DuluxGroup Limited

ABN 42 133 404 065

ASX Announcement

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2015 AGM – CHAIRMAN'S ADDRESS

Performance – Year in Review

It has now been five years since DuluxGroup demerged to become an independent company, and over that time it has established a consistent trend of profit and dividend growth. The share price has more than doubled and total shareholder return has consistently outperformed the ASX200 index of companies.

That trend has continued this year. Net profit after tax, before non-recurring items, increased 11.5%. The non-recurring items are provisions for the future restructuring costs associated with two very important supply chain investments, which I will come to shortly. Including these items, net profit after tax increased 7.9%.

Our net debt to EBITDA ratio, which is the most logical measure of our gearing levels, further reduced during the year, reflecting very good cash generation.

We also extended a portion of our debt and secured more favourable pricing, further reducing our overall cost of debt.

Dividend and shareholder returns

The total dividend for the year was 22.5 cents per share, an increase of 9.8% on the 2014 equivalent. This represents a 70% payout ratio on net profit after tax and before non-recurring items.

Diluted earnings per share grew 9.9%[1], continuing a pattern of year-on-year growth since demerger.

Strategy and growth

Over the past five years DuluxGroup has broadened its product and end customer market portfolio. However, at its heart it remains predominantly a paints, specialty coatings and adhesives company, focussed on the existing home improvement market. And more than 90% of our revenue continues to come from Australia and New Zealand.

[1] Excluding non-recurring items

We also have market leading businesses in adjacent home improvement product categories – such as garden care and garage doors – where consumer preference for premium brands plays to our strengths.

In China, Hong Kong and other parts of Asia, we are continuing to invest to grow in niche paints, coatings and adhesives categories over the longer term. We are also seeding opportunities in other offshore markets. We are very focussed on 'proving the concept' and ensuring these businesses 'earn the right to grow'.

When we look at potential growth opportunities in our markets, an ability to add value through our core sales, marketing, innovation and supply chain capabilities remains at the forefront of our strategy.

The addition of Porter's Paints this year was a relatively small acquisition that broadens our offering in decorative paints.

The addition of the Alesco businesses in late 2012 has been our most significant step-change to date. These three businesses – B&D Garage Doors & Openers, Parchem Construction Products and Lincoln Sentry Cabinet & Architectural Hardware – are all profitable with market leading positions. They are already paying their way, relative to the purchase price, and we see plenty of upside. We are confident of taking these businesses to the next level of performance.

We are also investing in our supply chain to support strong organic growth in our core ANZ paints and adhesives businesses. In March we announced that we will build a $165 million, state-of-the-art, water-based paints factory in Melbourne. It is on schedule to open in late calendar year 2017. The Dulux Australia business is – by any measure – world class. This once-in-a-generation investment will renew the fabric of this market leading business and set it up for decades to come. It will deliver significant operational and financial benefits. The new factory will make almost all of our water-based paints for the Australian market, which are currently made at our 50 year old Queensland factory. The Queensland factory will continue to make our solvent-based decorative paint products.

We are also establishing a purpose-built distribution centre to support growth in our Dulux and Selleys businesses in New South Wales. It will replace two existing warehouses, which the businesses have outgrown, and will be owned and operated by a specialist third party logistics provider. The new distribution centre will deliver a strong financial payback and a small positive net present value, driven by lower operating costs.

As I mentioned earlier, the non-recurring costs recognised this year are to provide for redundancy and restructuring costs associated with these two projects.

Balance sheet and capital management

We have capacity and flexibility in our balance sheet, and we will continue to seek growth opportunities during 2016. We also have significant capital expenditure associated with the new factory over the next two years. However, we will continue to review our debt position and consider capital management options open to us.

Remuneration, driving an ownership culture

This year we conducted an external review of the remuneration framework for our senior management and non-executive directors. Benchmarked against a group of 25 peer companies, the review confirmed that DuluxGroup's total remuneration packages are competitive. They were found to be effective in driving strong performance and attracting and retaining high calibre people. Importantly, the framework ensures strong alignment between the interests of management, other stakeholders and shareholders.

The shares that were granted to our senior executives in 2012 under the Long Term Equity Incentive Plan have recently vested. The vesting reflects earnings per share growth over that time exceeding the required threshold level.

Executives derive value from the Long Term Plan through share price growth and through the potential for partial forgiveness of the original loan value in the event that DuluxGroup outperforms on a total shareholder return basis. For this particular plan, DuluxGroup was in the 85th percentile over the three year measurement period relative to a comparator group of ASX200 companies – which resulted in forgiveness of the maximum level of 30% of the original loan value.

A strong sense of ownership in DuluxGroup's success is reinforced through minimum unrestricted shareholdings for senior executives and non-executive directors. However, beyond that, approximately 70% of eligible Australian and New Zealand employees have chosen of their own volition to join you as shareholders. This speaks volumes about our employees' personal commitment and connection to the company.

Diversity

A high performance culture relies on attracting and retaining high calibre employees with diverse experience and backgrounds. We're looking for a rich pool of collective intelligence. We have made steady progress on improving the age and cultural diversity of our workforce this year, and it remains a priority for us.

Gender diversity has been a particular focus. We are now attracting more women to DuluxGroup and more women are in leadership positions than ever before. Three of the eleven members of the DuluxGroup Executive team are women – our Executive General Managers of Selleys and of Yates and our recently appointed Executive General Manager of Human Resources. And, 40% of our non-executive directors are women.

Governance

A diverse range of skills and experience at Board level is an important element of good governance. This year an external review found that the Board is functioning very effectively. It has an appropriate blend of expertise and knowledge to support DuluxGroup's growth agenda and a robust accountability framework. Of course, there are always opportunities for improvement, and we are focussed on those.

Safety and Sustainability

Our focus on safety is fundamental to how we operate at DuluxGroup and we invest considerable time and money into our safety program. A truly good company must be a safe company. This year we made good progress in many areas such as serious risk identification, but we were disappointed that our injury rate increased. Patrick Houlihan will discuss this in more detail. In terms of our sustainability measures, we further reduced the level of waste generation and water consumption across our sites. There was a slight increase in total energy consumption and we are committed to ongoing improvement in this area.

Thank you

I would like thank Patrick, his management team and all employees for their contribution to another successful year of steady profit growth.

I would also like to thank my fellow board members and our fellow shareholders for your continued support.

In conclusion, DuluxGroup has delivered very solid results this year and is reinvesting to deliver long term profitable growth. We are very positive about the outlook for our businesses and confident DuluxGroup is well placed for ongoing success.

I will now invite Patrick Houlihan to address the meeting.

Thank you.

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