DuluxGroup Limited

ABN 42 133 404 065

ASX Announcement

19 May 2014

DULUXGROUP DELIVERS STRONG PROFIT GROWTH

DuluxGroup today reported a 33.6% increase in net profit after tax (excluding non-recurring items[1]) to $56.1 million for the six months ended 31 March 2014.

Managing Director Patrick Houlihan said the result was driven by strong profitable sales growth in largely positive Australian and New Zealand markets, the contribution of a full six months of Alesco earnings, disciplined cost management and margin improvement initiatives.

"This is a really pleasing result. Both the heritage DuluxGroup businesses and the acquired Alesco businesses have delivered solid earnings growth. At the same time we have fully integrated the new businesses, delivered synergies ahead of target, and are well-placed to capture ongoing growth opportunities," he said.

The Board has declared an interim dividend of 10.0 cents per share, fully franked, which is a 25% increase on the prior year interim dividend.

Sales revenue increased 16.5% to $804.5 million, assisted by six months' sales contribution from the Alesco businesses compared with four months in the 2013 first half. Sales from heritage DuluxGroup businesses grew 3.9% in improving markets and sales in the Alesco businesses grew 6.4% (on a six month pro-forma basis) in mixed market conditions.

Earnings before interest and tax (EBIT) excluding non-recurring items[1] increased by 27.5% to $90.8 million. Heritage DuluxGroup businesses grew EBIT by 12.5%, largely due to profitable sales growth, with the remainder of EBIT growth due to the full six month contribution of the Alesco businesses.

Statutory EBIT increased 58.9% to $93.9 million. Statutory net profit after tax (NPAT) was $60 million, an increase of 87.7%. These figures included non-recurring items which had a net favourable impact of $3.1m on EBIT and $3.9 million on NPAT in the current period[1].

Net debt to EBITDA further reduced to 1.89 times from 1.98 times at the 2013 year end, and 2.36 times at the 2013 half year. The improvement was assisted by a full six months' operating cash flow from the Alesco businesses.

"DuluxGroup's heritage businesses have continued to deliver strong results and earnings growth in improving markets. These businesses have a consistent track record of growth, despite mixed market conditions over the last few years, and are well placed now that our core ANZ markets have largely returned to growth," said Mr Houlihan.

"The Alesco businesses have generally outperformed in mixed markets conditions, supported by some market share gains and pricing initiatives, and by increased investment in marketing and sales effectiveness. We have also re-structured the businesses to reflect their end customer markets, and are beginning to see the benefits of leveraging DuluxGroup capability."

[1] Non-recurring items are outlined on p.16 of the attached Profit Report and included integration costs of $1.7million after tax offset by a $5.6 million after tax gain from the reversal of an excess provision for the New Zealand OCN tax matter which had been held as a contingent liability and was settled during the half. Directors believe that the result excluding these items provides a better basis for comparison from period to period and a better understanding of the underlying performance of the business.

Review of operating segments

DuluxGroup's largest operating segment, Paints Australia, grew revenue by 4.5% and EBIT by 9.8% to $61.6 million. The Australian decorative paint market grew approximately 2% in volume terms, with growth across both retail and trade channels. The business benefited from favourable mix outcomes and operating margin improvement, whilst increasing investment in marketing, innovation and sales.

The Paints New Zealand business delivered a strong result, assisted by a strengthened New Zealand dollar (~15% stronger than the prior corresponding period) and robust market conditions, with Christchurch rebuilding activity supplemented by growth in the Auckland market. Sales grew 18.7% and EBIT was up 33.8% to $9.5 million.

EBIT for Selleys Yates grew 15.7% to $14 million, despite flat sales, largely reflecting effective margin improvement programmes, particularly in Yates.

The Garage Doors & Openers business grew sales by 6% (on a six month pro-forma basis), which was a strong result given a relatively subdued Australian market, reflecting good progress on strategic initiatives, including increased investment in marketing and sales force capability, and a stronger New Zealand market. EBIT of $7.5 million grew approximately 5% excluding the impact of a prior period $0.7 million insurance gain from the Christchurch earthquake. Including this impact, EBIT was down $0.3 million or 3.8%.

Parchem Construction Products & Equipment grew EBIT by 35.7% to $3.8 million (on a six month pro-forma basis) in slightly declining markets. This reflects a strong cost reduction focus and addition of sales from the transfer of the Selleys Trade business to this segment from Selleys at the beginning of the period.

The Lincoln Sentry Cabinet and Architectural Hardware business grew EBIT by 13.3% to $3.4 million (on a six month pro-forma basis). This was driven by an 8.3% growth in sales, with market share gains underpinned by increased investment in marketing and sales effectiveness initiatives. Earnings were also assisted by tight cost control, which offset FX-driven input cost pressures.

DuluxGroup's 'Other Businesses' segment consists of the DGL Camel business in China and Hong Kong, the DGL International business in South East Asia, the Papua New Guinea business, and the Dulux Powder & Industrial Coatings business in Australia and New Zealand (Powders). EBIT for this segment (excluding Robinhood in the prior period) was down $0.2 million or 7.7%, due largely to market decline in PNG, partially offset by EBIT growth in Powders and DGL Camel. The PNG business continues to be a premium, profitable market leader in decorative paint.

"This has been a really strong first half for DuluxGroup, in which the businesses have continued to deliver profitable growth."

"We have continued to invest in the fundamentals to grow our market leading positions and to leverage group capability and expertise. We are well placed for ongoing growth," Mr Houlihan said.

Outlook for remainder of 2014

Most lead indicators for Australia are now largely positive and we expect growth in New Zealand markets to continue.

Subject to economic conditions, and excluding non-recurring items, we expect 2014 net profit after tax to be higher than the 2013 equivalent of $94.1 million.

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DuluxGroup Limited results for the half year ended 31 March 2014

Results [1]	Half year ended 31 March		
A$M	**2014 Actual**	**2013 [1] Actual**	**% Change**
Sales revenue	804.5	690.8	16.5%
EBITDA [2]	110.6	74.7	48.1%
EBIT [3]	**93.9**	**59.1**	**58.9%**
EBIT before non-recurring items [4]	*90.8*	*71.2*	*27.5%*
Net interest expense	(12.9)	(13.5)	4.4%
Tax expense	(21.7)	(15.5)	(40.0%)
Non-controlling interests	0.6	1.9	(68.4%)
Net profit after tax (NPAT) [5]	**60.0**	**32.0**	**87.7%**
NPAT before non-recurring items [6]	*56.1*	*42.0*	*33.6%*
Operating cash flow	18.1	23.1	(21.6%)
Operating cash flow before non-recurring items [7]	*36.0*	*35.2*	*2.3%*
Net debt [8] (closing)	391.6	456.7	14.3%
Net debt to EBITDA [9]	1.89	2.36	19.9%
Diluted earnings per ordinary share (EPS) (cents)	15.8	8.6	83.7%
Diluted EPS before non-recurring items (cents) [10]	*14.8*	*11.3*	*31.0%*
Interim dividend per share (cents)	10.0	8.0	25.0%

Result Summary

- **Sales revenue** of $804.5M increased by $113.7M (+16.5%) on the prior year corresponding period ('pcp'). Sales from the heritage DuluxGroup businesses (heritage DuluxGroup) grew 3.9%, in recovering markets. Growth was also favourably impacted by the timing of the acquisition of Alesco Corporation Limited (Alesco) in the pcp, with the current year containing six months of revenue, compared to only four months in the pcp.
- **EBIT** [3] of $93.9M, increased by 58.9%. Excluding non-recurring items, EBIT increased by $19.6M (+27.5%) on the pcp. Heritage DuluxGroup business EBIT increased by $9.7M or 12.5%, largely due to profitable sales growth, with the remainder due to the inclusion of the Alesco businesses for six months in 2014, compared to only four months in the pcp.
- **Net profit after tax (NPAT)** [5] was $60.0M, an increase of 87.7%. NPAT before non-recurring items [6] was $56.1M, an increase of 33.6% over the pcp equivalent of $42.0M.
- **Net debt to EBITDA** [8,9] ended the period at 1.89 times, which represents an improvement from 1.98 times at the year end and 2.36 times in the pcp. Contributing to this is a full six months of operating cash flow contribution from the Alesco businesses.

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

1. Other than as indicated in subsequent footnotes, the financial information contained in this document is directly extracted or calculated from the Financial Statements included in the Appendix 4D which has been subject to review. Please note that the pcp has been restated as a result of a change in accounting standard for employee benefits. Please refer to note 13 in the Appendix 4D.
2. EBITDA – represents 'profit from operations' plus 'depreciation and amortisation expense' per Appendix 4D.
3. EBIT – the equivalent of 'Profit from operations' per Appendix 4D.
4. EBIT before non-recurring items – represents 'profit from operations', excluding the non-recurring items outlined on page 16. Directors believe that the result excluding these items provides a better basis for comparison from period to period.
5. Net profit after tax (NPAT) – represents 'Profit for the year attributable to ordinary shareholders of DuluxGroup Limited'.
6. NPAT before non-recurring items – represents NPAT, excluding the non-recurring items per page 16. Directors believe that the result excluding these items provides a better basis for comparison from period to period.
7. Operating cash flow before non-recurring items – the equivalent of 'Net cash inflow from operating activities' per Appendix 4D, less the cash component of the non-recurring items outlined on page 16, and as further outlined on page 6.
8. Net debt – represents 'interest bearing liabilities' less 'cash and cash equivalents'.
9. Net debt to EBITDA – is calculated by taking closing net debt as a percentage of the most recent twelve months of EBITDA before non-recurring items. For 2013, this has been calculated on a pro forma basis (i.e. taking twelve months EBITDA from the Alesco businesses).
10. Diluted EPS before non-recurring items – represents EPS adjusted for the non-recurring items outlined on page 16.

Result Summary

The results for the Group have four main components:

- Heritage DuluxGroup, which relates to the DuluxGroup businesses (excluding Corporate);
- Alesco, being the result for the Alesco businesses (excluding Corporate), which are only included in the pcp's financial results from December 2012 (i.e. four months);
- Corporate, which includes both Heritage DuluxGroup and Alesco corporate costs; and
- Non-recurring items (refer page 16 for detail).

The split of sales and EBIT between these components is detailed below. NPAT is split between continuing business and non-recurring items.

Components of Sales, EBIT and NPAT	Half year ended 31 March		
A$M	2014 Actual	2013 Actual	% Change
Sales Revenue			
Heritage DuluxGroup	585.3	563.2	3.9%
Alesco (4 mths in 2013)	219.1	127.6	71.7%
Total	**804.5**	**690.8**	16.5%
EBIT			
Heritage DuluxGroup	87.5	77.8	12.5%
Alesco (4 mths in 2013)	14.6	4.2	247.6%
Corporate	(11.4)	(10.7)	(6.5%)
Non-recurring items	3.1	(12.1)	nm
Total	**93.9**	**59.1**	58.9%
NPAT			
NPAT before non-recurring items	56.1	42.0	33.6%
Non-recurring items	3.9	(10.0)	nm
Total	**60.0**	**32.0**	87.7%

As previously advised, given the statutory results in 2013 include only four months of operating performance for the Alesco businesses, pro forma results (excluding non-recurring items) are presented on the following page, and throughout this report, to provide six months of operating performance for the prior year. Please note that whilst the 2013 statutory numbers above include the result from the Robinhood business, the pro forma numbers exclude Robinhood given it was divested at the end of FY 2013.

Sale of Opel business in China

The Opel woodcare business in China was disposed of in December 2013. The business accounted for less than 25% of the revenue of the DGL Camel joint venture in China and Hong Kong. Taking account of all costs associated with the sale, including subsequent restructuring costs relating to the sale, the transaction was break even. On an ongoing basis, the impact on DGL Camel earnings is likely to be neutral.

Result Summary

A$M	2014 Actual	2013 Actual/ Pro forma	% Change
	Half year ended 31 March		
Sales revenue			
Paints Australia	339.2	324.5	4.5%
Paints New Zealand	53.9	45.4	18.7%
Selleys Yates	124.9	126.6	(1.3%)
Other businesses (Heritage DuluxGroup only)	76.6	75.5	1.5%
Eliminations	(9.3)	(8.8)	(5.7%)
Heritage DuluxGroup	**585.3**	**563.2**	**3.9%**
Garage Doors & Openers (pro forma)	81.0	76.4	6.0%
Parchem (pro forma)	61.3	58.7	4.4%
Lincoln Sentry (pro forma)	76.8	70.9	8.3%
Pro forma Alesco [1]	**219.1**	**206.0**	**6.4%**
Total Pro forma sales [1]	**804.5**	**769.2**	**4.6%**
EBIT			
Paints Australia	61.6	56.1	9.8%
Paints New Zealand	9.5	7.1	33.8%
Selleys Yates	14.0	12.1	15.7%
Other businesses (Heritage DuluxGroup only)	2.4	2.6	(7.7%)
Heritage DuluxGroup	**87.5**	**77.8**	**12.5%**
Garage Doors & Openers (pro forma)	7.5	7.8	(3.8%)
Parchem (pro forma)	3.8	2.8	35.7%
Lincoln Sentry (pro forma)	3.4	3.0	13.3%
Pro forma Alesco [1]	**14.6**	**13.6**	**7.4%**
Corporate	(11.4)	(11.3)	(0.9%)
Total Pro forma EBIT (pre non-recurring items) [1]	**90.8**	**80.0**	**13.5%**

1. Excludes Robinhood results in 2013.

DuluxGroup

Result Summary

Key Drivers of the Result

For Heritage DuluxGroup:

- Sales growth of $22.1M (+3.9%). Positive Australian and New Zealand market conditions, assisted by the translational impact of a stronger New Zealand dollar; and
- EBIT growth of $9.7M (+12.5%). Growth driven by the profitable flow through from revenue increases, plus benefits from margin improvement initiatives and stable paint input costs.

For Alesco (on a pro forma basis excluding Robinhood):

- Pro forma sales growth of $13.1M (+6.4%) in mixed market conditions, supported by some market share gains and pricing initiatives, and by increased investment in marketing and sales effectiveness; and
- Pro forma EBIT improved $1.0M (+7.4%), benefitting from the revenue growth, cost improvement programs, cost synergy delivery and lower depreciation.

Non-recurring Items

Non-recurring items for 2014 (a net gain) and 2013 (a net cost) are detailed later in this report. The major items are:

2014: Favourable impact of $3.1M pre-tax; $3.9M post-tax

- Alesco integration costs totalling $2.4M (pre-tax) and the reversal of an excess tax provision relating to the New Zealand Inland Revenue Department proceedings of $5.6M (pre and post-tax); and

2013: Adverse impact of $12.1M pre-tax; $10.0M post-tax

- Alesco acquisition related costs: transaction and integration costs totalling $10.5M (pre-tax) and purchase price allocation (PPA) adjustments of $1.7M (pre-tax).

Other Items

Net interest expense [1] of $12.9M reflects an average cost of debt of 5.4%. Interest expense was $0.6M lower than the pcp largely due to lower prevailing interest rates.

Income tax expense of $21.7M. Excluding non-recurring items, the effective tax rate was 28.8%, slightly below our expected range of 29-30% due to minor timing issues.

Interim dividend of 10.0 cents per share fully franked, which represents a 68% payout ratio based on NPAT before non-recurring items.

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

Balance Sheet

Balance Sheet A$M	Mar 2014 Actual	Sept 2013 Actual	Mar 2013 Actual
Inventories	204.4	195.8	195.4
Trade debtors	204.0	221.9	210.5
Trade creditors	(164.2)	(193.3)	(165.6)
Total trade working capital [1]	244.2	224.4	240.2
Non trade debtors [4]	18.2	15.3	18.0
Tax balances (net)	25.7	16.2	38.9
Property, plant & equipment	261.2	263.8	264.2
Intangible assets	236.0	235.8	225.5
Investments	5.3	4.7	4.2
Non trade creditors [5]	(45.8)	(55.1)	(51.5)
Defined benefit fund liability	(7.8)	(8.3)	(11.2)
Provisions (excluding tax)	(67.8)	(77.4)	(69.6)
Net debt	(391.6)	(388.7)	(456.7)
Net other assets/(liabilities)	(0.2)	0.3	0.1
Net Assets	**277.4**	**231.0**	**202.0**
Total equity attributable to ordinary shareholders of DuluxGroup Limited	274.5	226.2	190.7
Non-controlling interest in controlled entities	2.9	4.7	11.3
Total Shareholders' Equity	**277.4**	**231.0**	**202.0**

Balance sheet movements are compared to either March 2013 (for items where there is a seasonal impact, for example working capital) or September 2013 (where seasonal impacts are minimal). Comments by exception are as follows:

- **Trade working capital** [1] (TWC) increased by $4.0M from March 2013, reflecting a marginal improvement in TWC as a percentage to sales;
- **Rolling TWC to rolling sales** [2, 3] was15.0% at March 2014, consistent with both September 2013 (15.0%) and March 2013 (15.2%);
- **Net tax balances** have increased by $9.5M from September 2013. This related partly to the settlement of the New Zealand OCN tax matter within the period, and partly due to the timing of tax payments, which are now paid monthly instead of quarterly following a legislative change that came into effect in January 2014; and
- **Provisions** excluding tax have decreased by $9.6M from September 2013, largely due to the settlement of the New Zealand OCN tax matter within the period.

1. Trade working capital (TWC) – represents the trade receivables portion of 'trade and other receivables' plus 'inventory', less the trade payables portion of 'trade and other payables', per Appendix 4D.
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 4D.
4. Non trade debtors – represents the 'other receivables' portion of 'trade and other receivables', and 'other assets' per Appendix 4D.
5. Non trade creditors – represents the 'other payables' portion of 'trade and other payables', per Appendix 4D.

Cash Flow

Statement of Cash Flows	Half year ended 31 March		
A$M	2014 Actual	2013 Actual	% Change
Net operating cash flows			
EBIT	93.9	59.1	58.9%
less: Profit on sale of major assets (investing) [1]	(3.7)	-	nm
add: Depreciation	13.5	13.2	2.3%
add: Amortisation	3.2	2.5	28.0%
EBITDA	106.9	74.7	43.1%
Trade working capital movement	(24.8)	(14.3)	nm
Non trade working capital movement	(20.4)	(12.8)	nm
Other non cash	0.5	3.9	nm
Income taxes paid	(30.6)	(16.7)	(83.2%)
Net interest paid	(13.5)	(11.7)	(15.4%)
Operating cash flow	**18.1**	**23.1**	(21.6%)
Net investing cash flows			
Capital expenditure [2]	(13.9)	(9.8)	(41.8%)
Acquisitions [3]	-	(145.5)	nm
Disposals [4]	11.8	-	nm
Investing cash flow	**(2.1)**	**(155.3)**	98.6%
Financing cash flow before debt movement	**(17.7)**	**(18.5)**	4.3%
Total cash flow before debt movement	**(1.8)**	**(150.7)**	nm
Operating cash flow before non-recurring items	**36.0**	**35.2**	**2.3%**
Cash conversion [5]	**58%**	**61%**	

The operating cash flow for both the current period and pcp have been impacted by non-recurring items as follows:

- **2014** ($17.9M adverse): Alesco integration costs, the payment of the New Zealand Inland Revenue Department OCN tax penalty, and creditors paid and other costs relating to the disposed of Opel business in DGL China (more than offset by the sale proceeds included within investing cash flows); and
- **2013** ($12.1M adverse): Alesco integration and transaction costs.

Excluding these non-recurring amounts (which impacted a number of different lines on the cash flow), operating cash flow was slightly higher, with higher EBITDA mostly offset by a larger seasonal TWC movement and higher cash tax and interest. Key drivers:

- **TWC movement** (~$4M unfavourable compared to the pcp excluding non-recurring items in both periods) – the higher movement in TWC shows the impact of seasonal trade working capital balances and sales growth;
- **Non TWC movement** (~$1M favourable to the pcp excluding non-recurring items);

1. Profit on sale of major assets – represents profit on disposal of the Opel business in China. Refer note 3 in the Appendix 4D.
2. Capital expenditure – represents the 'payments for property, plant and equipment' and 'payments for intangible assets'.
3. Acquisitions – represents 'payments for purchase of businesses and controlled entities, net of cash acquired'
4. Disposals – represents 'proceeds from disposal of business', 'proceeds from sale of property, plant and equipment' and 'proceeds from price adjustment on purchase of controlled entities'.
5. Cash conversion is calculated as adjusted EBITDA, add/less movement in working capital and other non cash, less minor capital spend (capital project spend less than A$5M), as a percentage of adjusted EBITDA. Adjusted EBITDA excludes non-recurring items.

Cash Flow

- **Income tax payments** (~$9M unfavourable to the pcp excluding non-recurring items) – in 2014 we have paid two months' extra tax instalments compared to the pcp due to the legislated change from quarterly to monthly PAYG tax payments (refer balance sheet section); and
- **Interest paid** (~$2M unfavourable compared to the pcp) – this differs to the interest expense variance in the income statement ($0.6M favourable) due to a payment timing benefit in the pcp.

Whilst cash conversion was slightly below prior period, underlying working capital metrics remain sound, and we expect cash conversion for the full year to revert to ~80%, subject to year-end working capital seasonality.

Key drivers of the remainder of the cash flow are:

- Investing cash outflows decreased by $153.2M, due largely to the acquisition of Alesco in the pcp, whilst the current year includes $10.8M gross proceeds from the disposal of the Opel business in China and other minor asset disposals; and
- Capital expenditure increased by $4.1M on the pcp due to capital spend on IT integration activities and a full six months of Alesco business capital spend in the current period compared to four months in the pcp.

Segment Commentary – Paints Australia

Paints Australia EBIT of $61.6M, up 9.8%.

Continued growth in an improving market.

Paints Australia	**Half year ended 31 March**		
A$M	**2014 Actual**	**2013 Actual**	**% Change**
Sales revenue	339.2	324.5	4.5%
EBITDA	67.7	61.8	9.5%
EBIT	61.6	56.1	9.8%
EBIT % Sales	*18.2%*	*17.3%*	

Sales revenue up $14.7M (+4.5%)

- The Australian decorative paint market grew ~2% in volume terms, with growth in both retail and trade decorative paint channels. The one soft spot was in Protective Coatings where project activity has declined with reduced investment in mining and heavy industry.
- Underlying market share was broadly flat, with strong market growth in the new housing sector, where our share is lower, being a key driver.
- The remainder of the revenue growth was due largely to a combination of price, particularly in trade channels, and positive mix outcomes.

EBIT growth of $5.5M (+9.8%)

- Increased investment in marketing, innovation and sales initiatives.
- Margins improved through some short term input cost relief (particularly in TiO2, with other input costs increasing), procurement benefits driven by internal efficiency programs and leverage of the fixed cost base.

Segment Commentary – Paints New Zealand

Paints New Zealand EBIT of $9.5M, up 33.8%.

A strong result driven by positive market conditions, fixed cost leverage and foreign exchange translation.

Paints New Zealand	Half year ended 31 March		
A$M	2014 Actual	2013 Actual	% Change
Sales revenue	53.9	45.4	18.7%
EBITDA	10.9	8.4	29.8%
EBIT	9.5	7.1	33.8%
EBIT % Sales	*17.6%*	*15.6%*	

Sales revenue up $8.5M (+18.7%)

- Sales in local currency up ~4%, with the remainder coming from the translational impact of a stronger New Zealand dollar (up ~15% year on year).
- Market growth of ~4% reflected a continued recovery of the New Zealand market overall, led by Auckland and supplemented by Christchurch activity, and builds on market growth of ~9% in 2013.

EBIT growth of $2.4M (+33.8%)

- Approximately half of the EBIT growth was attributable to the stronger New Zealand dollar.
- Short term input cost relief.
- Margins improved as fixed costs were well managed.

Segment Commentary – Selleys Yates

Selleys Yates EBIT of $14.0M, up 15.7%.

Growth driven mainly by margin improvement in Yates with Selleys growing moderately.

Selleys Yates	**Half year ended 31 March**		
A$M	**2014 Actual**	**2013 Actual**	**% Change**
Sales revenue	124.9	126.6	(1.3%)
EBITDA	15.5	13.7	13.1%
EBIT	14.0	12.1	15.7%
EBIT % Sales	*11.2%*	*9.6%*	

Sales revenue down $1.7M (-1.3%)

- The sales result for this segment was adversely impacted by the transfer of Selleys Trade revenue to Parchem. Excluding this change, sales for the segment were flat.
- Selleys sales (excluding the Parchem change) grew moderately in growing markets. Marginal growth in Australia and improved sales in New Zealand, additionally boosted by a favourable foreign exchange impact, were offset by a decline in intercompany export sales to Asia (due to increased local manufacture in these markets).
- Yates sales declined marginally, largely due to product mix initiatives.

EBIT growth of $1.9M (+15.7%)

- Selleys grew EBIT moderately, with good fixed cost control partially offset by input cost pressures. The transfer of Selleys trade to Parchem had a negligible EBIT impact.
- Despite the sales decline, Yates EBIT increased due to the impact of margin improvement projects, including improved product mix and supply chain improvements.

Segment Commentary – Garage Doors and Openers

Garage Doors and Openers EBIT of $7.5M, down 3.8% on pro forma 2013 EBIT.

Solid result in a relatively subdued market, and given insurance income in the pcp.

Garage Doors & Openers	Half year ended 31 March		
A$M	**2014**	**2013**	**% Change**
Statutory (4 months in 2013)			
Sales revenue	81.0	46.3	
EBITDA	10.4	5.0	
EBIT	7.5	2.7	
EBIT % Sales	*9.3%*	*5.8%*	
Pro forma (6 months in 2013)			
Sales revenue	81.0	76.4	6.0%
EBITDA	10.4	11.0	(5.5%)
EBIT	7.5	7.8	(3.8%)
EBIT % Sales	*9.3%*	*10.2%*	

Sales revenue up $4.6M (+6.0%) on pro forma 2013 revenue

- The Australian market grew slightly, with alterations and additions (~55% of B&D revenue) weaker and new housing (~30%) stronger. The New Zealand market grew more strongly.
- Share outcomes were mildly negative due to a focus on exiting lower margin business, and price increases were implemented to manage the impact of input cost pressures.

EBIT decline of $0.3M (-3.8%) on pro forma 2013 EBIT

- The prior year was positively impacted by net insurance gains resulting from the Christchurch earthquake of A$0.7M. Excluding this impact, EBITDA was broadly in line with the pcp and EBIT grew ~5%.
- The result included a further increase in sales and marketing investment of $0.7M, including B&D advertising on TV with the first national campaign in many years.
- Whilst depreciation and amortisation was lower than the pcp in the half, the second half is expected to be consistent with the pcp.

Segment Commentary – Parchem

Parchem EBIT of $3.8M, up 35.7% on pro forma 2013 EBIT.

Profit growth despite adverse commercial and infrastructure market conditions.

Parchem	Half year ended 31 March		
A$M	**2014**	**2013**	**% Change**
Statutory (4 months in 2013)			
Sales revenue	61.3	34.9	
EBITDA	4.9	1.3	
EBIT	3.8	0.2	
EBIT % Sales	*6.2%*	*0.6%*	
Pro forma (6 months in 2013)			
Sales revenue	61.3	58.7	4.4%
EBITDA	4.9	4.4	11.4%
EBIT	3.8	2.8	35.7%
EBIT % Sales	*6.2%*	*4.8%*	

Sales revenue up $2.6M (+4.4%) on pro forma 2013 revenue

- Sales revenue was up 4.4%, including the transfer of the Selleys Trade business for this six month period. Excluding this impact, sales revenue was broadly in-line with the pcp.
- Core construction chemicals (~55% of revenue) declined slightly due to market weakness (particularly WA infrastructure / projects sector in October and November, with the other months collectively showing growth). The decorative concrete business (~25%) declined and equipment (~20%) returned to growth.

EBIT growth of $1.0M (+35.7%) on pro forma 2013 EBIT

- EBITDA grew 11.4%, driven by procurement initiatives and a strong cost control focus.
- Depreciation decreased $0.4M as a result of acquisition accounting impacts, though this benefit will reverse in the second half.

Segment Commentary – Lincoln Sentry

Lincoln Sentry EBIT of $3.4M, up 13.3% on pro forma 2013 EBIT.

EBIT growth driven by market share gains across the business.

Lincoln Sentry	**Half year ended 31 March**		
A$M	**2014**	**2013**	**% Change**
Statutory (4 months in 2013)			
Sales revenue	76.8	41.4	
EBITDA	4.5	0.7	
EBIT	3.4	(0.1)	
EBIT % Sales	*4.4%*	*(0.2%)*	
Pro forma (6 months in 2013)			
Sales revenue	76.8	70.9	8.3%
EBITDA	4.5	4.1	9.8%
EBIT	3.4	3.0	13.3%
EBIT % Sales	*4.4%*	*4.2%*	

Sales revenue up $5.9M (+8.3%) on pro forma 2013 revenue

- Revenues were driven by market share gains, particularly in Blum products and other cabinet hardware, in a market that displayed moderate growth.
- Revenue growth was achieved across both cabinet and architectural hardware categories.
- Share growth was underpinned by investments in marketing programs and sales effectiveness initiatives over the previous 12 months.

EBIT growth of $0.4M (+13.3%) on pro forma 2013 EBIT

- Driven by sales growth and tight control of costs, despite unfavourable foreign exchange movements impacting the cost of goods for resale.
- Price initiatives have been implemented post the half year to mitigate this impact.

Segment Commentary – Other businesses

EBIT of $2.4M down 7.7% on prior period (excluding Robinhood).

Decline due to market softness in Papua New Guinea, partially offset by China and Powders.

Other businesses	**Half year ended 31 March**		
A$M	**2014**	**2013**	**% Change**
Statutory (includes 4 months of Robinhood in 2013)			
Sales revenue	76.6	80.5	(4.8%)
EBITDA	4.6	4.6	0.0%
EBIT	2.4	2.1	14.3%
EBIT % Sales	*3.1%*	*2.6%*	
Excluding Robinhood			
Sales revenue	76.6	75.5	1.5%
EBITDA	4.6	4.9	(6.1%)
EBIT	2.4	2.6	(7.7%)
EBIT % Sales	*3.1%*	*3.4%*	
Robinhood			
Robinhood EBIT (pro forma in 2013)	-	(0.5)	nm

The Other businesses segment consists of DGL Camel in China and Hong Kong, the Papua New Guinea business, the Dulux Powder and Industrial Coatings Australia and New Zealand business (Powder Coatings), the South East Asian business, and the disposed Robinhood appliance business (acquired as part of Alesco).

- Statutory results for this segment were impacted by the inclusion of four months of results from Robinhood in the pcp, which was disposed of on 16th September 2013.
- **DGL Camel** revenue grew 2.3%, despite disposing of the Opel Woodcare business during the period, primarily due to a foreign exchange translation benefit of ~14% in very mixed markets, which were mildly positive overall. EBIT improved from the first half of 2013, due to margin improvements and fixed cost savings.
- **Powder Coatings** revenue grew 12%, driven by a strong New Zealand construction market and translational benefits of the stronger New Zealand Dollar. Australian sales increased slightly in a mildly positive market. EBIT also grew as a result.
- The performance of the **Papua New Guinea** business continued to be adversely impacted by a slowing economy and a significant devaluation of the local currency (Kina) compared to the pcp. Despite a decline in both sales revenue and EBIT, this business remains the premium, profitable market leader in the decorative paints segment.
- The **South East Asian** business produced a flat EBIT result on higher sales, due to investment in fixed costs to broaden the distribution base.

Segment Commentary – Corporate

Corporate costs of $11.4M, up 0.9% on pro forma 2013 costs.

Increases in Heritage DuluxGroup costs plus accounting changes, partially offset by synergies in Alesco.

Corporate Costs	Half year ended 31 March		
A$M	2014 Actual	2013 Actual/ Pro forma	% Change
Corporate costs	(11.4)	(11.3)	(0.9%)

Corporate costs up 0.9%

- Corporate costs are now shown as one result rather than separating DuluxGroup and Alesco corporate.
- Corporate costs increased by $0.1M. The result reflects fringe benefits tax relating to the debt forgiveness on the close-out of the 2010 Long Term Incentive Scheme ($1.5M), and $0.9M of costs relating to share matching for the Employee Share Investment Plan, offset by further Alesco corporate cost synergies.
- Additionally, as outlined on page one of this report, changes in accounting standards have impacted the balances of DuluxGroup's defined benefit superannuation scheme. This charge is reflected in both the current period as well as the pcp. Further details are provided in note 13 of the Appendix 4D.
- We expect second half Corporate costs to be marginally higher than first half costs, largely due to timing.

Non-recurring items

The non-recurring items are detailed below:

Non-recurring items	Half year ended 31 March	
A$M	**EBIT**	**NPAT**
2014		
Alesco integration costs	(2.4)	(1.7)
Reversal of excess NZ OCN tax matter provision	5.6	5.6
Total	**3.1**	**3.9**
2013		
Non-recurring Alesco PPA adjustments	(1.7)	(1.2)
Alesco transaction costs	(5.7)	(5.5)
Alesco integration costs	(4.8)	(3.3)
Total	**(12.1)**	**(10.0)**

Alesco integration costs refer to the costs associated with integrating the Alesco businesses into DuluxGroup. Costs largely relate to IT and finance shared service integration activities. A similar amount to that spent in the current period will be spent in the second half of 2014, resulting in total integration costs in line with previous guidance of up to $15M.

The **reversal of the excess NZ OCN tax matter provision** relates to a reversal of the excess portion of a contingent liability provision that was held in relation to an Optional Convertible Note (OCN) matter with the New Zealand Commissioner of Inland Revenue. The matter was settled during the period, and A$5.6M of this provision was written back to the profit and loss.

Non-recurring Alesco PPA adjustments refer to the non-recurring component of the Purchase Price Allocation adjustments that were made in the pcp as part of the Alesco acquisition accounting process. These primarily relate to the fair value adjustment to finished goods inventory sold in the period.

Alesco transaction costs refer to the transaction costs associated with the acquisition of Alesco, incurred in the pcp. These costs total $9.9M over 2012 and 2013, within the previously supplied guidance of $9M to $10M. No further costs have been incurred.

DuluxGroup

Outlook

Subject to economic conditions and excluding non-recurring items, we continue to expect that 2014 net profit after tax will be higher than 2013 net profit after tax of $94.1M, excluding non-recurring items.

DuluxGroup's businesses are predominantly exposed to the existing home, with 64%[1] of revenue relating to maintenance and home improvement activities (which can range from minor do-it-yourself or do-it-for-me jobs to more significant home renovations). This market has proven to be quite resilient in Australia over a number of years, and this is expected to continue, provided general consumer confidence and spending remain at or above recent levels.

Continued strength in Australian new housing approvals is starting to flow through to increased commencements and we reiterate that most of DuluxGroup's new residential housing business (~16%[1] of revenue) occurs at the tail end of construction.

The outlook for commercial and infrastructure (~16%[1] of revenue) is less positive. In Australia, the outlook for major engineering and infrastructure projects is particularly weak, though recently announced Federal Budget infrastructure initiatives may provide growth in the medium term.

We expect market growth to continue in New Zealand, driven by new housing, and further translational gains in the second half will occur if the A$/NZ$ rate holds at current levels. We are yet to see material market growth in our main product areas in China, and pressure experienced for the past 12 months in PNG may continue.

On the whole, input cost increases appear to be manageable. We do expect some minor margin compression in the second half for Paints Australia and New Zealand compared to the first half due to seasonality factors and input cost increases, with operating margins in the second half expected to be similar to the second half of 2013.

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

On 1st April 2014 a new organisational structure came into effect. The key feature of this new structure will be the formation of a Consumer and Construction Products division comprising the Selleys and Parchem businesses. In addition, the Yates business will be managed on a stand-alone basis. Further, as a result of the increasing harmonisation and the similarity of the long term economic outlook, it is expected that the paints business in Australia and New Zealand will be aggregated into one reportable segment. This will impact the reportable segments disclosure as at 30 September 2014. The new segments are expected to be:

- Paints Australia and New Zealand (ANZ)
- Consumer and Construction Products
- Garage Doors and Openers
- Lincoln Sentry
- Other (as per current plus Yates)

We expect to provide to the market historical numbers reflecting this new segment structure prior to September 2014.

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1. Revenue splits as per 2013 full year pro forma revenue.