Chairman's Report

I am pleased to report that DuluxGroup has continued to grow and increase profits this year. During our sixth consecutive year of underlying profit growth, we also reinvested for ongoing growth in our principal Australian and New Zealand markets and further developed niche offshore growth opportunities.

Market conditions

Underlying demand fundamentals remained generally strong in DuluxGroup's core market – the maintenance and improvement of existing homes. Underpinned by an existing stock of approximately 10 million homes in Australia, of which about 70% are older than 20 years, this market accounts for two thirds of DuluxGroup revenue. Low interest rates, stable GDP growth and high house prices further reinforced the long term resilience of this market.

Changes in retail hardware channels, including the closure of Masters, delivered some short term revenue challenges. However, our heritage Dulux, Selleys and Yates businesses effectively managed these, delivering excellent results and growing margins, despite this short term pressure.

Although of less significance to DuluxGroup, the new housing segment continued to grow strongly. Approvals have peaked, however a solid pipeline of work is yet to be commenced and completed. DuluxGroup is deliberately less exposed to this lower margin segment of the market.

While commercial markets were positive, other non-residential construction continued to be negatively affected by declining investment in resources infrastructure. With civil infrastructure investment yet to fill the gap, there was some revenue impact on those parts of our business more exposed to these sectors.

The New Zealand market was generally favourable, but our Papua New Guinea business, in particular, was significantly affected by deteriorating economic conditions in the wake of continuing downturn in major resource projects.

The result

A 4.6%[1] increase in group net profit after tax (NPAT) was driven by solid earnings growth across most businesses. Diluted earnings per share (EPS) growth was 3.7%[1], continuing year-on-year EPS growth since DuluxGroup emerging as an independent company in 2010.

Our net debt to EBITDA ratio increased slightly. Strong cash conversion was slightly offset by the increased capital expenditure related to our new water-based paint factory, which is scheduled to open in Melbourne in late 2017. However, our debt levels remain at the lower end of our range, providing a comfortable level of flexibility to fund capital expenditure in targeted growth projects.

Shareholder returns

The Board has declared a final dividend of 12.5 cents per share, fully franked, taking the total dividend for the year to 24.0 cents per share, which represents a 6.7% increase on the 2015 equivalent, and a 71% pay-out ratio on NPAT. The record date for the final dividend is 17 November 2016 and the dividend payment date is 9 December 2016. DuluxGroup's Dividend Reinvestment Plan (DRP) will operate in respect of the final dividend.

Since DuluxGroup listed as an independent company in July 2010 total shareholder return has been 235% compared with 64% for the ASX200 Accumulation Index[2].

Growth and investment focus

This above-market TSR has been delivered alongside reinvestment to secure longer term growth for DuluxGroup.

The new Dulux and Selleys distribution centre opened in Sydney in June this year. It has replaced our outgrown existing warehouses and has capacity to support the strong growth ahead for these two businesses. This purpose-built facility is owned and operated by a specialist third party logistics provider, and has a strong financial payback.

Construction is well underway on Dulux's new state-of-the art, water-based paints factory in Melbourne. At $165 million, this is DuluxGroup's largest capital expenditure project to date and sets up our world-class Australian paints and coatings business for growth for decades to come. It will provide a solid financial payback through cost savings and operational efficiencies. It will also produce more advanced paint products, reduce the level of waste and significantly reduce the fire and flood risk in our paint production. It is on track to begin production in late 2017.

During the year, we continued to profitably grow our existing paints, specialty coatings and adhesives businesses in Australia and New Zealand. These businesses represent approximately two thirds of DuluxGroup revenue. Dulux and Selleys are high quality performers, and this year they again did well despite some of the market pressures I mentioned earlier. Considerable progress was made in reshaping the Parchem Construction Products business to be more exposed to projected growth in civil infrastructure markets, reducing Parchem's focus on resource sector related construction.

Our core paints, specialty coatings and adhesives focus is supplemented by DuluxGroup's presence in other home improvement categories in Australia and New Zealand including garden care, garage doors & openers and cabinet & architectural hardware. In June DuluxGroup acquired the Munns lawn care business in Australia, expanding Yates' brand portfolio.

We are also continuing to seed niche offshore growth opportunities, focussed primarily on our paints and Selleys businesses. In August DuluxGroup acquired Craig & Rose, a small UK-based paints business.

1. Excluding non-recurring items in FY15, which are outlined on page 19 of the Annual Report.
2. Based on closing prices at 30 September 2016.

6.7%

INCREASE IN TOTAL DIVIDEND

For a modest investment we have secured a premium paint brand combined with local manufacturing capability. It provides a solid foundation for measured growth in the UK over the medium to long term.

Safety and sustainability

Our people and Board remain focussed on continuously improving the safety and sustainability of our operations. Central to this is identifying and managing significant risks to ensure that we prevent harm and make a positive contribution to the communities where we operate. During the year we made good progress against our four focus areas of disaster prevention, fatality prevention, injury prevention and sustainability. The number of serious near misses involving fatality risks and the number of recordable injuries both fell 11%. Our recordable injury rate is very good by industry standards and it was pleasing to also see a 40% reduction in the most serious injuries. It has been more than three decades since a major incident or disaster occurred in our chemical manufacturing processes. Given the likely high consequence of any such incident, constant vigilance is a priority. Product stewardship improvement remained our key sustainability priority and all businesses made good progress during the year.

Our people and operations

DuluxGroup employs approximately 4,000 people throughout the globe, with more than 3,000 of those located here in Australia.

Our employees at all levels feel a strong sense of ownership for our businesses and iconic brands, which is reflected in the vast majority of eligible employees choosing to hold shares in DuluxGroup in their own right.

Likewise, our executive remuneration structure is designed to focus executive effort on the long term strength and prosperity of the company, and provides clear and direct alignment with shareholder interests through share ownership. This is demonstrated by the high levels of share ownership amongst our Executive team and our requirement that all senior managers build a meaningful shareholding in DuluxGroup in addition to their long term incentive scheme shares. The full details of the Remuneration Framework are outlined in the Remuneration Report on page 67.

Diversity

Increasing the gender, cultural and age diversity of DuluxGroup's workforce remains a key priority for the Board and management. We are employing proportionally more women than ever before, including at the graduate level, and more women are in senior management roles than at any time in our history. Four of our business units are now led by women, twice as many as last year, and in the traditionally male dominated sales area six state managers are women. We still have some way to go, but the growing representation amongst graduates, middle and senior management provides a pipeline of candidates for future general business manager and executive roles.

Board renewal

In June, Graeme Liebelt joined the Board. All of the other directors were appointed at the time of, or soon after, DuluxGroup's demerger from Orica six years ago. It is a key part of our succession planning that we identify candidates with the desired skills to ensure renewal and orderly succession when the need arises. Graeme is clearly one such candidate and I am pleased to welcome him to the DuluxGroup Board. I would also like to express my thanks, on behalf of all shareholders, to Gaik Hean Chew, who will retire from the Board at the upcoming Annual General Meeting. Amongst her many valuable contributions, Gaik Hean has provided an important international perspective to our deliberations over the past six years and we wish her well in her future endeavours.

Thank you

I would also like to thank Patrick Houlihan, his management team and all employees for their contribution to another successful year at DuluxGroup.

On behalf of Board members, I thank you our shareholders for your continued support.

With DuluxGroup well positioned for ongoing profit growth, the outlook for your company remains very strong. I look forward to the next opportunity to update you on DuluxGroup's performance.

PETER KIRBY
8 NOVEMBER 2016