DULUXGROUP LIMITED

Appendix 4E
Preliminary Final Report
For the year ended 30 September 2017

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Results for Announcement to the Market

DuluxGroup Limited and its controlled entities results for announcement to the market are set out in the table below:

	September 2017	September 2016	Change $'000	Change %
Consolidated revenue from operations	1,784,468	1,716,259	68,209	4.0%
Profit for the period attributable to ordinary shareholders of DuluxGroup Limited	142,941	130,417	12,524	9.6%

Dividends

	Amount per security Cents	Franked amount per security at 30% tax Cents
Final dividend on ordinary shares for the year ended 30 September 2017 (record date 27 November 2017; payment date 13 December 2017)	13.5	13.5
Interim dividend on ordinary shares for the year ended 30 September 2017	13.0	13.0
Final dividend on ordinary shares for the previous corresponding period	12.5	12.5
Interim dividend on ordinary shares for the previous corresponding period	11.5	11.5

The Company's Dividend Reinvestment Plan (DRP) will operate with respect to the final dividend. The last date for receipt of election notices for participation in the final dividend under the DRP is 28 November 2017.

Explanation of Results

Please refer to the 'Review of Operations' for an explanation of the results.

Other Information

	30 September 2017 Cents	30 September 2016 Cents
Net tangible assets backing per ordinary security	45.9	30.7

Audit Statement

This report is based on financial statements which have been audited.

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Review of Operations

Result Summary

- **Sales revenue** of $1,784.5M, increased $68.2M (+4.0%)
  - All segments achieved revenue growth
  - Strong growth in particular from Dulux ANZ (+5.2%), Selleys ANZ (+5.5%), and Lincoln Sentry (+4.0%)
- **EBIT** of $214.2M, increased 6.5% or $13.1M
  - Dulux ANZ delivered a $8.5M (+5.4%) EBIT increase, continuing its track record of consistent earnings growth
  - The other ANZ segments (Selleys & Parchem ANZ, B&D Group and Lincoln Sentry) delivered a combined $8.2M (+14.1%) EBIT increase, with all achieving double digit growth
  - The Other businesses segment's EBIT was down $3.2M, or 22%, driven by a weaker result in DGL Camel China and Hong Kong
- **Net profit after tax (NPAT)** of $142.9M increased 9.6%. NPAT included a $3.1M write back of a tax provision established in previous years. Excluding the write back, NPAT increased 7.3%
- **Operating cash flow** was $166.0M, an increase of 7.1% (excluding non-recurring items in the prior period), predominantly due to higher earnings
- **Cash conversion** was strong, at 86%
- **Investments** in capability and growth, including the Dulux Merrifield paint factory (now in commissioning phase, on time and within budget), the UK business and the new Selleys joint venture in Indonesia
- **Net debt to EBITDA** remains healthy at 1.4x
- **A final dividend** of 13.5 cents per share. Total dividend increased 10.4% to 26.5 cents per share fully franked, representing a dividend payout ratio of 72%

Results	**Full year ended 30 September**		
A$M	**2017**	**2016**	**% Change**
Sales revenue	1,784.5	1,716.3	4.0%
EBITDA	245.5	233.4	5.2%
Depreciation and Amortisation	(31.3)	(32.3)	3.1%
EBIT	**214.2**	**201.1**	**6.5%**
Net profit after tax (NPAT)	**142.9**	**130.4**	**9.6%**
NPAT excluding write back of tax provision	*139.9*	*130.4*	*7.3%*
Operating cash flow	166.0	144.9	14.6%
Operating cash flow (excluding non-recurring items in 2016)	*166.0*	*155.0*	*7.1%*
Cash Conversion (excluding non-recurring items in 2016)	86%	87%	*(1.0) pts*
Net debt inclusive of USPP hedge value	334.2	300.6	(11.2%)
Net debt to EBITDA	1.4	1.3	(7.7%)
Diluted earnings per ordinary share (EPS) (cents)	36.7	33.5	9.6%
Final dividend per share (cents)	13.5	12.5	8.0%
Total dividend per share (cents)	26.5	24.0	10.4%

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

Review of Operations (continued)

Result by Segment

Key components of the result include:

- Consistent EBIT growth from Dulux ANZ driven by good revenue growth, with decorative paint markets returning to historical growth rates, and good margin management;
- Strong EBIT growth from Selleys & Parchem ANZ. Selleys EBIT growth was primarily driven by revenue growth of 5.5%. Parchem's EBIT grew as a result of second half revenue growth and the ongoing business reshaping with lower costs and improved product mix;
- Strong EBIT growth in B&D Group, driven by revenue growth in positive markets and margin improvement (product and channel mix);
- Continued strong EBIT growth from Lincoln Sentry driven by revenue growth in cabinet hardware products;
- EBIT decline in Other businesses primarily due to a weaker result in DGL Camel China and Hong Kong, with EBIT growth in Yates, SE Asia and PNG offsetting planned investment in the UK; and
- Corporate costs well managed, with cost savings reinvested into growth projects and resources.

Sales and EBIT by segment	**Full year ended 30 September**		
A$M	**2017**	**2016**	**% Change**
Sales revenue			
Dulux ANZ	937.3	890.6	5.2%
Selleys & Parchem ANZ	260.7	253.9	2.7%
B&D Group	182.5	177.9	2.6%
Lincoln Sentry	195.2	187.7	4.0%
Other businesses	222.2	217.0	2.4%
Eliminations	(13.5)	(11.0)	(22.7%)
Total sales revenue	**1,784.5**	**1,716.3**	**4.0%**
EBIT			
Dulux ANZ	165.0	156.5	5.4%
Selleys & Parchem ANZ	33.7	29.5	14.2%
B&D Group	18.2	16.1	13.0%
Lincoln Sentry	14.5	12.5	16.0%
Other businesses	11.3	14.5	(22.1%)
Business EBIT	**242.6**	**229.1**	**5.9%**
Corporate	(28.4)	(28.0)	(1.4%)
Total EBIT	**214.2**	**201.1**	**6.5%**

Further discussion on the results of the segments follows from page 10.

Review of Operations (continued)

Other Items

Results	Full year ended 30 September		
A$M	2017	2016	% Change
EBIT	**214.2**	**201.1**	**6.5%**
Net finance costs	(17.3)	(19.9)	**13.1%**
Tax expense	(57.3)	(52.1)	**(10.0%)**
Non-controlling interests	3.3	1.4	nm
NPAT	**142.9**	**130.4**	**9.6%**
Effective tax rate	*29.1%*	*28.8%*	

- **Excess tax provision write-back**
  - All occurred in the first half
  - No impact on EBIT
  - $0.6M favourable impact on net finance costs
  - $2.5M net favourable impact on tax expense

- **Net finance costs**
  - Total finance costs were $2.6M lower than the prior corresponding period (pcp), due partly to lower prevailing base interest rates and the tax provision write-back impact of $0.6M
  - Includes:
    - a $2.1M (non-cash) charge relating to the unwinding of discounting of provisions (Rocklea restructuring $1.0M, other provisions $1.1M); and
    - $1.8M (non-cash) defined benefit fund interest
  - Excludes $2.9M of capitalised interest associated with the new Dulux Merrifield paint factory
  - Average all-in net cost of debt[1] of 4.3% (4.8% in the pcp)

- **Income tax expense**
  - Effective tax rate of 29.1% (28.8% in the pcp)
  - Excluding the tax provision write-back, the effective tax rate was 30.5% for the period
  - The base effective rate in FY18 is expected to be ~30%

- **Non-controlling interests**
  - Higher non-controlling interest add back due to our joint venture partner's share of the higher losses in the DGL Camel joint venture

1. All-in net cost of debt – calculated as Net finance costs excluding the $3.9M unwinding of the discount on provisions and defined benefit fund interest, excluding the $0.6M benefit relating to the tax provision write-back and including $2.9M of capitalised interest associated with the new paint factory

Review of Operations (continued)

Cash Flow

Operating cash flow was $166.0M, $11.0M (7.1%) higher than the pcp (excluding non-recurring items)

The increase in Trade Working Capital (TWC) outflow reflected both business growth and an increase in the year end TWC / sales ratio from 15.3% to 15.9% (largely timing driven – refer Balance Sheet section). The favourable "Other" cash flow result reflected the prior year cash payment of the provisions relating to the establishment of our new NSW Dulux and Selleys distribution centre ($10.1M) as well as favourable timing impacts on other non-trade creditors

Income taxes paid decreased as a result of timing of tax payments

A key driver of the remainder of the cash flow is an increase in major capital expenditure of $36.5M, due to the new Dulux Merrifield paint factory

Cash conversion was 86%, a strong result and above our target cash conversion of 80%+

Statement of Cash Flows	**Full year ended 30 September**		
A$M	**2017**	**2016**	**% Change**
Operating cash flows			
EBITDA	245.5	233.4	5.2%
Trade working capital movement	(25.3)	(8.7)	(191%)
Other	8.9	(11.7)	*nm*
Income taxes paid	(49.7)	(52.5)	5.3%
Net interest paid	(13.4)	(15.5)	13.5%
Operating cash flow	**166.0**	**144.9**	14.6%
non-recurring cash items included above	-	*(10.1)*	*nm*
Operating cash flow excluding non-recurring items	***166.0***	***155.0***	*7.1%*
Net investing cash flows			
Minor capital expenditure	(18.1)	(19.5)	7.2%
Major capital expenditure (paint factory)	(77.9)	(41.4)	(88.2%)
Acquisitions	(0.6)	(13.3)	95.5%
Disposals	0.2	0.5	(60.0%)
Dividends received	0.0	0.5	*nm*
Investing cash flow	**(96.5)**	**(73.0)**	(32.2%)
Dividends paid and equity movements	**(101.6)**	**(93.6)**	(8.5%)
Total cash flow before debt movement	**(32.0)**	**(21.8)**	(46.8%)
Cash conversion excluding non-recurring items	**86%**	**87%**	

Refer to glossary on page 19 for definition of terms

Review of Operations (continued)

Balance Sheet

Balance sheet movements are compared to September 2016. Comments by exception are as follows:

- **Rolling** (or average) **TWC** as a percent of sales was 15.8%, favourable to 16.0% at September 2016 as we continue to focus on our working capital management;
- Point in time **TWC** worsened on a percent to sales basis (15.9% versus 15.3% at September 2016), largely due to the financial year ending on a weekend, which has a short term timing impact on debtors;
- **Property plant & equipment** increased, largely due to the investment in the new Dulux Merrifield paint factory;
- The **defined benefit fund liability** decreased $19.5M following the regular half-yearly actuarial reassessments of the fund liability, with the majority of the decrease in the first half. The key driver of the change was an increase in the discount rate. This is a balance sheet adjustment only, with an equal amount reflected in reserves; and
- **Net debt** inclusive of the USPP hedge value increased by $33.6M during FY17, with expenditure on the new Dulux Merrifield paint factory a key driver (refer cash flow). Net debt to EBITDA remains comfortable at 1.4x.

	Full year ended 30 September	
A$M	**2017**	**2016**
Inventories	229.4	218.9
Trade debtors	274.5	252.3
Trade creditors	(220.6)	(208.3)
Total trade working capital	283.3	262.9
Non trade debtors	12.9	13.4
Deferred tax balances (net)	22.3	31.9
Property, plant & equipment	371.8	312.0
Intangible assets	228.7	234.0
Investments	7.8	6.5
Non trade creditors	(44.5)	(42.8)
Defined benefit fund liability	(37.0)	(56.5)
Provision for income tax	(18.6)	(14.4)
Provisions (excluding tax)	(90.7)	(88.0)
Net debt inclusive of USPP hedge value	(334.2)	(300.6)
Other	5.5	(4.8)
Net Assets	**407.3**	**353.7**
TWC to rolling sales (point in time) %	15.9%	15.3%
Rolling TWC to rolling sales %	15.8%	16.0%
Net debt to EBITDA	1.4	1.3

Refer to glossary on page 19 for definition of terms

Review of Operations (continued)

Dulux ANZ - Paints and coatings

EBIT of $165.0M, up $8.5M or 5.4%

Continued strong performance in positive markets, consistent with long term track record

Dulux ANZ	**Full year ended 30 September**		
A$M	**2017**	**2016**	**% Change**
Sales revenue	937.3	890.6	5.2%
EBITDA	179.7	172.8	4.0%
EBIT	165.0	156.5	5.4%
EBIT % Sales	*17.6%*	*17.6%*	

Sales revenue up $46.7M (+5.2%)

- Revenue grew ~5% in the Australian business (~90% of segment) and ~6% in New Zealand
- In Australia, revenue reflected solid market growth, good share gains and positive price benefits, to offset raw material price increases
- Australian market growth was ~2%
  - The decorative paint market grew at ~1.5%, in line with historical growth rates:
    - The renovation and repaint market (typically ~75% of market volume) was flat overall, with strong second half growth offsetting the first half decline. The market impact of the Masters exit has fully cycled through with markets reverting to historical growth rates.
    - New housing (~20% of market volume) grew at ~6%
    - Commercial market (~5% of market volume) grew at ~3.5%
  - The texture coatings, powder coatings and protective coatings markets also grew
- Market share gains in Australia reflected our continued focus on marketing and innovation, the benefits of our alignment with key retail customers and the ongoing investment in our own trade distribution network
- Positive selling price outcome reflected price increases to offset raw material price increases and a skew towards premium products
- Revenue growth in New Zealand driven by positive markets and share gains

EBIT growth of $8.5M (+5.4%)

- Strong EBIT growth, reflecting the sales growth
  - Raw material costs increased modestly driven by second half increases (primarily titanium dioxide)
  - ~$1M of start-up and commissioning expenses associated with the new Merrifield paint factory were absorbed
- Further investment in marketing and extension of the trade network in both Australia and New Zealand
- Depreciation was $1.6M lower; $1.2M lower in the first half as a result of the FY16 asset useful life review and $0.4M lower in the second half, due to deliberately lower minor capital expenditure levels in FY16 and FY17 during Merrifield construction
- Full year EBIT margins were in line with FY16, consistent with strategy and guidance

Review of Operations (continued)

Dulux ANZ - Paints and coatings (continued)

FY18 Outlook

- Targeting continued revenue and EBIT growth underpinned by positive markets and share gains
- We expect the operational commencement of the Merrifield paint factory to be fully absorbed within the Dulux ANZ result in FY18
  - First half start-up and commissioning expenses ~$2M are expected to be offset by the gain on sale of the Glen Waverley site
  - Incremental depreciation (which will commence upon beneficial production) is expected to be offset by cost savings
- Raw material costs are expected to increase at well above inflation rates driven by titanium dioxide and latex. Consistent with history, strategies to mitigate the impact are being implemented
- Full year EBIT margins are expected to be in line with FY17

Review of Operations (continued)

Selleys & Parchem ANZ - Sealants, adhesives, fillers and construction chemicals

EBIT of $33.7M, up $4.2M or 14.2%

Sales-led earnings growth in Selleys, cost / margin improvement earnings growth in Parchem

Selleys & Parchem ANZ	**Full year ended 30 September**		
A$M	**2017**	**2016**	**% Change**
Sales revenue	260.7	253.9	2.7%
EBITDA	36.5	32.6	12.0%
EBIT	33.7	29.5	14.2%
EBIT % Sales	*12.9%*	*11.6%*	

Sales revenue up $6.8M (+2.7%)

- Selleys sales grew 5.5% in mildly positive markets driven by strong performance of premium branded products in key retail customers
- Parchem sales declined slightly with strong second half growth in the Fosroc business (share gains in bottoming markets) largely offsetting first half declines (weak markets and strategic decision to exit low margin products)

EBIT growth $4.2M (+14.2%)

- Selleys EBIT increased, largely due to sales growth, with margin and costs generally well managed
- Parchem EBIT increased, reflecting the benefits of prior year cost reduction initiatives and ongoing product mix and distribution optimisation

FY18 Outlook

- Selleys is well positioned for continued growth
- With its cost base and product mix greatly improved, and markets expected to bottom after multi year declines, Parchem will continue to be repositioned for growth via an increased focus on commercial and civil construction markets and further optimisation of the distribution model

Review of Operations (continued)

B&D Group - Garage doors and openers

EBIT of $18.2M, up $2.1M or 13.0%

Earnings growth driven by sales and margin improvement

B&D Group	**Full year ended 30 September**		
A$M	**2017**	**2016**	**% Change**
Sales revenue	182.5	177.9	2.6%
EBITDA	24.9	22.6	10.2%
EBIT	18.2	16.1	13.0%
EBIT % Sales	*10.0%*	*9.1%*	

Sales revenue up $4.6M (+2.6%)

- Overall market growth of ~3%, with ~2% growth in the Australian market and a stronger New Zealand market
- A decision to exit a number of very low margin legacy new housing contracts impacted overall share in Australia but positively impacted average selling price, as did ongoing product mix initiatives

EBIT growth of $2.1M (+13.0%)

- EBIT increase was driven by sales growth and margin improvement (product and channel mix) while increasing marketing spend by $1M

FY18 Outlook

- Targeting profit growth driven by further business improvement and growth initiatives in marketing, innovation and distribution

Review of Operations (continued)

Lincoln Sentry - Cabinet and architectural hardware distribution

EBIT of $14.5M, up $2.0M or 16.0%

Continued revenue and profit growth

Lincoln Sentry	**Full year ended 30 September**		
A$M	**2017**	**2016**	**% Change**
Sales revenue	195.2	187.7	4.0%
EBITDA	16.6	14.8	12.2%
EBIT	14.5	12.5	16.0%
EBIT % Sales	*7.4%*	*6.7%*	

Sales revenue up $7.5M (+4.0%)

- Sales growth was led by the cabinet hardware business, in generally positive markets, primarily focused on the renovation of existing homes
- Volumes and share outcomes were consistent across the year but second half revenue growth was impacted by competitive market conditions, which impacted price

EBIT growth of $2.0M (+16.0%)

- EBIT growth was driven by the flow through of the sales growth, together with good margin and fixed cost control

FY18 Outlook

- The business remains well positioned for continued share growth, supported by the launch of its new online store

Review of Operations (continued)

Other businesses - Yates garden care, DGL Camel China and Hong Kong (51%-owned), DGL SE Asia, Dulux PNG, DGL UK

EBIT of $11.3M, down $3.2M or 22.1%

EBIT decline driven by an adverse result in DGL Camel. Growth in Yates, South East Asia and PNG offset the planned investment in the UK

Other businesses	**Full year ended 30 September**		
A$M	**2017**	**2016**	**% Change**
Sales revenue	222.2	217.0	2.4%
EBITDA	14.3	17.3	(17.3%)
EBIT	11.3	14.5	(22.1%)
EBIT % Sales	*5.1%*	*6.7%*	

- **Yates ANZ** revenue increased largely due to sales from the Munns acquisition (from June 2016) and share gains in flat markets (weather related, particularly in the first half). EBIT growth driven by sales growth and fixed cost control
- **DGL Camel** revenue declined and EBIT fell by A$3.3M to a loss of A$5.4M. Higher raw material costs impacted profitability and decisions to scale back on less profitable parts of the business adversely impacted second half revenue and costs.
- The **DGL South East Asia** business grew revenue and EBIT driven by growth in Vietnam and Malaysia
- The **Dulux PNG** business increased revenue and EBIT despite weak economic conditions
- The **DGL UK** business made an EBIT loss due to the planned investment in sales, marketing and management. Selleys and Craig & Rose products were launched into the new Bunnings UK and Homebase stores during the year
- The **PT Avian Selleys Indonesia** joint venture will form part of this segment from the 2018 financial year

FY18 Outlook

- We expect growth from Yates, South East Asia and PNG to more than offset the investment in the UK business and Indonesian joint venture
- A strategic review of the DGL Camel coatings portfolio is underway

Review of Operations (continued)

Non-recurring items

There were no non-recurring items in the period

Whilst not called out as a non-recurring item, the result included a $3.1M write back of a tax provision, which had no impact on EBIT, but positively impacted tax ($2.5M) and interest ($0.6M)

Dulux Merrifield Paint Factory

The new Dulux paint factory in Merrifield, Victoria is on time and within its $165M budget. Construction of the factory is now largely complete, with the commissioning stage underway and progressing well. Scale up to full beneficial production levels is expected to occur during the first half of the 2018 financial year (most likely early in Q2)

Utilisation of the Rocklea restructuring provision of ~$9M is expected to occur in the first half of the 2018 financial year

During the 2017 year, capital of $78M was spent on the factory, inclusive of $2.9M of capitalised interest. The schedule below outlines the remaining estimated capital expenditure associated with the factory (including $11M of accruals at year-end), most of which is expected to flow in the first half of 2018

DuluxGroup Merrifield paint factory

A$M	pre-2016	2016	2017	2018	Total
Capital expenditure (cash)	8	41	78	38	165

Annualised depreciation of the new factory will be ~$7M, with FY18 pro-rated based on the final timing for beneficial production. Operational savings are expected to offset the incremental depreciation in both FY18 and FY19. Start-up and commissioning expenses in FY18 of ~$2M are expected to be offset by the gain on sale of the Glen Waverley site

Growth Strategy

Selleys Indonesian Joint Venture

In August 2017, DuluxGroup and PT Avia Avian Indonesia agreed to form an Indonesian joint venture company, PT Avian Selleys Indonesia. The joint venture is 50.01% owned by DuluxGroup and will manufacture and market Selleys products in Indonesia. With minimal capital investment, DuluxGroup will leverage Selleys technology, brand and market capabilities in a large and growing market, by partnering with Avian, a leading Indonesian paint manufacturer with an extensive local distribution network selling into approximately 40,000 retail hardware outlets. The joint venture is expected to commence trading in the second half of the 2018 financial year

Review of Operations (continued)

Outlook

Overall

Subject to economic conditions and excluding non-recurring items, we expect that 2018 net profit after tax will be higher than the 2017 equivalent of $142.9M

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

Markets

Lead indicators for our key markets remain largely positive

The key existing home segment exposure (~65%[1] of DuluxGroup revenue) is expected to continue providing resilient and profitable growth, underpinned by:

- 10 million existing dwellings in Australia, of which two thirds are detached homes and 70% are more than 20 years old

Underlying market demand for this end market is generally consistent given that many of the projects that use our products focus on maintenance activities of the existing home, are individually of relatively small value and often are, or can be, do-it-yourself in nature

The new housing construction market (~15%[1] of DuluxGroup revenue, late cycle) is expected to remain relatively strong in FY18 due to the solid pipeline of work. Although the number of annual completions is forecast to decline from a peak of ~222,000[2] in March 2017 to ~209,000[2] in September 2018, the level of activity is still strong in a historical context. DuluxGroup businesses are strategically less exposed to this lower margin sector

Commercial and engineering markets (~15%[1] of DuluxGroup revenue). Non-residential construction markets are expected to be solid. Engineering construction markets are expected to be flat with increases in infrastructure spending to largely offset continued weakness in the resources sector. Engineering maintenance markets are expected to remain solid

The outlook for the PNG economy remains weak, with an improvement in economic conditions dependent on international investment in major resources projects

Outlook comments from the Business Segments

Dulux ANZ

- Targeting continued revenue and EBIT growth underpinned by positive markets and share gains
- We expect the operational commencement of the Merrifield paint factory to be fully absorbed within the Dulux result in FY18
  - First half start-up and commissioning expenses ~$2M are expected to be offset by the gain on sale of the Glen Waverley site
  - Incremental depreciation (which will commence upon beneficial production) is expected to be offset by cost savings
- Raw material costs are expected to increase at well above inflation rates driven by titanium dioxide and latex. Consistent with history, strategies to mitigate the impact are being implemented
- Full year EBIT margins are expected to be in line with FY17

Selleys & Parchem ANZ

- Selleys is well positioned for continued growth
- With its cost base and product mix greatly improved, and markets expected to bottom after multi year declines, Parchem will continue to be repositioned for growth via an increased focus on commercial and civil construction markets and further optimisation of the distribution model

1. Indicative revenue splits for DuluxGroup
2. Source: BIS Oxford Economics

Review of Operations (continued)

Outlook (continued)

B&D Group

- Targeting profit growth driven by further business improvement and growth initiatives in marketing, innovation and distribution

Lincoln Sentry

- The business remains well positioned for continued share growth, supported by the launch of its new online store

Other businesses

- We expect growth from Yates, South East Asia and PNG to more than offset the investment in the UK business and Indonesian joint venture
- A strategic review of the DGL Camel coatings portfolio is underway

Other:

- Corporate costs for the FY18 year are expected to be ~$30M
- The base effective tax rate is expected to be ~30%
- Annual depreciation expense for FY18, excluding Merrifield is expected to be ~$32M. In addition, Merrifield depreciation of $7M (annualised) is expected to commence on a pro-rated basis early in the second quarter
- DuluxGroup is targeting operating cash conversion of 80%+ for the full year, excluding non-recurring cash flow items
- DuluxGroup is targeting improvements in point in time and rolling TWC in FY18
- FY18 Net Finance costs are expected to be $1M - $1.5M higher than the FY17 expense of $17.3M (assuming constant interest rates) after taking into account:
  - Expected debt levels;
  - Structural changes to financing arrangements (eg. expiry of interest rate swaps);
  - Recognition of interest expense associated with the Merrifield factory capital expenditure once full beneficial production commences. This interest has been capitalised during construction (FY17 Merrifield capitalised interest was $2.9M); and
  - The cessation of the unwinding of discounting on the Rocklea restructuring provision ($1.0M in FY17).
- The Glen Waverley site was retained as back-up during construction of the Merrifield factory with an expectation that the site would be sold in FY18. Given the good progress with the Merrifield factory, the Glen Waverley site was classified as held for sale at 30 September 2017, and early in FY18 a sale contract was entered into. A profit on sale is expected to be recognised in the first half of FY18
- Capital expenditure excluding the Merrifield capital is expected to be ~$30M in FY18. This level is less than FY17 depreciation and amortisation (excluding Merrifield) of $31.3M, and is consistent with spend levels prior to the Merrifield project (during which spend on other capital projects was tightened)

Glossary

1. EBITDA – represents EBIT plus depreciation and amortisation
2. EBIT – represents earnings before interest and tax
3. Net profit after tax (NPAT) – represents 'Profit for the half year attributable to ordinary shareholders of DuluxGroup Limited' per the financial statements
4. Operating cash flow – the equivalent of 'Net cash inflow from operating activities'
5. Net debt inclusive of USPP hedge value and Net debt to EBITDA – are calculated by taking closing net debt, adjusted to include the asset balance relating to the cross currency interest rate swap and interest rate swap established to hedge the United States dollar (USD) currency and interest rate exposures relating to the US Private Placement (USPP) debt. Net Debt to EBITDA reflects this measure as a multiple of the most recent twelve months of EBITDA before non-recurring items
6. Trade working capital (TWC) – represents the net trade receivables portion of 'trade and other receivables' plus 'inventory', less the trade payables portion of 'trade and other payables', per the financial statements
7. Rolling TWC to rolling sales – calculated as the 12 month rolling average of month end TWC balances divided by the most recent 12 months sales revenue. This figure is not directly extracted from the financial statements
8. Non trade debtors – represents the 'other receivables' portion of 'trade and other receivables', and 'other assets', per the financial statements
9. Non trade creditors – represents the 'other payables' portion of 'trade and other payables', per the financial statements
10. Capital expenditure – represents the 'payments for property, plant and equipment' and 'payments for intangible assets' per the financial statements
11. Acquisitions – represents 'payments for purchase of businesses, net of cash acquired'
12. Disposals – represents 'proceeds from sale of property, plant and equipment'
13. Cash conversion – is calculated as EBITDA, less movement in trade working capital and other operating cash flow movements excluding interest and tax, less minor capital spend (capital expenditure less than $5.0M), as a percentage of EBITDA

Consolidated Income Statement

For the financial year ended 30 September

	Notes	30 September 2017 $'000	30 September 2016 $'000
Revenue		**1,784,468**	1,716,259
Other income	3	**4,227**	3,221
Expenses			
Changes in inventories of finished goods and work in progress		**(6,339)**	(3,608)
Raw materials and consumables used and finished goods purchased for resale		**726,836**	701,027
Employee benefits		**389,791**	385,785
Depreciation and amortisation	4	**31,282**	32,267
Repairs and maintenance		**13,281**	13,901
Operating leases		**52,436**	47,306
Outgoing freight		**73,070**	68,172
Other expenses[1]		**295,363**	274,197
Share of net profit of equity accounted investment	19	**(1,235)**	(676)
		1,574,485	1,518,371
Earnings before interest and income tax expense (EBIT)		**214,210**	201,109
Finance income		**189**	224
Finance expenses	4	**(17,483)**	(20,122)
Net finance costs		**(17,294)**	(19,898)
Profit before income tax expense		**196,916**	181,211
Income tax expense	13	**(57,255)**	(52,150)
Profit for the year		**139,661**	129,061
Attributable to:			
Ordinary shareholders of DuluxGroup Limited		**142,941**	130,417
Non-controlling interest in controlled entities		**(3,280)**	(1,356)
Profit for the year		**139,661**	129,061

		cents	cents
Earnings per share			
Attributable to the ordinary shareholders of DuluxGroup Limited:			
Basic earnings per share	5	**37.3**	34.1
Diluted earnings per share	5	**36.7**	33.5

The above consolidated income statement should be read in conjunction with the accompanying notes.

(1) Largely comprises of advertising and marketing expenditure, commissions, royalties and other fixed and variable costs.

Consolidated Statement of Comprehensive Income

For the financial year ended 30 September

	2017	2016
	$'000	$'000
Profit for the year	**139,661**	129,061
Other comprehensive income/(loss)		
Items that may be reclassified to the income statement		
Cash flow hedge reserve		
Effective portion of changes in fair value of cash flow hedges	**1,991**	(2,945)
Income tax (expense)/benefit	**(597)**	883
Foreign currency translation reserve		
Foreign currency translation loss on foreign operations	**(4,344)**	(697)
Total items that may be reclassified to the income statement, net of tax	**(2,950)**	(2,759)
Items that will not be reclassified to the income statement		
Retained earnings		
Actuarial gains/(losses) on defined benefit plan	**21,759**	(32,551)
Income tax (expense)/benefit	**(6,528)**	9,765
Total items that will not be reclassified to the income statement, net of tax	**15,231**	(22,786)
Other comprehensive income/(loss) for the year, net of tax	**12,281**	(25,545)
Total comprehensive income for the year	**151,942**	103,516
Attributable to:		
Ordinary shareholders of DuluxGroup Limited	**155,240**	104,584
Non-controlling interest in controlled entities	**(3,298)**	(1,068)
Total comprehensive income for the year	**151,942**	**103,516**

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 30 September

	Notes	2017 $'000	2016 $'000
Current assets			
Cash and cash equivalents		**38,974**	39,068
Trade and other receivables	7	**277,677**	256,315
Inventories	7	**229,394**	218,873
Derivative financial assets	15	**3,847**	3,269
Other assets		**6,613**	5,180
Assets held for sale	8	**6,814**	-
Total current assets		**563,319**	522,705
Non-current assets			
Other receivables	7	**35**	65
Derivative financial assets	15	**36,945**	57,040
Equity accounted investment	19	**7,753**	6,518
Property, plant and equipment	9	**371,805**	312,041
Intangible assets	10	**228,670**	234,047
Deferred tax assets	13	**50,436**	59,231
Other assets		**3,138**	4,155
Total non-current assets		**698,782**	673,097
Total assets		**1,262,101**	1,195,802
Current liabilities			
Trade and other payables	7	**264,912**	250,766
Interest-bearing liabilities	14	**16,570**	12,904
Derivative financial liabilities	15	**619**	3,229
Current tax liabilities		**18,567**	14,386
Provisions	12	**77,369**	65,124
Total current liabilities		**378,037**	346,409
Non-current liabilities			
Other payables	7	**249**	270
Interest-bearing liabilities	14	**398,116**	388,679
Deferred tax liabilities	13	**28,096**	27,335
Provisions	12	**13,339**	22,913
Defined benefit liability	20	**36,964**	56,466
Total non-current liabilities		**476,764**	495,663
Total liabilities		**854,801**	842,072
Net assets		**407,300**	353,730
Equity			
Share capital	16	**277,282**	264,886
Treasury shares	16	**(22,286)**	(10,658)
Reserves		**(101,444)**	(97,852)
Retained earnings[1]		**257,101**	197,409
Total equity attributable to ordinary shareholders of DuluxGroup Limited		**410,653**	353,785
Non-controlling interest in controlled entities		**(3,353)**	(55)
Total equity		**407,300**	353,730

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

(1) The retained earnings of the Group includes the profits reserve of the parent entity, DuluxGroup Limited. For details of the parent entity's stand alone profits reserve, refer to note 26.

Consolidated Statement of Changes in Equity

For the financial year ended 30 September

	Total equity attributable to ordinary shareholders of DuluxGroup Limited									
	Share capital $'000	Treasury shares $'000	Share-based payments reserve $'000	Cash flow hedge reserve[2] $'000	Foreign currency translation reserve $'000	Common control reserve[3] $'000	Retained earnings $'000	Total $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 October 2016	**264,886**	**(10,658)**	**8,763**	**(2,886)**	**5,481**	**(109,210)**	**197,409**	**353,785**	**(55)**	**353,730**
Profit/(loss) for the year	**-**	**-**	**-**	**-**	**-**	**-**	**142,941**	**142,941**	**(3,280)**	**139,661**
Other comprehensive income/(loss), net of tax	**-**	**-**	**-**	**1,394**	**(4,326)**	**-**	**15,231**	**12,299**	**(18)**	**12,281**
Total comprehensive income for the year	**-**	**-**	**-**	**1,394**	**(4,326)**	**-**	**158,172**	**155,240**	**(3,298)**	**151,942**
Transactions with owners, recorded directly in equity										
Purchase of treasury shares	**-**	**(18,002)**	**-**	**-**	**-**	**-**	**-**	**(18,002)**	**-**	**(18,002)**
Shares allocated under the dividend reinvestment plan (DRP)	**-**	**6,366**	**-**	**-**	**-**	**-**	**-**	**6,366**	**-**	**6,366**
Sale of treasury shares	**-**	**8**	**-**	**-**	**-**	**-**	**-**	**8**	**-**	**8**
Share-based payments	**-**	**-**	**3,185**	**-**	**-**	**-**	**-**	**3,185**	**-**	**3,185**
Shares vested under the LTEIP and ESIP [1]	**12,396**	**-**	**(3,845)**	**-**	**-**	**-**	**-**	**8,551**	**-**	**8,551**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**(98,480)**	**(98,480)**	**-**	**(98,480)**
Balance at 30 September 2017	**277,282**	**(22,286)**	**8,103**	**(1,492)**	**1,155**	**(109,210)**	**257,101**	**410,653**	**(3,353)**	**407,300**
Balance at 1 October 2015	256,483	(159)	7,444	(824)	6,466	(109,210)	178,524	338,724	1,013	339,737
Profit/(loss) for the year	-	-	-	-	-	-	130,417	130,417	(1,356)	129,061
Other comprehensive loss, net of tax	-	-	-	(2,062)	(985)	-	(22,786)	(25,833)	288	(25,545)
Total comprehensive income for the year	-	-	-	(2,062)	(985)	-	107,631	104,584	(1,068)	103,516
Transactions with owners, recorded directly in equity										
Purchase of treasury shares	-	(18,313)	-	-	-	-	-	(18,313)	-	(18,313)
Shares allocated under the DRP	-	7,623	-	-	-	-	-	7,623	-	7,623
Sale of treasury shares	-	32	-	-	-	-	-	32	-	32
Share-based payments	-	-	3,727	-	-	-	-	3,727	-	3,727
Shares vested under the LTEIP and ESIP [1]	8,403	159	(2,408)	-	-	-	-	6,154	-	6,154
Dividends paid	-	-	-	-	-	-	(88,746)	(88,746)	-	(88,746)
Balance at 30 September 2016	264,886	(10,658)	8,763	(2,886)	5,481	(109,210)	197,409	353,785	(55)	353,730

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

(1) The total amount of $8,551,000 (2016: $6,154,000) comprises of the following:

- Proceeds of $7,317,000 (2016: $4,795,000) (being the net loan repayable after taking account of debt repaid via dividends and any loan forgiveness) were received as repayment for shares vested under the 2013 Long Term Equity Incentive Plan (LTEIP) (2016: 2012 LTEIP).
- Amounts totalling $1,234,000 (2016: $1,359,000) were applied as settlement for shares vested under the Employee Share Investment Plan (ESIP). Under the ESIP, proceeds collected from employees by way of a salary sacrifice are recognised by the Group as a liability until such time as an employee has the right to sell the shares, at which time the amount is recognised in contributed equity.

(2) The closing balance of Cash Flow hedging reserve includes the foreign currency basis reserve which represents changes in the fair value of the Cross Currency Interest Rate Swaps (CCIRS) attributable to movement in the foreign currency basis spread.

(3) Common control reserve comparative has been restated to account for deferred tax liability on indefinite life intangibles, refer to note 13.

Consolidated Statement of Cash Flows

For the financial year ended 30 September

	2017 $'000	2016 $'000
Cash flows from operating activities		
Profit before income tax expense	**196,916**	181,211
Adjustments for:		
Depreciation and amortisation	**31,282**	32,267
Amortisation of prepaid supply agreements	**1,296**	1,081
Share-based payments expense	**3,185**	3,727
Defined benefit service cost	**5,750**	4,965
Research and development grant income	**(962)**	(1,599)
Share of net profit of equity accounted investment	**(1,235)**	(676)
Impairment of inventories, trade and other recievables	**3,380**	2,209
Net loss on sale of property, plant and equipment	**234**	1,043
Net foreign exchange (gains)/losses on operating items	**(1,792)**	2,732
Net finance cost	**17,294**	19,898
	255,348	246,858
Changes in assets and liabilities:		
Increase in trade, other receivables and other assets	**(26,740)**	(3,772)
Increase in inventories	**(13,338)**	(2,523)
Increase/(decrease) in trade and other payables and provisions	**13,840**	(27,591)
Cash generated from operations	**229,110**	212,972
Interest received	**189**	224
Interest paid	**(13,628)**	(15,740)
Income taxes paid	**(49,701)**	(52,542)
Net cash inflow from operating activities	**165,970**	144,914
Cash flows from investing activities		
Payments for property, plant and equipment	**(95,546)**	(57,072)
Payments for intangible assets	**(527)**	(3,732)
Payments for purchase of businesses	**(571)**	(13,276)
Proceeds from joint venture distribution	**-**	500
Proceeds from disposal of property, plant and equipment	**191**	537
Net cash outflow from investing activities	**(96,453)**	(73,043)
Cash flows from financing activities		
Proceeds from borrowings	**2,890,779**	2,584,489
Repayments of borrowings	**(2,857,650)**	(2,567,174)
Payments for purchase of treasury shares	**(18,002)**	(18,313)
Proceeds from sale of treasury shares	**8**	32
Proceeds from employee share plan repayments	**8,551**	5,773
Dividends paid (net of shares allocated/issued as part of the DRP)	**(92,114)**	(81,123)
Net cash outflow from financing activities	**(68,428)**	(76,316)
Net increase/(decrease) in cash held	**1,089**	(4,445)
Cash at the beginning of the year	**39,068**	46,270
Effects of exchange rate changes on cash	**(1,183)**	(2,757)
Cash at the end of the year	**38,974**	39,068

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

For the financial year ended 30 September

Notes to the Consolidated Financial Statements

About this report

For the financial year ended 30 September 2017

1 About this report

DuluxGroup Limited (the Company) is a company incorporated and domiciled in Australia which has shares that are publicly traded on the Australian Securities Exchange.

The Company's registered office is at 1956 Dandenong Rd, Clayton Victoria 3168 Australia. Its principal activities are the marketing and manufacturing of products that protect, maintain and enhance the spaces and places in which we live and work. The significant accounting policies adopted in preparing the consolidated financial statements of the Company and its subsidiaries (collectively 'the Group' or 'DuluxGroup') have been consistently applied to all the years presented, unless otherwise stated. Accounting policies specific to one note are described in the note in which they relate. The impact of new and upcoming accounting standards and interpretations are set out in note 28. Accounting policies that are relevant to understanding the financial statements as a whole are set out below.

a) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, investments in financial assets (other than subsidiaries and joint ventures) and defined benefit obligations which have been measured at fair value.

The consolidated financial statements were approved by the Board of Directors on 15 November 2017 and are presented in Australian dollars, which is the Company's functional and presentation currency.

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with the requirements of applicable Australian Accounting Standards including Australian Interpretations and the *Corporations Act 2001* and comply with International Financial Reporting Standards (IFRS) and interpretations as issued by the International Accounting Standards Board. DuluxGroup is a for-profit entity for the purpose of preparing the consolidated financial statements.

b) Comparatives

Where not significant, reclassifications of comparatives are made to disclose them on the same basis as current financial year figures.

c) Consolidation

The Group's consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Group, being the Company (the parent entity) and its subsidiaries as defined in AASB 10 *Consolidated Financial Statements*. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements. The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control until such time as the Company ceases to control such entity. In preparing the consolidated financial statements, all intercompany balances, transactions and unrealised profits arising within the Group are eliminated in full.

d) Foreign currency

Functional currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

Foreign currency transactions
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency of the entity at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement, except when they are deferred in equity as qualifying cash flow hedges.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rate ruling at the date of the transaction.

Foreign currency receivables and payables outstanding at balance date are translated at the exchange rates ruling at that date. Exchange gains and losses on retranslation of outstanding unhedged receivables and payables are recognised in the income statement.

Financial statements of foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions.

Foreign exchange differences arising on translation are recognised directly in other comprehensive income.

e) Rounding

The amounts shown in this financial report have been rounded off, except where otherwise stated, to the nearest thousand dollars with the Company being in a class specified in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

f) Key accounting estimates and judgements

Management determines the development, selection, disclosure and application of the Group's key accounting policies, estimates and judgements. Management necessarily makes estimates and judgements that have a significant effect on the amounts recognised in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Changes in the assumptions underlying the estimates may result in a significant impact on the financial statements. Management believes the estimates used in preparing the financial statements are reasonable and in accordance with accounting standards.

The key assumptions and judgements pertaining to this report are set out in the following notes:

- Note 11 Impairment testing
- Note 12 Provisions
- Note 13 Income tax
- Note 20 Superannuation

2 Segment report

The operating segments are reported in a manner which is consistent with the internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker has been identified as the Managing Director and Chief Executive Officer.

The major products and services from which DuluxGroup's segments derive revenue are:

Defined reportable segments	Products/services
Dulux ANZ	Dulux decorative paints, woodcare, texture, protective, powder and industrial coatings in Australia and New Zealand for both consumer and professional trade markets.
Selleys & Parchem ANZ	Selleys adhesives, sealants and other household repair and maintenance products for the consumer and professional trade markets in Australia and New Zealand; and Parchem construction chemicals, decorative concrete solutions and related equipment in Australia and New Zealand.
B&D Group	B&D garage doors and electronic openers for residential, commercial and industrial use in Australia and New Zealand.
Lincoln Sentry	Lincoln Sentry, a specialist trade distributor of premium branded cabinet hardware and architectural hardware to the cabinet making industry, and the window, door and glazing industries in Australia.
Other businesses	Yates garden care and home improvement products in Australia and New Zealand, DGL International specialty coatings and adhesives businesses in South East Asia, Dulux Papua New Guinea coatings business and Craig & Rose paints and Selleys businesses in the United Kingdom. Also includes the 51%-owned DGL Camel business in China and Hong Kong.

Notes to the Consolidated Financial Statements

Financial Performance (continued)

For the financial year ended 30 September

2 Segment report (continued)

	Dulux ANZ		Selleys & Parchem ANZ		B&D Group		Lincoln Sentry		Other businesses		Unallocated[1]		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue														
External revenue	**934,172**	887,823	**252,033**	246,707	**182,532**	177,950	**195,121**	187,619	**220,610**	216,160	**-**	-	**1,784,468**	1,716,259
Inter-segment revenue	**3,145**	2,810	**8,682**	7,185	**-**	-	**49**	74	**1,588**	884	**(13,464)**	(10,953)	**-**	-
Total revenue	**937,317**	890,633	**260,715**	253,892	**182,532**	177,950	**195,170**	187,693	**222,198**	217,044	**(13,464)**	(10,953)	**1,784,468**	1,716,259
Other income	**3,208**	1,209	**495**	231	**253**	90	**-**	-	**254**	505	**17**	1,186	**4,227**	3,221
Total revenue and other income	**940,525**	891,842	**261,210**	254,123	**182,785**	178,040	**195,170**	187,693	**222,452**	217,549	**(13,447)**	(9,767)	**1,788,695**	1,719,480
Results														
EBITDA[2]	**179,675**	172,794	**36,480**	32,602	**24,877**	22,602	**16,606**	14,757	**14,338**	17,299	**(26,484)**	(26,678)	**245,492**	233,376
Depreciation and amortisation	**(14,706)**	(16,272)	**(2,813)**	(3,084)	**(6,674)**	(6,495)	**(2,140)**	(2,241)	**(3,074)**	(2,819)	**(1,875)**	(1,356)	**(31,282)**	(32,267)
EBIT	**164,969**	156,522	**33,667**	29,518	**18,203**	16,107	**14,466**	12,516	**11,264**	14,480	**(28,359)**	(28,034)	**214,210**	201,109
Finance income													**189**	224
Finance expenses													**(17,483)**	(20,122)
Profit before income tax expense													**196,916**	181,211
Income tax expense													**(57,255)**	(52,150)
Profit for the year													**139,661**	129,061
Attributable to:														
Ordinary shareholders of DuluxGroup Limited													**142,941**	130,417
Non-controlling interest in controlled entities													**(3,280)**	(1,356)
Profit for the year													**139,661**	129,061
Acquisitions of property, plant and equipment and intangible assets	**85,176**	66,659	**2,804**	1,810	**2,162**	2,771	**798**	943	**2,864**	3,049	**-**	-	**93,804**	75,232

(1) Comprises of centrally managed income, costs, assets and liabilities relating to properties, tax, treasury and the Group's defined benefit pension plan.
(2) Earnings before interest, income tax expense, depreciation and amortisation.

Revenue from one of the Group's customers was approximately 25% (2016: 25%) of the total Group revenue during the year ended 30 September 2017. This customer operated primarily within the Dulux ANZ, Selleys & Parchem ANZ and Other businesses segments. No other single customers contributed 10% or more to the Group's revenue for both 2017 and 2016.

2 Segment report (continued)

a) Geographical information

Revenue from external customers is attributed to geographic location based on the location of customers. The revenue from external customers by geographical location for the year ended 30 September is set out below. The location of non-current assets other than financial assets, investments accounted for using the equity method, and deferred tax assets as at 30 September is set out below.

	Revenue		Non-current assets	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
Australia	**1,468,431**	1,408,410	**543,019**	485,852
New Zealand	**199,280**	190,358	**44,086**	47,370
Other countries	**116,757**	117,491	**16,508**	17,021
	1,784,468	1,716,259	**603,613**	550,243

b) Accounting policies

(i) Revenue recognition

Revenue from sale of goods
Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and customer rebates. External sales are recognised when the significant risks and rewards of ownership are transferred to the purchaser, recovery of the consideration is probable, the possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. For the purpose of segment reporting, the Group's policy is to transfer products internally at negotiated commercial prices.

Customer loyalty programme
The Group operates a number of loyalty programmes under which customers accumulate points for purchases made which they are entitled to redeem for items from a catalogue. The award points are recognised as a separately identifiable component of the initial sale transaction, by allocating the fair value of the consideration received between the award points and the other components of the sale, such that the award points are recognised at their fair value. Revenue from the award points is deferred and recognised when the points are redeemed. The amount of revenue is based on the number of points redeemed relative to the total number expected to be redeemed. Award points generally expire two to four years after the initial sale.

Other income
Other income includes profit on sale of property, plant and equipment and businesses, rental income, royalty income, grant income and net foreign exchange gains.

Profit and loss from sale of businesses, subsidiaries and other non-current assets are recognised when there is a signed unconditional contract of sale. Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Royalty income is recognised on sale of licensed product to the final customer. A grant is initially recognised as deferred income at fair value when there is a reasonable assurance that the Group will comply with the conditions of the grant and the amount will be received. The grant is then either recognised in the income statement over the useful life of the associated asset, or where the grant compensates the Group for incurred expenses, the income is recognised in the income statement in the period in which the associated expenses are recognised.

(ii) Finance income and expenses

Finance income
Finance income comprises of interest income earned on funds invested. Finance income is recognised in the income statement using the effective interest method.

Finance expenses
Finance expenses include interest, unwind of the effect of discounting on provisions, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with the arrangement of borrowings. Finance expenses are recognised in the income statement as incurred unless they relate to qualifying assets.

Where funds are borrowed specifically for the production of a qualifying asset, the interest on those funds is capitalised, net of any interest earned on those borrowings. Where funds are borrowed generally, finance expenses are capitalised using a weighted average interest rate.

3 Other income

	2017 $'000	2016 $'000
Royalty income	**805**	300
Rental income	**994**	477
Research and development grant income	**962**	1,599
Other	**1,466**	845
	4,227	3,221

4 Expenses

Profit before income tax includes the following expense items not otherwise detailed in this financial report:

	2017 $'000	2016 $'000
Depreciation	**24,164**	25,111
Amortisation	**7,118**	7,156
Depreciation and amortisation	**31,282**	32,267
Interest and finance charges paid/payable for financial liabilities not at fair value through profit and loss	**15,410**	17,455
Provisions: unwinding of discounting	**2,073**	2,667
Finance expenses	**17,483**	20,122
Net loss on disposal of property, plant and equipment	**234**	1,043
Net foreign exchange losses	**413**	757
Research and development expense	**20,608**	20,827

5 Earnings per share (EPS)

	2017 Cents per share	2016 Cents per share
Attributable to the ordinary shareholders of DuluxGroup Limited		
Basic earnings per share	**37.3**	34.1
Diluted earnings per share	**36.7**	33.5
	$'000	$'000
Earnings used in the calculation of basic and diluted earnings per share		
Profit for the year attributable to ordinary shareholders of DuluxGroup Limited	**142,941**	130,417
	Number	Number
Weighted average number of ordinary shares outstanding used as the denominator:		
Number for basic earnings per share	**382,868,053**	382,582,772
Effect of the potential vesting of shares under the LTEIP and ESIP[1]	**6,158,229**	6,379,665
Number for diluted earnings per share	**389,026,282**	388,962,437

[1] The calculation of the weighted average number of shares has been adjusted for the effect of these potential shares from the date of issue or the beginning of the financial year.

Notes to the Consolidated Financial Statements

Financial Performance (continued)

For the financial year ended 30 September 2017

6 Dividends

	2017 **$'000**	2016 $'000
Dividends paid		
Final dividend for 2016 of 12.5 cents per share fully franked (2015: Final dividend of 11.5 cents per share fully franked)	**48,278**	44,340
Interim dividend for 2017 of 13.0 cents per share fully franked (2016: Interim dividend of 11.5 cents per share fully franked)	**50,202**	44,406
	98,480	88,746
Dividend franking account		
Franking credits available to shareholders for subsequent financial years based on a tax rate of 30% (2016: 30%)	**28,745**	23,391

a) Dividends declared after balance date

On 15 November 2017, the Directors determined that a final dividend of 13.5 cents per ordinary share will be paid in respect of the 2017 financial year. The dividend will be fully franked and payable on 13 December 2017. The financial effect of this dividend is not included in the financial statements for the year ended 30 September 2017 and will be recognised in the 2018 financial statements. The Company's DRP will operate with respect to the final dividend. The DRP pricing period will be the five trading days from 29 November 2017 to 5 December 2017 inclusive. Ordinary shares issued under the DRP will rank equally with all other ordinary shares.

7 Working capital

	2017 $'000	2016 $'000
Current		
Trade and other receivables[1]	**277,677**	256,315
Trade and other payables	**(264,912)**	(250,766)
Inventories:		
Raw materials	**37,758**	33,558
Work in progress	**6,697**	5,398
Finished goods	**184,939**	179,917
	229,394	218,873
Total current	**242,159**	224,422
Non-current		
Other receivables	**35**	65
Other payables	**(249)**	(270)
Total non-current	**(214)**	(205)
Total working capital	**241,945**	224,217

(1) Current receivables is net of $20,036,000 (2016: $17,612,000) rebates payable. The Group has the legal right to offset such balances as they are with the same customers and it is the Group's intention to net settle any outstanding balances.

a) Trade and other receivables and allowance for impairment

The ageing of current and non-current trade and other receivables according to their due date is as follows:

	2017 Gross $'000	2016 Gross $'000	2017 Allowance $'000	2016 Allowance $'000	2017 Net $'000	2016 Net $'000
Not past due	**249,448**	230,120	**33**	32	**249,415**	230,088
Past due 0 - 30 days	**15,201**	15,826	**6**	-	**15,195**	15,826
Past due 31 - 60 days	**3,207**	3,082	**10**	16	**3,197**	3,066
Past due 61 - 90 days	**3,275**	2,347	**22**	60	**3,253**	2,287
Past due 91 - 120 days	**2,316**	3,090	**173**	570	**2,143**	2,520
Past 120 days	**7,110**	4,829	**2,601**	2,236	**4,509**	2,593
	280,557	259,294	**2,845**	2,914	**277,712**	256,380

There are no individually significant receivables that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired. No material security is held over trade receivables.

The movement in allowance for impairment of trade and other receivables is as follows:

	2017 $'000	2016 $'000
Opening balance	**2,914**	6,146
Allowances made (net of amounts written back)	**1,796**	836
Allowances utilised	**(1,819)**	(3,623)
Foreign currency exchange differences	**(46)**	(445)
Balance at 30 September	**2,845**	2,914

7 Working capital (continued)

b) Accounting policies

(i) Trade and other receivables

Trade and other receivables are carried at amounts due. Receivables that are not past due and not impaired are considered recoverable. Payment terms are generally 30 days from the end of the month in which the invoice is issued. A risk assessment process is used for all accounts, with a stop credit process in place for most long overdue accounts.

The collectability of trade receivables is assessed continuously and at balance date specific allowances are made for any doubtful trade receivables based on a review of all outstanding amounts. Bad debts are written off during the year in which they are identified.

The expected impairment loss calculation for trade receivables considers the impact of past events and exercises judgment over the impact of current and future economic conditions. The calculation is based on:

- a statistical approach to determine the historical allowance rate for various tranches of receivables;
- an individual account by account assessment based on past credit history; and
- knowledge of debtor insolvency or other credit risk.

Subsequent changes in economic and market conditions may result in the provision for impairment losses increasing or decreasing in future periods.

(ii) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the period, which remain unpaid at balance date. Trade payables are normally settled within 60 days from invoice date or within the agreed payment terms with the supplier.

(iii) Inventories

Inventories are valued at the lower of cost or net realisable value, where cost is based on the first-in, first-out or weighted average method according to the type of inventory. For manufactured goods, cost includes direct labour, direct material and fixed overheads based on normal operating capacity. For finished goods purchased from external suppliers, cost is net cost into store.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses.

c) Accounting estimates and judgements

Net realisable value of inventory

Management uses its judgement in establishing the net realisable value of inventories. Provisions are established for obsolete or slow moving inventories, taking into consideration the ageing and seasonal profile of inventories, discontinued lines, sell through history and forecast sales.

Customer rebates

Management uses its judgement in determining the amount accrued for customer rebates where the timing of the rebate period does not align with the Group’s financial year end. In calculating the accrual management in particular takes account of forecast purchases pertaining to the rebate period.

8 Assets held for sale

In August 2017, management commenced the sale process of the Glen Waverley site. The net book value of the site is $6,813,558 inclusive of both land and machinery, plant and equipment. Accordingly, the asset associated to the Glen Waverley site is presented as an asset held for sale within the Consolidated Balance Sheet.

9 Property, plant and equipment

	Land $'000	Buildings and leasehold improvements $'000	Machinery, plant and equipment $'000	Total $'000
2017				
Cost	**45,254**	**117,937**	**485,663**	**648,854**
Less accumulated depreciation and impairment	**-**	**(42,697)**	**(234,352)**	**(277,049)**
Net book value	**45,254**	**75,240**	**251,311**	**371,805**
Balance at 1 October 2016	**51,685**	**78,717**	**181,639**	**312,041**
Additions	**-**	**95**	**92,920**	**93,015**
Additions - business acquisitions	**-**	**-**	**44**	**44**
Fair value adjustment on business acquisitions	**-**	**(490)**	**-**	**(490)**
Disposals	**-**	**(12)**[(1)]	**(425)**	**(437)**
Depreciation expense	**-**	**(2,738)**	**(21,426)**	**(24,164)**
Reclassification to assets held for sale	**(6,425)**	**-**	**(389)**	**(6,814)**
Foreign currency exchange differences	**(6)**	**(332)**	**(1,052)**	**(1,390)**
Balance at 30 September 2017	**45,254**	**75,240**	**251,311**	**371,805**
2016				
Cost	51,685	118,295	398,562	568,542
Less accumulated depreciation and impairment	-	(39,578)	(216,923)	(256,501)
Net book value	51,685	78,717	181,639	312,041
Balance at 1 October 2015	38,557	56,994	166,314	261,865
Additions	12,825	21,903	36,772	71,500
Additions - business acquisitions	245	2,258	2,471	4,974
Disposals	-	(203)[(1)]	(1,445)	(1,648)
Depreciation expense	-	(2,874)	(22,237)	(25,111)
Foreign currency exchange differences	58	639	(236)	461
Balance at 30 September 2016	51,685	78,717	181,639	312,041

[(1)] Includes an amount of $12,000 (2016: $68,000) relating to the reassessment of the leased properties restoration provision.

a) Assets under construction

Included in the closing balances above are assets under construction at 30 September 2017 of $145,300,000 (2016: $71,311,000), with the majority of the assets under construction relating to the new paint factory.

b) Accounting policies

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses (refer to note 11). Cost includes expenditure that is directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and that the cost of the item can be reliably measured.

Property, plant and equipment, other than freehold land, is depreciated on a straight-line basis over the useful life of each asset to the Group. Estimated useful lives of each class of asset are as follows:

Buildings and leasehold improvements	10 to 40 years
Machinery, plant and equipment	3 to 20 years

Assets under construction are not depreciated until ready for use.

Profits and losses on disposal of property, plant and equipment are recognised in the income statement.

Where the occupation of a leased property gives rise to an obligation for site closure or restoration, the Group recognises a provision for the costs associated with restoration.

c) Accounting estimates and judgements

Management reviews, and adjusts as appropriate, the useful lives of property, plant and equipment at least annually. Any changes to useful lives affect prospective depreciation rates and asset carrying values.

10 Intangible asset

	Goodwill $'000	Patents, trademarks and rights $'000	Brand names $'000	Software $'000	Customer contracts $'000	Total $'000
2017						
Cost	**144,637**	**8,193**	**65,894**	**38,276**	**29,299**	**286,299**
Less accumulated amortisation	**-**	**(5,976)**	**(1,312)**	**(32,898)**	**(17,443)**	**(57,629)**
Net book value	**144,637**	**2,217**	**64,582**	**5,378**	**11,856**	**228,670**
Balance at 1 October 2016	**143,665**	**2,354**	**64,759**	**7,376**	**15,893**	**234,047**
Additions	**-**	**-**	**-**	**789**	**-**	**789**
Additions - business acquisitions	**194**	**-**	**-**	**-**	**-**	**194**
Fair value adjustment on business acquisitions	**790**	**-**	**-**	**-**	**-**	**790**
Amortisation expense	**-**	**(131)**	**(117)**	**(2,829)**	**(4,041)**	**(7,118)**
Foreign currency exchange differences	**(12)**	**(6)**	**(60)**	**42**	**4**	**(32)**
Balance at 30 September 2017	**144,637**	**2,217**	**64,582**	**5,378**	**11,856**	**228,670**
2016						
Cost	143,665	8,324	65,973	37,503	29,300	284,765
Less accumulated amortisation	-	(5,970)	(1,214)	(30,127)	(13,407)	(50,718)
Net book value	143,665	2,354	64,759	7,376	15,893	234,047
Balance at 1 October 2015	138,160	2,378	65,140	6,818	19,633	232,129
Additions	-	-	-	3,732	-	3,732
Additions - business acquisitions	5,460	-	-	-	-	5,460
Amortisation expense	-	(277)	(217)	(2,915)	(3,747)	(7,156)
Transfers between classes	-	242	-	(249)	7	-
Foreign currency exchange differences	45	11	(164)	(10)	-	(118)
Balance at 30 September 2016	143,665	2,354	64,759	7,376	15,893	234,047

a) Intangibles under development

Included in the closing balance above are software assets under development at 30 September 2017 of $1,441,000 (2016: $3,596,000).

b) Accounting policies

Identifiable intangibles
Amounts paid for the acquisition of software are capitalised at the fair value of consideration paid. Amounts paid for the acquisition of other identifiable intangible assets (except for software) are capitalised at the fair value of consideration paid determined by reference to independent valuations. Subsequent expenditure on capitalised identifiable intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Intangible assets, other than intangible assets with indefinite lives or under development, are amortised on a straight-line basis over their useful lives. Estimated useful lives of each class of asset are as follows:

Patents, trademarks and rights	10 to 20 years
Brand names	10 to 20 years
Software	3 to 5 years
Customer contracts	5 to 10 years

Identifiable assets with an indefinite life (selected brand names) are not amortised but the recoverable amount of these assets is tested for impairment at least annually (refer to note 11) and are carried at cost less accumulated impairment.

Unidentifiable intangibles
Where the fair value of the consideration paid for a business acquisition exceeds the fair value of the identifiable assets, liabilities and contingent liabilities acquired, the difference is treated as goodwill. Goodwill is not amortised but the recoverable amount is tested for impairment at least annually (refer to note 11).

10 Intangible assets (continued)

c) Accounting estimates and judgements

Management use judgement in determining whether an individual brand name will have a finite life or an indefinite life. Management make this determination on the basis of brand strength, expectations of continuing profitability and future business commitments to these brands. If a brand is assessed to have a finite life, management will use judgement in determining the useful life.

Management reviews, and adjusts as appropriate, the useful lives of intangible assets at least annually. Any changes to useful lives affect prospective amortisation rates and asset carrying values.

d) Allocation of goodwill and intangible assets with indefinite useful lives

The allocation of goodwill and brand names with indefinite useful lives is as follows:

	Goodwill		Brand Names	
	30 September 2017 $'000	30 September 2016 $'000	**30 September 2017 $'000**	30 September 2016 $'000
Dulux ANZ	**29,272**	29,078	**26,900**	26,900
Selleys & Parchem ANZ	**43,285**	43,299	**3,400**	3,400
Yates	**10,039**	10,058	**14,858**	14,858
B&D Group	**39,537**	39,537	**15,000**	15,000
Lincoln Sentry	**18,193**	18,193	**2,400**	2,400
DGL International UK	**4,311**	3,500	**-**	-
	144,637	143,665	**62,558**	62,558

11 Impairment testing

The review for impairment at 30 September 2017 did not result in impairment charges being recognised by the Group (2016: $NIL). For all Cash-Generating Units (CGUs) apart from the China CGU (part of the Other Businesses segment), a reasonable possible change to impairment model inputs would not cause the recoverable amount to be below their respective carrying amount. For the China CGU, trading results for the business continue to be weaker than expected. The recoverable amount has been determined using a fair value less costs of disposal based approach. If there was a negative variation in a key assumption, in the absence of other factors, this may lead to an impairment of the China CGU. The China CGU includes $3,900,000 of non-current assets and $25,100,000 of total assets at 30 September 2017.

a) Accounting policies

Goodwill and indefinite life intangible assets are tested for impairment at least annually. The carrying amount of the Group's other non-current assets, excluding any deferred tax assets and financial assets is reviewed at each reporting date to determine whether there are any indicators of impairment. If such indicators exist, the asset is tested for impairment by comparing its recoverable amount to its carrying amount.

The recoverable amount of an asset is determined as the higher of fair value less costs of disposal and value in use. The recoverable amount is estimated for each individual asset or where it is not possible to estimate for individual assets, it is estimated for the CGU to which the asset belongs. A CGU is the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets, with each CGU being no larger than a reportable segment. CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The test of goodwill and its impairment is undertaken at the level noted above in note 10(d). When determining fair value less costs of disposal, information from recent market transactions of a similar nature is taken into account. If no such transactions can be identified, an appropriate valuation model is used. These are corroborated by other available market based information.

In calculating recoverable amount using a valuation model, estimated future cash flows based on Board approved budgets, four year business plans and related strategic reviews are discounted to their present values using a pre-tax discount rate. Cash flow projections beyond the four year period are extrapolated using estimated growth rates, which are not expected to exceed the long term average growth rates in the applicable markets. Cash flows used for value in use calculations are estimated for the asset in its present condition and therefore do not include cash inflows or outflows that improve or enhance the asset's performance or that may arise from future restructuring.

The pre-tax discount rate used for a:

- value in use calculation is derived based on an independent external assessment of the Group's post-tax weighted average cost of capital in conjunction with risk specific factors to the countries in which the CGU operates.
- fair value less costs of disposal calculation is based on an independent external assessment of the cost of capital of a willing buyer taking into account risk specific factors to the countries in which the CGU operates.

11 Impairment testing (continued)

a) Accounting policies (continued)

The pre-tax discount rates applied in the discounted cash flow models range between 10% and 15% (2016: 10% and 15%). The sales revenue compound annual growth rates applied in the discounted cash flow models range between 0% and 7% (2016: 0% and 7%).

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement as part of 'Other expenses'. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit.

Reversals of impairment
An impairment loss is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of goodwill or other indefinite life intangible assets is not reversed. An impairment loss in other circumstances is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

a) Accounting estimates and judgements

In making the assessment for impairment management applies its judgement in allocating assets that do not generate independent cash inflows to appropriate CGUs. Subsequent changes to the CGU allocation or to the timing and quantum of cash flows may impact the carrying value of the respective assets.

The determination of recoverable amount on a value in use basis requires the estimation and discounting of future cash flows. The estimation of cash flows considers all information available at balance date which may deviate from actual developments. This includes, amongst other things, changes in discount rates, terminal value growth rates applied in perpetuity, expected sales revenue growth rates in the forecast period, and earnings varying from the assumptions and forecast data used. Management also applies judgement when determining the recoverable amount using fair value less costs of disposal. This judgement is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market based information less incremental costs for disposing of the assets.

12 Provisions

	Employee entitlements $'000	Restructuring[1] $'000	Leased properties $'000	Other $'000	Total $'000
2017					
Current	**63,503**	**9,710**	**714**	**3,442**	**77,369**
Non-current	**4,598**	**-**	**7,729**	**1,012**	**13,339**
Total provisions	**68,101**	**9,710**	**8,443**	**4,454**	**90,708**
Balance at 1 October 2016		**8,258**	**9,566**	**4,867**	
Provisions made (net of amounts written back)		**809**	**(1,116)**	**5,080**	
Provisions utilised		**(379)**	**(808)**	**(5,649)**	
Unwind of discounting		**1,022**	**848**	**171**	
Foreign currency exchange differences		**-**	**(47)**	**(15)**	
Balance at 30 September 2017		**9,710**	**8,443**	**4,454**	
2016					
Current	59,834	750	817	3,723	65,124
Non-current	5,512	7,508	8,749	1,144	22,913
Total provisions	65,346	8,258	9,566	4,867	88,037
Balance at 1 October 2015		18,078	9,149	4,585	
Provisions made (net of amounts written back)		(778)	563	5,946	
Provisions utilised		(10,587)	(1,908)	(5,912)	
Unwind of discounting		1,545	896	180	
Additions - business acquisition		-	897	54	
Foreign currency exchange differences		-	(31)	14	
Balance at 30 September 2016		8,258	9,566	4,867	

(1) At 30 September 2017 and 30 September 2016 the balance largely comprises the redundancy costs recognised in association with the Group's supply chain projects.

12 Provisions (continued)

Current employee benefit liabilities include $26,046,000 in respect of long service leave due at 30 September 2017. Amounts expected to be settled during the 2018 financial year amount to approximately $2,100,000. Historically, the Group has presented only those amounts of long service leave expected to be settled in the following year as a current employee benefit liability. To accord with the current year classification, prior year comparative balances have been restated, resulting in an increase in current employee benefit liabilities and total current liabilities of $23,692,000 and a corresponding decrease in non-current employee benefit liabilities and total non-current liabilities.

a) Accounting policies

A provision is recognised when there is a legal or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation and the amount can be reliably estimated.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwind of the effect of discounting on provisions is recognised as a finance expense.

Employee entitlements
Liabilities for annual leave are accrued based on statutory and contractual requirements, including related on-costs. They are measured using the rates expected to be paid when the obligations are settled.

Liabilities for long service leave are accrued at the present value of expected future payments to be made resulting from services provided by employees. Liabilities for long service leave entitlements, which are not expected to be paid or settled within 12 months, are accrued at the present value of future amounts expected to be paid.

Liabilities for bonuses are recognised on the achievement of predetermined bonus targets and the benefit calculations are formally documented and determined before signing the financial statements.

Restructuring
Provisions for restructuring and employee termination benefits are only recognised when a detailed plan has been approved and the restructuring and/or termination has either commenced or been publicly announced or firm contracts related to the restructuring or termination benefits have been entered into. Costs related to ongoing activities are not provided for.

Leased properties
The Group is required to restore certain leased premises to their original condition at the end of the respective lease terms. A provision has been recognised for the estimated expenditure required to restore these premises to an acceptable condition. These costs have been capitalised as part of the cost of buildings and leasehold improvements. Where this provision is reassessed in subsequent reporting periods, to the extent possible, an equal and offsetting adjustment is made to the corresponding asset balance. Where the reassessment results in a decrease to the provision which exceeds the carrying value of the corresponding asset, any excess is recognised in the income statement.

Payments to be made under leases with fixed rent escalation clauses are recognised in the income statement on a straight-line basis over the term of the lease contract.

The Group has also identified certain leased sites that were surplus to its requirements. Where these sites have non-cancellable leasing arrangements and the Group is unable to sub-lease the sites at a rate that would allow it to recover its rental costs, a provision is recognised for the shortfall in rental income.

Other

Other provisions largely comprises of amounts for customer loyalty programmes, warranties and sales returns.

b) Accounting estimates and judgements

Management uses its judgement in determining its future obligations for employee entitlements, restructuring and leased properties.

Employee entitlements

Provision for long service leave is based on the following key assumptions: future salary and wages increases; future on cost rates; and future probability of employee departures and period of service.

Restructuring

The provision for restructuring is based on expected future payments for existing employees under the current employment agreements. Changes to employee numbers, their employment conditions or timing of the projects' completion dates could impact estimated future payments.

Leased properties

The provision for leased premises restoration is based on estimates of the future costs, and the timing of those costs, required to restore those sites to original condition.

Notes to the Consolidated Financial Statements

Taxation

For the financial year ended 30 September 2017

13 Income tax

a) Income tax expense

	2017 $'000	2016 $'000
Current tax expense	**55,195**	47,313
Deferred tax expense	**2,060**	4,837
Income tax expense	**57,255**	52,150
Deferred tax expense/(benefit) included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	**1,611**	4,976
Increase/(decrease) in deferred tax liabilities	**449**	(139)
	2,060	4,837
Reconciliation of prima facie tax expense to income tax expense		
Profit before income tax expense	**196,916**	181,211
Prima facie income tax expense calculated at 30% of profit before income tax expense	**59,075**	54,363
Tax effect of items which (decrease)/increase tax expense:		
Foreign tax rate differential	**396**	(829)
Non-taxable income and profits, net of non-deductible expenditure	**(1,962)**	(2,174)
Share of net profit of equity accounted investment	**(370)**	(203)
Tax losses not recognised	**1,422**	886
Sundry items	**1,399**	1,200
Amounts over provided in prior years	**(2,705)**	(1,093)
Income tax expense	**57,255**	52,150

13 Income tax (continued)

b) Deferred tax assets and liabilities

	Deferred tax assets		Deferred tax liabilities	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
The balance comprises temporary differences attributable to:				
Trade and other receivables	**424**	552	**-**	-
Inventories	**3,549**	3,704	**-**	-
Property, plant and equipment	**4,840**	5,035	**3,786**	2,998
Intangible assets	**2,669**	4,196	**22,719**	23,847
Trade and other payables	**671**	1,256	**91**	61
Provisions	**6,196**	6,479	**-**	-
Employee entitlements	**31,019**	36,100	**-**	-
Tax losses	**249**	222	**-**	-
Other	**819**	1,687	**1,500**	429
Total	**50,436**	59,231	**28,096**	27,335
Expected to be recovered/settled:				
Within 12 months	**20,502**	18,633	**1,592**	490
After more than 12 months	**29,934**	40,598	**26,504**	26,845
	50,436	59,231	**28,096**	27,335
Movements:				
Opening balance	**59,231**	53,286	**27,335**	27,543
Additions - business acquisitions	**-**	441	**-**	-
Adjustment - prior year acquisitions	**36**	-	**336**	-
Credited to profit or loss	**-**	-	**-**	(139)
Charged to profit or loss	**(1,611)**	(4,976)	**449**	-
(Charged)/credited to other comprehensive income	**(7,126)**	10,648	**-**	-
Foreign currency exchange differences	**(94)**	(168)	**(24)**	(69)
Balance at 30 September	**50,436**	59,231	**28,096**	27,335

As a consequence of an IFRS Interpretation Committee (IFRIC) agenda decision issued in November 2016, management has adjusted the deferred tax liabilities (with an offset in the common control reserve) as at the beginning of the earliest comparative period by $11,508,000 to recognise a deferred tax liability on all indefinite life intangibles acquired as part of a business combination prior to the demerger from the Orica Limited business in 2010.

13 Income tax (continued)

c) Unrecognised deferred tax assets and liabilities

	2017 $'000	2016 $'000
Tax losses and other deferred tax assets not recognised in:		
Australia[(1)]	**1,086**	1,086
China[(2)]	**7,918**	9,229
Hong Kong	**577**	539
Malaysia	**237**	327
United Kingdom	**620**	-
	10,438	11,181

(1) Capital losses.
(2) Expiration dates between 2017 and 2022 (2016: between 2016 and 2021).

A deferred tax liability of $1,000,000 (2016: $2,303,000) has not been recognised in respect of temporary differences arising as a result of the translation of the financial statements of the Company's subsidiaries. The deferred tax liability will only be realised in the event of disposal of the Company's subsidiaries and no such disposal is expected in the foreseeable future.

d) Accounting policies

Income tax on the profit or loss for the financial year comprises of current and deferred tax and is recognised in the income statement.

Current tax is the expected tax payable or receivable on taxable income for the financial year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable or receivable in respect of previous years.

Deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the balance sheet and their associated tax bases. The amount of deferred tax provided is based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent it is no longer probable that the related tax benefit will be realised.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the associated tax is also recognised in other comprehensive income or directly in equity.

Tax consolidation
DuluxGroup Limited is the head entity of the Australian tax consolidated group. The head entity and the members of the tax consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members in respect of tax amounts. The head entity recognises the tax effects of its own transactions and the current tax liabilities and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the subsidiary entities. Members of the tax consolidated group have also entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

e) Accounting estimates and judgements

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts initially recorded, such differences will impact the current and deferred income tax provision in the period in which such determination is made.

In addition, deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable profits are available to utilise those temporary differences and losses, and the tax losses continue to be available having regard to the nature and timing of their origination and compliance with the relevant tax legislation associated with their recoupment.

Assumptions are also made about the application of income tax legislation. These assumptions are subject to risk and uncertainty and there is a possibility that changes in circumstances will alter expectations which may impact the amount of deferred tax assets and deferred tax liabilities recorded on the consolidated balance sheet and the amount of tax losses and timing differences not yet recognised. In these circumstances, the carrying amount of deferred tax assets and liabilities may change, resulting in an impact on the earnings of the Group.

14 Interest-bearing liabilities

	2017	2016
	$'000	$'000
Current		
Unsecured		
Bank loan - RMB denominated(1)	**10,040**	10,873
Bank loan - HKD denominated(2)	**6,530**	2,031
	16,570	12,904
Non-current		
Unsecured		
Bank loan - AUD denominated(3)	**156,427**	126,686
United States Private Placement (USPP)(4)	**241,689**	261,993
	398,116	388,679

(1) The current Chinese Reminbi (RMB) unsecured bank loan amount comprises of RMB 52,500,000 (AUD 10,040,000) (2016: RMB 55,325,000 (AUD 10,873,000)) drawn under an overseas bank loan facility.
(2) The current Hong Kong Dollar (HKD) unsecured bank loan amount comprises of HKD 40,000,000 (AUD 6,531,000) (2016: HKD 12,000,000 (AUD 2,031,000)) drawn under an overseas bank loan facility.
(3) The non-current AUD denominated unsecured bank loan amount comprises of AUD 157,000,000 (2016: AUD 128,000,000) drawn under the Group's syndicated bank loan facilities, net of unamortised prepaid loan establishment fees of AUD 573,000 (2016: AUD 1,314,000).
(4) The carrying value of the USPP is net of unamortised prepaid loan establishment fees of AUD 865,000 (2016: AUD 960,000).

a) United States Private Placement (USPP)

The USPP comprises of notes with a face value of USD 149,500,000 and AUD 40,000,000. The Group has entered into Cross Currency Interest Rate Swaps (CCIRS) and Interest Rate Swaps (IRS) to manage its exposure to the USD exchange rate (on both the principal and interest payments) and to convert the interest rate basis for the total borrowing from a fixed basis to floating. A summary of the USPP debt, net of associated hedging is as follows:

	2017	2016
	$'000	$'000
USPP - carrying amount	**241,689**	261,993
add back USPP prepaid loan establishment fees	**865**	960
CCIRS	**(38,275)**	(56,018)
IRS	**(3,214)**	(5,870)
Net USPP debt	**201,065**	201,065

b) Assets pledged as security

While there were no assets pledged as security by DuluxGroup Limited and its subsidiaries, some of the Group's entities have provided a guarantee in relation to the Group's syndicated bank loan facilities and other overseas bank facilities as detailed in note 17.

c) Defaults and breaches

During the current and prior year, there were no defaults or breaches of covenants on any loans.

d) Accounting policies

Interest-bearing liabilities are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the liabilities on an effective interest method basis.

Amortised cost is calculated by taking into account any issue costs and any discount or premium on issuance. Gains and losses are recognised in the income statement in the event that the liabilities are derecognised.

15 Financial and capital management

a) Capital management

The Group's objectives when managing capital (net debt and total equity) are to safeguard the Group's ability to continue as a going concern whilst optimising its debt and equity structure.

The Group manages its capital through various means including:

Raising or returning capital	+	Raising or repaying a mix of long and short term borrowings	+	Adjusting the amount of dividends paid to shareholders	+	Operating a DRP	+	Issuing new or buying existing capital to satisfy the DRP and employee share plans

The Group monitors capital using various credit metrics and accounting gearing ratios. The key metrics and ratios are set out below:

	Calculation		2017 $'000	2016 $'000	Metric/Ratio
Net debt to EBITDA	Gross interest-bearing liabilities		**416,124**	403,857	**1.4 times** (2016: 1.3 times)
	Less:	Prepaid loan establishment fees	**(1,438)**	(2,274)	
		USPP derivatives[1]	**(41,489)**	(61,888)	
		Cash and cash equivalents	**(38,974)**	(39,068)	
	Net debt		**334,223**	300,627	
	EBITDA		**245,492**	233,376	
Interest cover ratio	EBITDA		**245,492**	233,376	**16.0 times** (2016: 14.1 times)
	Net finance costs		**17,294**	19,898	
	Less:	Amortisation of prepaid loan establishment fees	**(987)**	(806)	
		Unwind of discounting	**(2,073)**	(2,667)	
		Defined benefit fund interest	**(1,812)**	(828)	
	Addback:	Capitalised interest	**2,922**	904	
	Adjusted net finance costs		**15,344**	16,501	
Accounting gearing ratio	Net debt[2]		**334,223**	300,627	**45%** (2016: 46%)
	Net debt plus total equity[3]		**741,522**	654,357	

(1) Foreign currency and interest rate hedges relating to the USPP notes.
(2) Refer calculation of net debt presented above for the Net Debt to EBITDA metric.
(3) Net debt plus total equity comparative has been restated to account for deferred tax liability on indefinite life intangibles, refer to note 13.

b) Financial risk management

The Group has exposure to the following principle financial risks:

- Market risk (interest rate, foreign exchange and commodity price risks);
- Liquidity risk; and
- Credit risk.

The Group's overall risk management program seeks to mitigate these risks and reduce the volatility of the Group's financial performance. All financial risk management is carried out or monitored centrally by the Treasury department and is undertaken in accordance with various treasury risk management policies (the Treasury Policy) approved by the Board.

The Group enters into derivative transactions for risk management purposes only. Derivative transactions are entered into to hedge financial risk relating to underlying physical exposures arising from business activities. Types of derivative financial instruments used to hedge financial risks (such as changes to interest rates and foreign currencies) include interest rate options, interest rate swaps, foreign exchange options, forward exchange contracts and CCIRS contracts.

The Group's approach to managing its principle financial risks is set out in sections 15(c) to 15(e) below.

15 Financial and capital management (continued)

c) Market risk

i) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or the associated cash flows will fluctuate due to changes in market interest rates.

The Group is primarily exposed to interest rate risk on outstanding long term interest-bearing liabilities. Interest rate risk on long term interest-bearing liabilities is managed by adjusting the ratio of fixed interest debt to variable interest debt. Under the Treasury Policy, a maximum of 90% of debt with a maturity of less than five years can be fixed and a maximum 50% of debt with a maturity of five years or greater can be fixed. The Group operated within this range during the financial year ended 30 September 2017. As at 30 September 2017, the Group had no interest rate hedging in place.

The Group's exposure to interest rate risk and the weighted average effective interest rates on financial assets and liabilities at 30 September are set out below:

	2017	2016	**2017**	2016
	$'000	$'000	**% p.a**	%p.a
Cash at bank and on hand	**38,974**	39,068	**0.6**	0.7
Net interest bearing liabilities[1]	**374,635**	341,969	**3.8**	4.3

[1] Excludes the impact of the prepaid loan establishment fees, and is net of hedges relating to the USPP notes.

The table below shows the effect on profit after income tax expense and total equity had interest rates (based on the relevant interest rate yield curve applicable to the underlying currency in which the Group's financial assets and liabilities are denominated) been 10% higher or lower than the year end rate. Whilst directors cannot predict movements in interest rates, a sensitivity of 10% on the Group's effective interest rate is considered reasonable taking into account the current level of both short term and long term interest rates.

	Increase/(decrease) in profit after income tax expense [1]		**Increase/(decrease) in total equity**[1]	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
Interest rates were -10%	**857**	470	**857**	463
Interest rates were +10%	**(857)**	(470)	**(857)**	(463)

[1] All other variables held constant, taking into account all underlying exposures and related hedges and does not take account of the impact of any management action that might take place if these events occurred.

ii) Foreign exchange risk

Foreign exchange risk - transactional

Transactional foreign exchange risk refers to the risk that the value of a financial commitment, recognised asset or liability or cash flow will fluctuate due to changes in foreign currency rates. The primary foreign currency exposures are USD, NZD, RMB, HKD, EUR and PGK.

The Group's policy allows hedging to be undertaken to protect against unfavourable foreign currency movements on purchases, however there is flexibility as to when hedging is initiated and the instrument used to hedge the risk (typically forward exchange options or forward exchange contracts). In determining which instrument to use, consideration is given to the ability of the Group to participate in favourable movements in exchange rates.

The Group is exposed to foreign exchange risk primarily due to purchases and sales being denominated, either directly or indirectly in currencies other than the functional currencies of the Group's subsidiaries. Approximately 30% to 40% of the Group's purchases are denominated in, or are directly linked to, the USD, RMB or EUR.

The Group's net exposure, after taking account of relevant hedges, from a balance sheet perspective including external and internal balances (eliminated on consolidation) for the major currency exposures at 30 September are set out below (Australian dollar equivalents):

	AUD/USD		**AUD/NZD**		**AUD/RMB**		**AUD/HKD**		**AUD/EUR**		**AUD/PGK**	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Reported exchange rate	**0.78**	0.76	**1.09**	1.05	**5.23**	5.09	**6.12**	5.91	**0.67**	0.68	**2.51**	2.50
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Cash and cash equivalents	**1,513**	1,307	**6**	3	**-**	-	**-**	-	**19**	20	**-**	-
Trade and other receivables	**1,399**	1,398	**24**	161	**-**	-	**-**	-	**65**	62	**30**	522
Trade and other payables	**(6,503)**	(4,506)	**(942)**	(1,787)	**-**	(1,903)	**(307)**	(265)	**(1,426)**	(1,632)	**(5,819)**	(5,937)
Interest-bearing liabilities	**-**	(740)	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Net exposure	**(3,591)**	(2,541)	**(912)**	(1,623)	**-**	(1,903)	**(307)**	(265)	**(1,342)**	(1,550)	**(5,789)**	(5,415)

Notes to the Consolidated Financial Statements

Capital and Risk Management (continued)

For the financial year ended 30 September 2017

15 Financial and capital management (continued)

c) Market risk (continued)

ii) Foreign exchange risk (continued)

The table below shows the effect on profit after income tax expense and total equity from the major currency exposures, had the rates been 10% higher or lower than the year end rate. Whilst directors cannot predict movements in foreign exchange rates, a sensitivity of 10% is considered reasonable taking in to account the current level of exchange rates and the volatility observed on a historical basis.

	AUD/USD		**AUD/NZD**		**AUD/RMB**		**AUD/HKD**		**AUD/EUR**		**AUD/PGK**	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000
Increase/(decrease) in profit after income tax expense[1]												
Foreign exchange rates -10%	**(279)**	(198)	**(71)**	(126)	**-**	(148)	**(24)**	(21)	**(137)**	(140)	**455**	482
Foreign exchange rates +10%	**228**	162	**58**	103	**-**	121	**20**	17	**112**	115	**(372)**	(394)
Increase/(decrease) in total equity[1]												
Foreign exchange rates -10%	**(279)**	(198)	**(71)**	(126)	**-**	(148)	**(24)**	(21)	**(137)**	(140)	**455**	482
Foreign exchange rates +10%	**228**	162	**58**	103	**-**	121	**20**	17	**112**	115	**(372)**	(394)

(1) All other variables held constant, and taking into account all underlying exposures and related hedges.

In addition, the Group has a number of pricing arrangements with suppliers for purchases in EUR and USD that allow the Group to be invoiced in the AUD equivalent value of these purchases. Although the Group's balance sheet at 30 September 2017 is not exposed to these arrangements, the fluctuations of the AUD/EUR and AUD/USD exchange rate will impact on the AUD amount ultimately invoiced to the Group.

Foreign exchange risk – translational

Translational foreign exchange risk refers to the risk that the value of foreign earnings (primarily NZD, PGK and RMB) translated to AUD will fluctuate due to foreign currency rates. The Group's policy allows for economic hedging to be undertaken to reduce the volatility of full year earnings. At 30 September 2017, the Group did not have any outstanding derivative instruments pertaining to foreign currency earnings (2016: NIL).

iii) Commodity price risk

The Group is exposed to commodity price risk from a number of commodities, including titanium dioxide, tin plate, hot rolled coil steel and some petroleum based inputs, for example latex and resin. The cost of these inputs is impacted by changes in commodity prices, foreign currency movements and industry specific factors. To the extent that any increases in these costs cannot be passed through to customers in a timely manner, the Group's profit after income tax and shareholder's equity could be adversely impacted. For major suppliers, this impact is managed through a range of contractual mechanisms which reduce the impact, or provide sufficient visibility over when these impacts will affect the Group's profit.

d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group manages liquidity risk by:

Maintaining adequate levels of undrawn committed facilities in various currencies that can be drawn upon at short notice

+

Retaining appropriate levels of cash and cash equivalents

+

Spreading the maturity dates of long term debt facilities (to the extent practicable)

+

Monitoring liquidity requirements taking account of forecast business performance and critical assumptions (e.g. input costs, sales price and volumes, exchange rates)

15 Financial and capital management (continued)

d) Liquidity risk (continued)

Facilities available and the amounts drawn and undrawn as at 30 September are as follows:

	Uncommitted bank overdraft facilities[1]		Committed standby and loan facilities[2,3]	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
Amount of facilities available	**10,439**	22,695	**620,989**	619,923
Amount of facilities undrawn	**10,439**	22,695	**246,354**	277,954

(1) The bank overdrafts are payable on demand and are subject to an annual review.
(2) As at the 30 September 2017, the maturity dates of the committed loan facilities range from 7 January 2018 to 19 September 2026 (2016: 8 November 2017 to 19 September 2026).
(3) Includes AUD 250,000,000 (2016: AUD 400,000,000) unsecured multi-currency syndicated bank loan facility, AUD 100,000,000 unsecured bilateral loan facility, AUD 50,000,000 unsecured overdraft facility and notes issued under the USPP of AUD 201,065,000 (2016: AUD 201,065,000). Includes the RMB 60,000,000 (AUD 11,473,000) (2016: RMB 60,000,000 (AUD 11,793,000)) unsecured bank loan facility established in China and the unsecured bank loan facility established in Hong Kong for HKD 51,750,000 (AUD 8,449,000) (2016: HKD 41,750,000 (AUD 7,065,000)).

The contractual maturity of the Group's fixed and floating rate financial liabilities and derivatives, based on the drawn financing arrangements in place at 30 September are shown in the table below. The amounts shown represent the future undiscounted principal and interest cash flows:

Financial liabilities	Trade and other payables		Bank loans and derivative financial liabilities[1]		Total	
	2017	2016	**2017**	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Carrying amount	**265,161**	251,036	**416,743**	407,086	**681,904**	658,122
Less than 1 year	**264,912**	250,766	**29,228**	27,344	**294,140**	278,110
1 to 2 years	**67**	65	**165,529**	135,573	**165,596**	135,638
2 to 5 years	**210**	205	**60,477**	61,962	**60,687**	62,167
Over 5 years	**136**	207	**177,685**	183,506	**177,821**	183,713
Total	**265,325**	251,243	**432,919**	408,385	**698,244**	659,628

(1) Excludes the impact of the prepaid loan establishment fees.

e) Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations. Credit risk arises principally from the Group's cash and receivables from customer sales and derivative financial instruments. The maximum exposure to credit risk is the carrying value of receivables. No material collateral is held as security over any of the receivables.

The Group has policies in place to ensure customers who wish to trade on credit terms are subject to credit verification procedures, including an assessment of their independent credit rating, financial position, past experience and industry reputation. The Group has some major customers who represent a significant proportion of its revenue (refer note 2). In these instances the customer's size, credit rating and long term history of full debt recovery are indicators of lower credit risk.

Credit risk from derivative financial instruments and cash arises from balances held with counterparty financial institutions. To manage this risk, the Group restricts dealings to highly rated counterparties approved within its credit limit policy. The allowable exposure to the counterparty is directly proportional to their credit rating. The Group does not hold any credit derivatives or collateral to offset its credit exposures. Given the high credit ratings of the Group's counterparties at 30 September 2017, it is not expected that any counterparty will fail to meet its obligations.

f) Fair value estimation

The carrying amounts and estimated fair values of the Group's financial instruments recognised in the financial statements are materially the same.

The methods and assumptions used to estimate the fair value of the financial instruments are as follows:

Notes to the Consolidated Financial Statements

Capital and Risk Management (continued)

For the financial year ended 30 September 2017

15 Financial and capital management (continued)

f) Fair value estimation (continued)

	Instruments	Valuation technique
Carrying amount approximates fair value	Cash	Carrying amount is fair value due to the liquid nature of these assets
	Receivables/payables	Carrying amount approximates fair value due to the short term nature of these financial instruments
Measured at fair value [(1)]	Interest rate swaps and interest rate options	Fair value is determined using present value of estimated future cash flows based on observable yield curves and market implied volatility
	Forward foreign exchange contracts	Fair value is determined using prevailing forward exchange rates
	Other financial instruments (including Interest bearing liabilities)	Fair value is determined using discounted cash flow

(1) The Group uses the measurement hierarchy as set out in the accounting standards to value and recognise financial instruments measured at fair value. The Group only holds Level 2 financial instruments which are valued using observable market data.

g) Financial instruments

The Group held the following financial instruments as at 30 September:

	Cash and cash equivalents		Financial assets at amortised cost		Financial liabilities at amortised cost		Derivative instruments designated as hedges		Total carrying amount	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Financial assets										
Cash at bank and on hand	**38,974**	39,068	**-**	-	**-**	-	**-**	-	**38,974**	39,068
Trade and other receivables	**-**	-	**277,712**	256,380	**-**	-	**-**	-	**277,712**	256,380
Derivative financial assets	**-**	-	**-**	-	**-**	-	**40,792**	60,309	**40,792**	60,309
	38,974	39,068	**277,712**	256,380	**-**	-	**40,792**	60,309	**357,478**	355,757
Financial liabilities										
Trade and other payables	**-**	-	**-**	-	**265,161**	251,036	**-**	-	**265,161**	251,036
Interest-bearing liabilities	**-**	-	**-**	-	**414,686** [(1)]	401,583 [(1)]	**-**	-	**414,686**	401,583
Derivative financial liabilities	**-**	-	**-**	-	**-**	-	**619**	3,229	**619**	3,229
	-	-	**-**	-	**679,847**	652,619	**619**	3,229	**680,466**	655,848

(1) The fair value of the USPP is $242,550,000 (2016: $262,679,000).

15 Financial and capital management (continued)

h) Accounting policies

i) Financial instruments
The Group classifies its financial instruments into three measurement categories, being:

- financial assets and liabilities at amortised cost;
- financial assets and liabilities at fair value through profit and loss; and
- financial assets at fair value through other comprehensive income.

The classification depends on the purpose for which the instruments were acquired.

All financial assets are initially recognised at the fair value of consideration paid. Subsequently, financial assets are carried at fair value or amortised cost less impairment.

Where non-derivative financial assets are carried at fair value, gains and losses on remeasurement are recognised directly in equity unless the financial assets have been designated as being held at fair value through profit or loss or held for trading, in which case the gains and losses are recognised directly in the income statement.

For financial assets carried at amortised cost, the amount of any impairment loss is measured as the extent to which the asset's carrying amount exceeds the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

All financial liabilities other than derivatives are initially recognised at the fair value of consideration received net of transaction costs as appropriate (initial cost). All financial liabilities are subsequently carried at amortised cost, with the exception of financial liabilities which have been designated in fair value hedging relationships, in which case these gains and losses are recognised directly in the income statement.

ii) Financial instruments – hedging
The Group uses financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss on remeasurement depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. The measurement of fair value is based on quoted market prices.

Interest rate options, interest rate swaps, cross currency interest rate swaps, foreign exchange options and forward exchange contracts held for hedging purposes are accounted for as either cash flow and/or fair value hedges.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, plant and equipment or inventory purchases) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial carrying amount of the asset or liability. When a hedging instrument expires or is sold or terminated, or when a hedge ceases to meet the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a hedged forecast transaction is no longer expected to occur, the cumulative hedge gain or loss that was reported in equity is immediately transferred to the income statement.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Derivatives that do not qualify for hedge accounting
The Group does not hold or issue financial instruments for trading purposes. Certain derivative instruments, however, do not qualify for hedge accounting, despite being commercially valid economic hedges of the relevant risks. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

16 Contributed equity

Movements in contributed equity since 1 October 2016 were as follows:

Details	Ordinary shares Number of shares	Ordinary shares 2017 $'000	Treasury shares Number of shares	Treasury shares 2017 $'000	Total contributed equity Number of shares	Total contributed equity 2017 $'000
Balance at 1 October 2016	389,250,252	264,886	(1,685,960)	(10,658)	387,564,292	254,228
Purchase of treasury shares	-	-	(2,967,305)	(18,002)	(2,967,305)	(18,002)
Shares allocated under the DRP [1]	-	-	992,998	6,366	992,998	6,366
Sale of treasury shares	-	-	1,107	8	1,107	8
Shares vested under the LTEIP and ESIP	-	12,396	2,123,697	-	2,123,697	12,396
Balance at 30 September 2017	**389,250,252**	**277,282**	**(1,535,463)**	**(22,286)**	**387,714,789**	**254,996**

(1) The Company has established a DRP under which holders of ordinary shares may be able to elect to have all or part of their dividend entitlements satisfied by the issue of new fully paid ordinary shares or shares purchased on-market.

a) Shares issued to subsidiaries

The Group has formed a trust to administer the Group's employee share schemes. Movements in shares held by the trust since 1 October 2016 are as follows:

Details	Number of shares: Issued ordinary capital	Treasury	Total
Balance at 1 October 2016	4,858,174	1,685,960	6,544,134
Shares purchased under the 2016 LTEIP	-	1,973,200	1,973,200
Shares vested under the LTEIP and ESIP	-	(2,123,697)	(2,123,697)
Balance at 30 September 2017	**4,858,174**	**1,535,463**	**6,393,637**

In the event that all shares held by the trust vest in full with no debt forgiveness, the maximum outstanding proceeds expected to be received from employee share plan repayments is $32,211,399.

b) Accounting policies

Ordinary shares in DuluxGroup Limited are classified as contributed equity for the Group, except to the extent that the new capital is issued and continues to be held at balance date by a subsidiary.

When share capital recognised as contributed equity is repurchased by the Company or its subsidiaries, the amount of the consideration paid, including directly attributable costs is recognised as a deduction from total equity and held as treasury shares.

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

The Group has formed a trust to administer the Group's employee share schemes. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Company. Shares held by the trust for the purpose of the employee share schemes are either recognised as treasury shares if they were originally purchased on-market, or where new ordinary share capital is issued to the trust and continues to be held at balance date, this ordinary share capital is not recognised in contributed equity on consolidation.

Notes to the Consolidated Financial Statements

Group Structure

For the financial year ended 30 September 2017

17 Subsidiaries

The consolidated financial statements at 30 September incorporate the assets, liabilities and results of DuluxGroup Limited and the following subsidiaries in accordance with the accounting policies. The Group has a 100% ownership interest in the following entities in the current and prior year, except where noted.

Name of entity	Country of incorporation
DuluxGroup (Investments) Pty Ltd[1,2]	Australia
DuluxGroup (Finance) Pty Ltd[1,2]	Australia
DuluxGroup (New Zealand) Pty Ltd[1,2]	Australia
DuluxGroup (Australia) Pty Ltd[1,2]	Australia
Dulux Holdings Pty Ltd[1,2]	Australia
DuluxGroup (Employee Share Plans) Pty Ltd[1]	Australia
DuluxGroup Employee Share Plan Trust	Australia
DuluxGroup (Nominees) Pty Ltd[1,2]	Australia
Alesco Corporation Pty Limited [1,2]	Australia
Alesco Finance Pty Ltd[1,2]	Australia
B&D Australia Pty Ltd[1,2]	Australia
Automatic Technology (Australia) Pty Ltd[1,2]	Australia
Parchem Construction Supplies Pty Ltd[1,2]	Australia
Robinhood Australia Pty Ltd[1,4]	Australia
Lincoln Sentry Group Pty Ltd[1,2]	Australia
Concrete Technologies Pty Ltd	Australia
Pargone Pty Ltd[1]	Australia
DGL Camel Coatings (Shanghai) Limited[3]	China
DGL Camel Coatings (Dongguan) Limited[3]	China
Countermast Technology (Dalian) Company Limited	China
DGL Camel Powder Coatings (Dongguan) Limited[3]	China

Name of entity	Country of incorporation
DGL Camel International Limited[3]	Hong Kong
DGL Camel Powder Coatings Limited[3]	Hong Kong
DGL Camel (Hong Kong) Limited[3]	Hong Kong
DGL Camel (China) Limited[3]	Hong Kong
Countermast Limited	Hong Kong
PT Avian Selleys Indonesia[6]	Indonesia
DGL International (Malaysia) Sdn Bhd	Malaysia
Alesco New Zealand Limited	New Zealand
B&D Doors (NZ) Limited[2]	New Zealand
Concrete Plus Limited[2]	New Zealand
Lincoln Sentry Limited	New Zealand
Robinhood Limited	New Zealand
Dulux Holdings (PNG) Ltd	Papua New Guinea
DGL Camel (Singapore) Pte Ltd[3]	Singapore
DuluxGroup (PNG) Pte Ltd[2]	Singapore
DGL International (Singapore) Pte Ltd	Singapore
Craig & Rose Limited	United Kingdom
DGL International (Myanmar) Co Ltd[5]	Myanmar
Automatic Technology America LLC[5]	USA
DGL International (Vietnam) Limited Company	Vietnam

(1) These subsidiaries have each entered into a Deed of Cross Guarantee with DuluxGroup Limited in respect of relief granted from specific accounting and financial reporting requirements in accordance with the ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.
(2) In addition to DuluxGroup Limited, these subsidiaries have provided a guarantee in relation to the Group's syndicated bank loan facilities and other overseas bank facilities.
(3) These entities form part of the DGL Camel International Group, in which the Group has a 51% equity holding.
(4) This entity was deregistered during the year ended 30 September 2017.
(5) These entities were incorporated during the year ended 30 September 2017.
(6) This entity is in the process of incorporation as at 30 September 2017.

18 Businesses acquired

2017

On 28 November 2016, the Group acquired the Venetian Plaster business in Australia. The business manufactures and markets distinctive texture finishes for both residential and commercial settings.

2016

On 16 November 2015, the Group acquired the Gliderol business in Western Australia. The business manufactures a range of garage doors, solely for the Western Australian market.

On 1 June 2016, the Group acquired the Munns business in Australia. The business manufacturers a range of premium and specialty lawn care products.

On 10 August 2016, the Group acquired the Craig & Rose business in the United Kingdom. The business manufacturers and markets a range of niche premium paint products. During the period the provisional net assets acquired as a result of the Craig & Rose acquisition were adjusted downward by $790,000, resulting in a final goodwill balance of $6,250,000.

The assets and liabilities recognised as a result of these acquisitions are as follows:

	Provisional fair value $'000s	Adjustment $'000s	Fair value $'000s
Cash Consideration	13,215	-	13,215
Deferred Consideration	250	-	250
Total consideration	13,465	-	13,465
Net assets of business acquired			
Trade and other receivables	630	-	630
Inventories	3,006	-	3,006
Other assets	59	-	59
Property, plant and equipment	4,974	(490)	4,484
Deferred tax assets	441	36	477
Deferred tax liabilities	-	(336)	(336)
Trade and other payables	(69)	-	(69)
Provision for employee entitlements	(85)	-	(85)
Provision for leased properties	(897)	-	(897)
Other provisions	(54)	-	(54)
Net identifiable assets acquired	8,005	(790)	7,215
Goodwill on acquisition[(1)]	5,460	790	6,250

(1) None of the goodwill recognised is expected to be deductible for tax purposes.

a) Accounting policies

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises of the fair values of the assets transferred (including cash), the liabilities incurred and the equity interests issued by the Group (if any). Acquisition related transaction costs are expensed as incurred.

Other than acquisitions under common control, identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

For acquisitions occurring while under common control and for consolidation purposes, the assets and liabilities acquired continue to reflect the carrying values in the accounting records of the consolidated group prior to the business combination occurring.

Where a subsidiary elects to apply purchase accounting in its own books and records, on consolidation the effect of this policy difference will result in recognition of a common control reserve to the extent that the fair values of the business assets and liabilities exceed their carrying value at acquisition date.

18 Businesses acquired (continued)

b) Accounting estimates and judgements

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control until such time as the Company ceases to control such entity. The determination as to the existence of control or significant influence over an entity necessarily requires management judgement to assess the Group's ability to govern the financial and operating activities of an investee. In making such an assessment, a range of factors are considered including voting rights in an investee and Board and management representation.

A business acquisition also requires judgement with respect to the determination of the fair value of purchase consideration given and the fair value of net identifiable assets and liabilities acquired. Many of these assets and liabilities either given up or acquired are not normally traded in active markets, and thus management judgement is required in determining their fair values. Management judgement is also required in ascertaining the assets and liabilities which should be recognised, in particular with respect to intangible assets such as brand names, customer relationships, patents and trademarks and contingent liabilities.

19 Equity accounted investment

The Yates garden care business (reported as part of the 'Other businesses' segment) has an interest in the following joint venture arrangement:

	2017 **$'000**	2016 $'000
Pinegro Products Pty Ltd		
Percentage of ownership interest held[1]	**50%**	50%
Opening balance	**6,518**	6,342
Share of net profit	**1,235**	676
Proceeds from joint venture distribution	**-**	(500)
Balance at 30 September	**7,753**	6,518

(1) Acquired on 1 December 2009 and incorporated on 10 April 1979.

a) Transactions and balances with joint venture

Transactions during the financial year and outstanding balances at reporting date with Pinegro Products Pty Ltd are:

	2017 **$**	2016 $
Sales of goods	**340,963**	375,851
Purchases of goods	**7,044,441**	3,851,840
Distributions received	**-**	500,000
Current receivables	**36,255**	80,146
Current payables	**1,902,544**	1,500,405

All transactions with Pinegro Products Pty Ltd are made on normal commercial terms and conditions and in the ordinary course of business. No provisions for doubtful debts have been raised against amounts receivable from Pinegro Products Pty Ltd. There were no commitments and contingent liabilities in Pinegro Products Pty Ltd as at 30 September 2017 (2016: $NIL).

20 Superannuation

a) Superannuation plans

The Group contributes to a number of superannuation plans that exist to provide benefits for employees and their dependants on retirement, disability or death. The Group is required to contribute (to the extent required under Superannuation Guarantee legislation) to any choice fund nominated by employees, including self-managed superannuation funds.

Company sponsored plans

The principal benefits are pensions or lump sum payments for members on resignation, retirement, disability or death. The benefits are provided on either a defined benefit basis or a defined contribution basis. Employee contribution rates are either fixed by the rules of the plans or selected by members from time to time from a specified range of rates. The employing entities contribute the balance of the cost required to fund the defined benefits or, in the case of defined contribution plans, the amounts required by the rules of the plan. The contributions made by the employing entities to defined contribution plans are in accordance with the requirements of the governing rules of such plans or as required under law.

Government plans

Some subsidiaries participate in government plans on behalf of certain employees. These plans provide pension benefits. There exists a legally enforceable obligation on employer entities to contribute as required by legislation.

Industry plans

Some subsidiaries participate in industry plans on behalf of certain employees. These plans operate on an accumulation basis and provide lump sum benefits for members on resignation, retirement, disability or death. The employer entities have a legally enforceable obligation to contribute a regular amount for each employee member of these plans. The employer entities have no other legal liability to contribute to the plans.

b) Defined contribution pension plans

The Group contributes to several defined contribution pension plans on behalf of its employees. Contributions are taken to the income statement in the year in which the expense is incurred. The amount recognised as an expense for the financial year ended 30 September 2017 was $20,586,000 (2016: $21,050,000).

c) Defined benefit pension plans

DuluxGroup (Australia) Pty Ltd is the sponsoring employer of the defined benefit post-employment section of The DuluxGroup Super Fund (the Fund) in Australia. Funding for post-employment benefits is carried out in accordance with the requirements of the Trust Deed for the Fund and the advice of the Fund’s actuarial adviser. The fund is closed to new members.

The plan exposes the Group to a number of risks, asset volatility, changes in bond yields and inflation risks. Derivatives are not used to manage risk, instead investments are well diversified, such that failure of any single investment would not reasonably be expected to have a material impact on the overall level of assets. The process used to manage risk has not changed from previous periods. The principal actuarial assumptions used to calculate the net defined benefit liability are a discount rate (corporate bond rate) of 4.3% (2016: 3.3%), pension take up rate of 40% (2016: 40%), future salary increases of 3.8% (2016: 3.8%) and future inflation of 2.5% (2016: 2.5%).

The amounts recognised in the balance sheet and a reconciliation of the movement in the net defined liability are as follows:

	2017 $'000	2016 $'000
Present value of the defined benefit obligations	**190,823**	200,841
Fair value of defined benefit plan assets	**(153,859)**	(144,375)
Net defined benefit liability at 30 September	**36,964**	56,466
Opening balance	**56,466**	22,107
Actuarial (gains)/losses[(1)]	**(21,759)**	32,551
Current service cost[(2)]	**5,750**	4,965
Interest cost[(2)]	**1,812**	828
Employer contributions[(3)]	**(5,305)**	(3,985)
Balance at 30 September	**36,964**	56,466

(1) Actuarial losses are recognised in other comprehensive income.
(2) Current service cost and interest cost are recognised in the consolidated income statement as part of employee benefits and finance expenses respectively.
(3) Employer contributions are cash payments which are recognised as part of movement in trade and other payables and provisions in the cash flow statement.

The Group’s external actuaries have forecasted total employer contributions to the Fund of $5,746,000 for the financial year ending 30 September 2018.

20 Superannuation (continued)

c) Defined benefit pension plans (continued)

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2017	2016
Cash and other assets	**32%**	31%
Equity instruments	**35%**	40%
Fixed interest securities	**17%**	15%
Property	**16%**	14%

d) Accounting estimates and judgements

Defined benefit pension plans

In calculating the net defined benefit liability, management judgement is required in determining the following key assumptions: future salary and wages increases; pension take up rates; and rates of exits. Management uses external actuaries to assist in determining these assumptions and in valuing the net defined benefit liability, and any movements in these assumptions will impact the valuation of this liability.

21 Share-based payments

Total expenses arising from share-based payment (SBP) transactions recognised during the financial year as part of employee benefit expense were as follows:

	2017	2016
	$	$
DuluxGroup LTEIP[1]	**3,185,263**	2,754,934
DuluxGroup ESIP	**-**	972,453
	3,185,263	3,727,387

(1) In accordance with AASB 2 *Share-based Payment*, represents the expense incurred during the year in respect of current incentive allocations to executives. These amounts are therefore not amounts actually received by executives during the year. Whether an executive receives any value from the allocation of long term incentives in the future will depend on the performance of the Company's shares. The minimum potential future value of grants under LTEIP is $NIL (2016: $NIL).

a) DuluxGroup LTEIP

The LTEIP has been established to incentivise executives to generate shareholder wealth. Detailed remuneration disclosures, including the link between the LTEIP and shareholder wealth, are provided in the Remuneration Report section of the Directors' Report.

Under the LTEIP, eligible executives are provided with an interest free, non-recourse loan from the Group for the sole purpose of acquiring shares in the Company. Executives may not deal with the shares while the loan remains outstanding and any dividends paid on the shares are applied (on an after-tax basis) towards repaying the loan. Executives are entitled to exercise the voting rights attaching to their DuluxGroup ordinary shares from the date of allocation of those shares. If the executive leaves the Group within the vesting period the shares allocated are returned to the Group, subject to discretion retained by the Directors.

The Board has implemented a gateway level of minimum performance for the DuluxGroup LTEIP below which no benefit accrues, being a Board determined compound annual EPS growth over the three year period calculated from the 30 September preceding the grant date. The gateway for the unvested plans is 4%. This gateway is a minimum level of acceptable performance for any of the LTEIP shares to vest.

Where the gateway EPS level of performance is met, the relative Total Shareholder Return (TSR) performance hurdle is used to determine the level of loan forgiveness which may apply (the forgiveness amount). There is no loan forgiveness amount if the Group's relative TSR is below the 51st percentile against a comparator group. If the Group's relative TSR is greater than or equal to the 51st percentile, a proportion of the initial loan balance (on a 'sliding scale' from 10% at the 51st percentile up to a maximum of 30% at or above the 75th percentile) is forgiven.

21 Share-based payments (continued)

a) DuluxGroup LTEIP (continued)

Details of shares issued under these plans are as follows:

							Number of shares				
Grant date	Life of share options (years)	Expiry date	Grant date share price	Fair value at grant date	Risk free interest rate	Share price volatility	Balance at start of year	Granted during year	Lapsed during year	Exercised during year	Balance at end of year
29 Nov 13	3.1	Jan 17	$5.45	$1.71	3.0%	22.5%	1,747,980	-	-	(1,747,980)	-
28 Nov 14	3.1	Jan 18	$5.71	$1.72	2.5%	22.5%	1,824,647	-	(92,729)	-	1,731,918 [1]
27 Nov 15	3.1	Jan 19	$6.30	$1.92	2.1%	22.5%	1,870,900	-	(161,049)	-	1,709,851
07 Dec 16	3.1	Jan 20	$5.89	$1.73	1.9%	20.0%	-	2,102,569	(37,877)	-	2,064,692

(1) Since the end of the financial year, these shares have met the applicable DuluxGroup LTEIP performance condition and vested on 15 November 2017. The restriction on trading these shares will be lifted upon repayment of the loan. The loan must be repaid during the period from 28 November 2017 to 2 February 2018.

b) DuluxGroup ESIP

In December 2016, eligible Australian employees of the Group were invited to acquire DuluxGroup ordinary shares to the value of $1000 through salary sacrifice with no matching from the Group (December 2015: $500 with $500 matching). Eligible employees in New Zealand were invited to acquire ordinary shares to the value of NZD $780 through salary sacrifice with the Group providing no matching (December 2015: NZD $390 with NZD $390 matching). A share allocated to a participating employee under the ESIP has trade restrictions attached until the earlier of the end of three years after the date of allocation and the time when the participant ceases to be employed by DuluxGroup Limited or any of its subsidiaries. At the end of the restriction period, the employee will be able to sell or otherwise deal with their DuluxGroup shares.

Details of restricted shares issued under these plans is as follows:

Allocation date	Number of shares unvested at 30 September 2017
19 December 2014	247,412
17 December 2015	252,026
16 December 2016	213,015

c) Accounting policies

i) DuluxGroup LTEIP

Shares issued/allocated under the LTEIP in conjunction with non-recourse loans are accounted for as options and as such the amounts receivable from employees in relation to these loans are not recognised in the financial statements. Settlement of share loans upon vesting are recognised as contributed equity.

The options are externally measured at fair value at the date of grant using an option valuation model being an adjusted form of the Black-scholes option pricing model. This valuation model generates possible future share prices based on similar assumptions that underpin relevant option pricing models to calculate the fair value (as at grant date) of options granted.

The assumptions underlying the options valuations are:

- exercise price of the option;
- life of the option;
- current price of the underlying securities;
- expected volatility of the share price;
- dividends expected on the shares ($Nil is adopted where participants will fully benefit from dividend receipts during the life of the investments);
- risk-free interest rate for the life of the option;
- specific factors relating to the likely achievement of performance hurdles;
- employment tenure; and
- vesting and performance conditions (including the potential to be awarded loan forgiveness).

The fair value determined at the grant date of the award is recognised as a SBP expense in the income statement on a straight-line basis over the relevant vesting period. The expense recognised is reduced to take account of the costs attributable to participating employees who do not remain in the employment of the Group throughout the vesting period.

ii) DuluxGroup ESIP

Where shares are issued under the ESIP at a discount, a SBP expense for the fair value of the discount on the granted shares is recognised.

22 Director and executive disclosures

a) Key Management Personnel (KMP) compensation summary

In accordance with the requirements of AASB 124 *Related Party Disclosures*, the KMP include Non-Executive Directors and members of the Group Executive Team who have authority and responsibility for planning, directing and controlling the activities of DuluxGroup. A summary of KMP compensation is set out in the table below.

	2017	2016
	$	$
Short term employee benefits[1]	**7,024,479**	6,858,794
Other long term benefits[2]	**73,583**	100,603
Post employment benefits	**146,687**	175,462
Share-based payments	**1,708,636**	1,559,265
Total	**8,953,385**	8,694,124

(1) Short term employee benefits includes the movement in the annual leave entitlement for the period of $(12,018) (2016: $(34,799)).
(2) Other long term benefits includes the movement in the long service leave entitlement for the period of $73,583 (2016: $100,603).

Information regarding the compensation of individual KMP and some equity instruments disclosure as required by Corporation Regulation 2M.3.03 is provided in the Remuneration Report section of the Directors' Report.

b) KMP transactions in shares and options

The total relevant interests of KMPs, including their related parties, in the share capital and options of the Company at 30 September are set out in the table below:

	2017	2016
	Number	Number
Number of options and rights for fully paid ordinary shares	**2,778,622**	2,692,890
Number of fully paid ordinary shares	**2,757,791**	2,468,030

c) Other transactions and balances with KMP

All transactions with KMPs are made on normal commercial terms and conditions and in the ordinary course of business. There were no other transactions during the financial year nor balances owing to or from KMP as at 30 September 2017.

In the normal course of business, the Group occasionally enters into transactions with various entities that have Directors in common with the Group. Transactions with these entities are made on commercial arm's-length terms and conditions. The relevant Directors do not participate in any decisions regarding these transactions.

23 Commitments

a) Capital expenditure commitments

	2017	2016
	$'000	$'000
Capital expenditure on property and plant and equipment contracted but not provided for and payable:		
- New paint factory	**5,035**	41,516
- Other	**338**	480
	5,373	41,996

23 Commitments (continued)

b) Lease commitments – non-cancellable operating leases

The Group leases offices, warehouses, retail bulky goods and manufacturing sites under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. There are no restrictions placed upon the lessee by entering into these leases. Excess space is sub-let to third parties also under non-cancellable operating leases. Not included in the commitments below are contingent rental payments which may arise as part of rental increases indexed to the Consumer Price Index (CPI), or the higher of a fixed rate or CPI.

	2017	2016
	$'000	$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
- No later than one year	**46,390**	47,339
- Later than one, no later than five years	**112,513**	105,530
- Later than five years	**47,574**	58,908
	206,477	211,777
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	**6,713**	6,285

24 Contingent liabilities

The nature of the Group's consumer products business and its geographic diversity means that the Company or Group receives a range of claims from various parties and is from time to time required to make its own assessment of obligations arising from legislation across the jurisdictions in which it operates. These claims, and actual or potential obligations, are evaluated on a case-by-case basis considering the information and evidence available as well as specialist advice as required to assess the appropriate outcome.

The outcome of any pending or future litigation cannot be predicted with certainty. Accordingly, an adverse decision in a lawsuit could result in additional costs that are not covered, either wholly or partially, under insurance policies and that could materially affect the financial position, results of operations or cash flows of the Company or Group. Litigation and other judicial proceedings raise difficult legal issues and are subject to many complexities. Upon resolution of a legal matter, the Company or Group may incur charges in excess of the presently established provisions and related insurance coverage. Where it is considered probable that a future obligation will result in a material outflow of resources, then this is accounted for accordingly by the Company or Group.

25 Deed of cross guarantee

Entities which are party to a Deed of Cross Guarantee (Closed Group), entered into in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 are disclosed in note 17. A consolidated income statement, consolidated statement of comprehensive income and consolidated balance sheet for the Closed Group are disclosed below.

a) Consolidated income statement and retained earnings

	2017	2016
	$'000	$'000
Profit before income tax expense	**196,348**	172,573
Income tax expense	**(53,412)**	(48,301)
Profit for the year	**142,936**	124,272
Retained earnings		
Opening balance	**158,642**	145,974
Profit for the year	**142,936**	124,272
Actuarial gains/(losses) on defined benefit plan recognised directly in retained earnings (net of tax)	**15,231**	(22,786)
Dividends paid - ordinary shares	**(98,519)**	(88,818)
Balance at 30 September	**218,290**	158,642

b) Consolidated statement of comprehensive income

	2017	2016
	$'000	$'000
Profit for the year	**142,936**	124,272
Other comprehensive income/(loss)		
Items that may be reclassified to the income statement		
Cash flow hedge reserve		
Effective portion of changes in fair value of cash flow hedges	**1,991**	(2,945)
Income tax (expense)/benefit	**(597)**	883
Foreign currency translation reserve		
Foreign currency translation (loss)/gain on foreign operations	**(2,863)**	3,885
Total items that may be reclassified to the income statement, net of tax	**(1,469)**	1,823
Items that will not be reclassified to the income statement		
Retained earnings		
Actuarial losses on defined benefit plan	**21,759**	(32,551)
Income tax (expense)/benefit	**(6,528)**	9,765
Total items that will not be reclassified to the income statement, net of tax	**15,231**	(22,786)
Other comprehensive income/(loss) for the year, net of tax	**13,762**	(20,963)
Total comprehensive income for the year	**156,698**	103,309

25 Deed of cross guarantee (continued)

c) Consolidated balance sheet

	2017 $'000	2016 $'000
Current assets		
Cash and cash equivalents	**19,823**	18,678
Trade and other receivables	**294,798**	271,894
Inventories	**204,491**	196,956
Derivative financial assets	**3,847**	3,269
Other assets	**5,896**	4,496
Assets held for sale	**6,814**	-
Total current assets	**535,669**	495,293
Non-current assets		
Other receivables	**8**	8
Derivative financial assets	**36,945**	57,040
Investment in controlled entities	**62,485**	62,485
Equity accounted investment	**7,753**	6,518
Property, plant and equipment	**353,392**	295,925
Intangible assets	**227,624**	229,882
Deferred tax assets	**48,528**	56,632
Other assets	**3,138**	4,155
Total non-current assets	**739,873**	712,645
Total assets	**1,275,542**	1,207,938
Current liabilities		
Trade and other payables	**243,901**	232,089
Interest-bearing liabilities	**13,674**	8,354
Derivative financial liabilities	**619**	3,229
Current tax liabilities	**17,233**	14,359
Provisions	**74,529**	62,882
Total current liabilities	**349,956**	320,913
Non-current liabilities		
Other payables	**236**	259
Interest-bearing liabilities	**398,116**	388,679
Deferred tax liabilities	**26,944**	26,669
Provisions	**11,798**	21,681
Defined benefit liability	**36,964**	56,466
Total non-current liabilities	**474,058**	493,754
Total liabilities	**824,014**	814,667
Net assets	**451,528**	393,271
Equity		
Share capital	**293,413**	292,481
Reserves	**(60,175)**	(57,852)
Retained earnings	**218,290**	158,642
Total equity	**451,528**	393,271

26 Parent entity disclosures

a) Summary financial information

The financial statements for the parent entity, DuluxGroup Limited, show the following aggregate amounts:

	2017 $'000	2016 $'000
Current assets	**93,341**	125,381
Non-current assets	**229,263**	229,263
Total assets	**322,604**	354,644
Current liabilities	**15,750**	9,661
Total liabilities	**15,750**	9,661
Net assets	**306,854**	344,983
Equity		
Contributed equity	**293,413**	292,481
Profits reserve[(1)]	**-**	40,358
Other reserves	**7,093**	7,751
Retained earnings	**6,348**	4,393
	306,854	344,983
Profit before income tax expense[(2)]	**59,074**	75,834
Income tax benefit	**1,053**	950
Profit for the year	**60,127**	76,784
Total comprehensive income of the parent entity	**60,127**	76,784

(1) Represents an appropriation of amounts from retained earnings for the payment of future dividends. On consolidation, this reserve is included as part of the consolidated retained earnings.

(2) Profit before income tax expense includes dividend income of $62,585,000 declared by DuluxGroup (New Zealand) Pty Ltd ($54,000,000) and DuluxGroup (Nominees) Pty Ltd ($8,585,000) during the year ended 30 September 2017 (2016: DuluxGroup (New Zealand) Pty Ltd $79,000,000).

b) Guarantees

Details of guarantees entered into by the parent entity in relation to external banking facilities as at 30 September 2017 are set out in note 17. In addition, the parent entity is a party to the deed of cross guarantee.

c) Capital commitments

There were no capital commitments entered into by the parent entity as at 30 September 2017 (2016: $NIL).

d) Contingent liabilities

Refer to note 24 for information relating to contingent liabilities of the parent entity.

Notes to the Consolidated Financial Statements

Other Disclosures (continued)

For the financial year ended 30 September 2017

27 Auditors' remuneration

	2017	2016
	$	$
Audit services - audit and review of financial reports		
KPMG Australia	**663,000**	676,500
Overseas KPMG firms[1,2]	**461,334**	469,742
	1,124,334	1,146,242
Other services[3]		
Other assurance services - KPMG Australia	**106,742**	68,608
Board and executive remuneration services - KPMG Australia	**128,500**	-
Other assurance services - Overseas KPMG firms[2]	**16,737**	14,690
	251,979	83,298

(1) Includes fees paid or payable for overseas subsidiaries' local statutory lodgement purposes and other regulatory compliance requirements.

(2) Fees for overseas services are determined locally, and as such when reported in Australian dollars are subject to fluctuation due to the effect of foreign exchange rates.

(3) Other services (primarily assurance based engagements undertaken for compliance and governance) are subject to the Group's internal corporate governance procedures and are approved by the Audit and Risk Committee.

28 New accounting standards and interpretations

Except as described below, the accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its financial statements for the financial year ended 30 September 2016.

The Group has adopted the following new and amended accounting standards.

Reference	Title	Application
AASB 2014-4	Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation	1 Oct 2016
AASB 2017-1	Amendments to Australian Accounting Standards - Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments	1 Oct 2016

The adoption of these standards did not have a significant impact on the consolidated financial statements and has impacted disclosures only.

a) Issued but not yet effective

The following Australian Accounting Standards have recently been issued or amended but are not yet effective and have not been adopted for this annual reporting period. Other than the implications of AASB 16 *Leases* outlined below, these standards are not expected to have a material impact on the Group's financial position and performance. However, increased disclosures will be required in the Group's financial statements.

Reference	Title	Application
AASB 2016-2	Amendments to Australian Accounting Standards- Disclosure Initiative: Amendments to AASB 107	1 Oct 2017
AASB 2017-2	Amendments to Australian Accounting Standards - Further Annual Improvements 2014-2016 Cycle	1 Oct 2017
AASB 15	Revenue from Contracts with Customers	1 Oct 2018
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15	1 Oct 2018
AASB 2015-8	Amendments to Australian Accounting Standards - Effective Date of AASB 15	1 Oct 2018
AASB 2016-3	Amendments to Australian Accounting Standards - Clarifications to AASB 15	1 Oct 2018
AASB 16	Leases	1 Oct 2019
AASB 2017-4	Amendments to Australian Accounting Standards - Uncertainty over Income Tax Treatments	1 Oct 2019

AASB16 Leases

AASB 16 *Leases* was released in February 2016 by the Australian Accounting Standards Board. AASB 16 requires companies to bring on-balance sheet most leases, in particular those leases that were previously classified as operating leases under the previous standard, by recognising a right-of-use asset (ROU) and a lease liability. The lease liability represents the present value of future lease payments with the exception of short-term and low value leases. An interest expense will be recognised on the lease liabilities and a depreciation charge will be recognised for the ROU assets. There will also be additional disclosure requirements under the new standard.

AASB 16 is mandatory for annual reporting periods beginning after 1 January 2019, but is available for early adoption. A project team, including members from finance, treasury and property functions has been established to perform a detailed assessment of the impact of the new standard and to ensure a high quality implementation.

As at 30 September 2017 the Group has non-cancellable undiscounted lease commitments as disclosed in note 23. These commitments predominantly relate to property, equipment and vehicle leases and will require ROU assets and associated lease liabilities.

The Group is continuing to assess the impact of the new standard, however it is expected that the Group's consolidated balance sheet will be materially “grossed-up” and in turn key financial ratios will be impacted. More detailed quantitative and qualitative disclosures will be provided during 2018 as the impact assessment continues.

28 New accounting standards and interpretations (continued)

a) Issued but not yet effective (continued)

AASB 15 Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* was released in December 2015 by the AASB and requires the identification of discrete performance obligations within a transaction and an allocation of an associated transaction price to these obligations. Under the new standard revenue is recognised based on the transfer of control of ownership, rather than the transfer of risk and reward of ownership under the previous standard.

AASB 15 is mandatory for reporting periods beginning after 1 January 2018, but is available for early adoption. The Group has performed an initial assessment of the impact of the new standard by undertaking an analysis of a cross-section of material customer contracts. Based upon this initial assessment, the impact of AASB 15 is not expected to be material. More detailed quantitative and qualitative disclosures will be provided during 2018 as the impact assessment continues.

29 Subsequent events

Details of the final dividend declared since balance date is set out in note 6.

The Directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2017, that has affected or may affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years, which has not been covered in this report.

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Independent Auditor's Report

To the Members of DuluxGroup Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of DuluxGroup Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 30 September 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- The consolidated balance sheet as at 30 September 2017;
- The consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the Financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The carrying value of property, plant and equipment, and intangible assets ($600.5m)

Refer to Notes 10 and 11 in the Financial Report

The key audit matter	How the matter was addressed in our audit
The Group's Cash Generating Units (CGUs) operate in a broad range of market segments and regions which range from the domestic consumer market through to industrial and commercial markets across Australia, New Zealand and Asia. These markets and regions are subject to cyclical demand characteristics which can significantly impact the financial performance of each CGU. Given the variability in the strength of each market that the Group participates in, and the associated impact this has on the assumptions used in the Group's impairment testing models, the value of goodwill and intangible assets is a key audit matter. The financial statements disclose that the China CGU is sensitive to impairment on the basis that a reasonable possible unfavourable change in one or more of the assumptions used to determine its 'fair value less costs of disposal' may result in its carrying value exceeding its recoverable amount. These assumptions were the subject of particular focus during our audit.	Our procedures included, amongst others: • We tested the goodwill and intangible assets impairment assessment process and tested key controls such as the review of forecasts by management. • We assessed the Group's determination of CGUs based on our understanding of the nature of the Group's business units. We examined the internal reporting of the Group to assess how the CGUs are monitored and reported, and we considered the implications for the Group's identification of CGUs in accordance with the accounting standards requirements. • We compared cash flows in the value in use models to Board approved budgets. • We assessed key inputs into the value in use models including forecast revenue, costs, discount rates and terminal growth rates. We challenged these key inputs by corroborating market growth rates to external analyst and industry reports, and compared the discount rate to comparable companies. For non-market based inputs, such as revenue and costs, we compared forecasts to actual performance currently being achieved. • We assessed the historical accuracy of the Group's forecasts, by comparing the forecasts used in the prior year models to the actual performance of the business in the current year. These procedures enabled us to determine the accuracy of the forecasting process. We applied increased scepticism to current period forecasts in areas where previous forecasts were not achieved and/or where future uncertainty is greater or volatility is expected. • We challenged the discount rate used by the Group for the Australian and New Zealand CGUs through

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	using specialists to independently determine a benchmark discount rate. • For the China CGU, we performed sensitivity analyses on the potential transaction prices and revenue and earnings multiples used in the Group's models and also compared these assumptions to relevant external data points. • We assessed the allocation of corporate overheads to CGUs by comparing the allocation methodology to our understanding of the business. • We assessed the Group's disclosures regarding reasonable possible changes that may impact the valuation of the China CGU, by comparing these disclosures to our business understanding and accounting standards requirements.

Other Information

Other Information is financial and non-financial information in DuluxGroup Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Chairman's Report, Managing Director's Report, Operating and Financial Review, Corporate Sustainability Report, Tax Contribution Report, Corporate Governance Statement and Directors' Report. The remaining Other Information is expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's and Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of DuluxGroup Limited for the year ended 30 September 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 September 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Gordon Sangster
Partner

James Dent
Partner

Melbourne

15 November 2017