to 15.5 cents, which represents a 70% payout ratio on like for like NPAT.

A dividend reinvestment plan (DRP) will apply for this dividend and DuluxGroup today announced that it is introducing a 2.5% discount on shares issued under the DRP.

DuluxGroup Managing Director and CEO Patrick Houlihan said the result was very solid, given generally declining markets, significant input cost pressures and post-flood operating costs incurred during the year.

"DuluxGroup has been thoroughly tested this year by weak market conditions, changing competitor and retail customer landscapes, significant input cost pressure and increased operating costs as a consequence of the Rocklea flood.

"To grow revenue and deliver like for like net profit growth of 2.6% in this environment reflects DuluxGroup's strong business fundamentals and market leadership positions, supported by solid cost control and productivity improvements," said Mr Houlihan.

The Paints Australia operating segment increased sales by 5.7% and, excluding the $7.7 million insurance uplift, delivered EBIT of $101 million, a 1.4% decline from 2011. Including the insurance uplift, EBIT grew by 1.8% to $108.8 million. The business incurred significant input cost pressure (particularly titanium dioxide) and additional operating costs, such as higher insurance premiums and higher depreciation, as a consequence of the 2011 Queensland flood.

”Sales growth in the Paints Australia segment was achieved despite the overall decorative paint market declining approximately 4 per cent. Continued investment in the marketing of our premium brands, innovation, and customer service resulted in profitable market share growth across our broad range of product categories in both retail and trade channels,” said Mr Houlihan.

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

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

DuluxGroup’s Offshore and Other business segment – comprising DGL Camel in China and Hong Kong, the Papua New Guinea (PNG) business, the Dulux Powder, Refinish and Industrial Coatings business in Australia and New Zealand (Powder Coatings) and the South East Asian business – increased sales by 35.9% to $154.6 million. EBIT declined by $1 million or 13% to $6.7 million. This segment includes, on a fully consolidated basis, 100% of the sales and EBIT of DGL Camel which was formed in December 2011. DuluxGroup holds a 51% economic interest in DGL Camel. On an equity share basis, including DuluxGroup’s 51% share of the results of DGL Camel since December 2011, EBIT for the Offshore and Other segment actually increased by $2.1 million, driven largely by growth in PNG.

During 2012 we have continued to invest in innovation, marketing and customer service to drive category growth and build on DuluxGroup’s market leading positions in Australia and New Zealand. This has resulted in some strategically important market share gains across categories.

At the same time we have looked for logical additions to grow in these core markets by leveraging our key capabilities and channel relationships. During the second half of the year we have progressed with our bid to acquire all of Alesco and we are now advanced with our integration planning. Excluding one-off transaction and integration costs, we expect the acquisition to be earnings per share accretive in the first full year of ownership.

The addition of Alesco would provide compelling opportunities to extend our respective product ranges and to cross sell products into new end markets. Following a successful acquisition, DuluxGroup would remain predominantly an Australasian paints, specialty coatings and adhesives company, and almost two thirds of DuluxGroup’s business would continue to be exposed to the relatively stable markets of the renovation and maintenance of existing homes.

During the year we have also built upon our platform in Asia where we are targeting measured growth for the longer term. The integration of the DGL Camel International joint venture has progressed to plan and targeted synergies have now been delivered.

“The business has delivered solid results this year in the face of some significant challenges. At the same time, we have continued to invest for growth in our core home improvement, commercial and construction markets and, for the longer term, in targeted Asian markets. We are well placed for ongoing success,” said Mr Houlihan.

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

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DuluxGroup Limited results for the financial year ended 30 September 2012

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

Result Summary

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

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

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

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Profit and Loss (continued)

Reconciliation between Statutory and Adjusted Figures

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

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

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

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

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

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

Profit and Loss (continued)

Key Drivers of Result

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

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

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

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

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Profit and Loss (continued)

Segment revenue and EBIT

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

Other items

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

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

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

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

1. Net interest expense – represents 'net finance costs' per Appendix 4E.

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Balance Sheet

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

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

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

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Cash Flow

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

In 2011, several line items within the cash flow were impacted by Queensland flood related activity. Refer to the 2011 Profit Report for further details.

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

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

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Segment Commentary – Paints Australia

Paints Australia EBIT $108.8M, including $7.7M flood insurance uplift;
EBIT before flood insurance uplift down 1.4% to $101.0M.

A strong performance in the context of significantly declining markets, rising input costs and additional post-flood operating costs.

Paints Australia	**Year ended 30 September**		
A$M	**2012 Actual**	**2011 Actual**	**% Change**
Sales revenue	613.9	580.6	5.7%
EBITDA before flood insurance uplift	112.9	112.1	0.7%
*Normalised EBITDA % Sales **	*18.4%*	*~18.7%*	
EBIT	108.8	106.9	1.8%
EBIT before flood insurance uplift	101.0	102.4	(1.4%)
*Normalised EBIT % Sales **	*16.5%*	*~ 17.0%*	

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

Sales revenue up $33.3M (+5.7%)

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

EBIT decline of $1.4M (-1.4%) before flood insurance uplift

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

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Segment Commentary – Paints New Zealand

Paints New Zealand EBIT down 16.5% to $8.1M

A solid result from the base business allowing for the positive impact of manufacturing for Australia in the prior period. Market conditions were boosted by Christchurch reconstruction activities.

Paints New Zealand	**Year ended 30 September**		
A$M	**2012 Actual**	**2011 Actual**	**% Change**
Sales revenue	72.3	82.5	(12.4%)
EBITDA	10.6	12.0	(11.7%)
EBITDA % Sales	*14.7%*	*14.5%*	
EBIT	8.1	9.7	(16.5%)
EBIT % Sales	*11.2%*	*11.8%*	

Sales revenue down $10.2M (-12.4%)

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

EBIT decline of $1.6M (-16.5%)

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

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Segment Commentary – Selleys Yates

Selleys Yates EBIT down 18.4% to $24.9M
A disappointing result in a soft market, with adverse mix impacting margins.

Selleys Yates	Year ended 30 September		
A$M	**2012 Actual**	**2011 Actual**	**% Change**
Sales revenue	244.6	248.9	(1.7%)
EBITDA	28.5	34.2	(16.7%)
EBITDA % Sales	*11.7%*	*13.7%*	
EBIT	24.9	30.5	(18.4%)
EBIT % Sales	*10.2%*	*12.3%*	

Sales revenue decline of $4.3M (-1.7%)

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

EBIT decline of $5.6M (-18.4%)

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

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Segment Commentary – Offshore and Other

Offshore and Other EBIT down 13.0% to $6.7M

Growth in DuluxGroup's equity share of EBIT, driven by strong performance in Papua New Guinea, slightly improved China result in softer markets, offset by further declines in Powder Coatings as a result of deteriorating new housing markets.

Offshore and Other	Year ended 30 September		
A$M	2012 Actual	2011 Actual	% Change
Sales revenue	154.6	113.8	35.9%
EBITDA	11.4	11.5	(0.9%)
EBITDA % Sales	*7.4%*	*10.1%*	
EBIT	6.7	7.7	(13.0%)
EBIT % Sales	*4.3%*	*6.8%*	
Equity share of EBIT [1]	9.8	7.7	27.3%

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

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

Sales revenue up $40.8M (+35.9%)

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

EBIT decline of $1.0M (-13.0%)

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

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

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Outlook

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

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

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

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

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

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

Alesco Update

On 30 April 2012, DuluxGroup acquired 19.96% of the shares in Alesco. The interest was acquired in advance of DuluxGroup's takeover offer for the remaining shares in Alesco that the Group does not already own. Details of this offer are set out in Note 31(d) in the Appendix 4E and further information can be obtained from DuluxGroup's bidder's statement as supplemented by various supplementary bidder's statements. These documents are available on the ASX.

As at 13 November 2012, DuluxGroup's relevant interest in Alesco plus acceptance instructions under DuluxGroup's Institutional Acceptance Facility (IAF) is 79.2%. Alesco expects to receive a draft tax ruling on or about 14 November. Assuming that this tax ruling is satisfactory, and once DuluxGroup's relevant interest plus IAF acceptance instructions and Alesco shares held by nominated index funds approaches 90%, it is expected that Alesco will determine to pay an additional fully franked dividend of up to 27 cents per share. If determined, the record date for this additional dividend is expected to be 7 business days after the dividend has been determined. Assuming that remaining conditions are not breached, DuluxGroup has agreed with Alesco not to declare its Offer unconditional until at least 3 business days after the record date. If an additional dividend of $0.27 per share is determined and paid and the Offer is declared unconditional, accepting shareholders will be paid $1.63 by DuluxGroup within 5 business days. It is DuluxGroup's objective to ensure that accepting shareholders receive payment before Christmas.

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