



**GWA**  
Group Limited

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21 August 2017

**ASX On-Line**  
Manager Company Announcements  
Australian Securities Exchange

Dear Sir

**Financial Results for the Year Ended 30 June 2017**

We enclose the following documents for immediate release to the market.

- Appendix 4E Preliminary Final Report
- Chairman's Review
- Managing Director's Review of Operations
- Director's Report (including Remuneration Report)
- Annual Financial Report

Yours faithfully

A handwritten signature in black ink, appearing to read 'R J Thornton'.

**R J Thornton**  
**Executive Director**

**Appendix 4E  
Preliminary Final Year Report  
Period Ended 30 June 2017**

**GWA GROUP LIMITED**

| ABN                   | Half<br>Yearly | Preliminary<br>Final | Year ended<br>(‘current period’) |
|-----------------------|----------------|----------------------|----------------------------------|
| <b>15 055 964 380</b> |                | <b>X</b>             | <b>30 June 2017</b>              |

**Results for announcement to the market**

| <b>\$A'000</b>   |      |       |    | <b>30 June<br/>2017</b> | <b>30 June<br/>2016</b> |
|--|------|-------|----|-------------------------|-------------------------|
| <b><u>Revenue from ordinary activities</u></b>                                 |      |       |    |                         |                         |
| Revenue from continuing operations   | Up   | 1.5%  | to | 446,332                 | 439,666                 |
| Revenue from discontinued operations   | Down | -100% | to | -                       | 4,798                   |
| Total revenue from ordinary activities   | Up   | 0.4%  | to | 446,332                 | 444,464                 |
| <b><u>Statutory Reported Profit</u></b>  |      |       |    |                         |                         |
| Net profit for the period from continuing operations attributable to members   | Up   | 3.4%  | to | 53,671                  | 51,920                  |
| Net profit for the period from discontinued operations attributable to members | Down | -100% | to | -                       | 1,761                   |
| Total net profit for the period attributable to members                        | Flat | 0%    | to | 53,671                  | 53,681                  |

**Continuing Operations**

|                                  |    |      |    |         |         |
|----------------------------------|----|------|----|---------|---------|
| Revenue from ordinary activities | Up | 1.5% | to | 446,332 | 439,666 |
| Earnings before interest and tax | Up | 3.0% | to | 80,594  | 78,265  |
| Profit after tax                 | Up | 3.4% | to | 53,671  | 51,920  |

**Discontinued Operations**

|                                  |      |       |    |   |       |
|----------------------------------|------|-------|----|---|-------|
| Revenue from ordinary activities | Down | -100% | to | - | 4,798 |
| Earnings before interest and tax | Down | -100% | to | - | 2,200 |
| Profit after tax                 | Down | -100% | to | - | 1,761 |

| <b><u>Dividends</u></b>  | <b>Amount Per Security</b> | <b>Franked Amount Per Security</b>   |
|--|----------------------------|--------------------------------------|
| <b>Current period</b>  |                            |                                      |
| Final 2017 ordinary dividend <sup>1</sup>  | 9.0 cents                  | 9.0 cents                            |
| Interim 2017 ordinary dividend   | 7.5 cents                  | 7.5 cents                            |
| <b>Previous corresponding period</b>   |                            |                                      |
| Final 2016 ordinary dividend   | 8.0 cents                  | 8.0 cents                            |
| Final 2016 special dividend  | 1.0 cents                  | 1.0 cents                            |
| Interim 2016 ordinary dividend   | 7.0 cents                  | 7.0 cents                            |
| <sup>1</sup> The record date for determining entitlements to the dividend is 25 August 2017 and the dividend is payable on 5 September 2017. |                            |                                      |
| <b><u>Net tangible assets</u></b>  | <b>Current Period</b>      | <b>Previous Corresponding Period</b> |
| Net tangible asset backing per ordinary security   | \$0.02                     | (\$0.03)                             |
| Net asset backing per ordinary security  | \$1.21                     | \$1.17                               |
| <b>Brief explanation of the figures reported above:</b>  |                            |                                      |
| Refer to the attached Media Release and Managing Director's Review of Operations.  |                            |                                      |
| The attached Annual Financial Report has been audited by GWA's independent statutory auditors.   |                            |                                      |

## CHAIRMAN'S REVIEW

### Introduction

GWA continued to deliver improved financial results in FY17 with increased revenue and disciplined cost management driving higher earnings and profitability.

As a result, earnings per share and ordinary dividends to shareholders increased on the prior year with the company continuing to maintain a strong financial position.

GWA continues to make good progress on its strategy and your Board believes the company remains well positioned to capitalise on our market-leading position in our core markets to continue to deliver value for shareholders.

### Financial Overview<sup>1</sup>

GWA's revenue growth was ahead of the market with net sales increasing by 2 per cent to \$446.3 million on the prior year.

Earnings Before Interest and Tax (EBIT), increased by 3 per cent to \$80.6 million from improved earnings in the Bathrooms & Kitchens' division and a reduction in costs, partially offset by the decline in earnings from the Door & Access Systems division.

Net profit after tax increased by 3 per cent to \$53.7 million. Earnings per share of 20.3 cents increased by 7 per cent, driven by improved profitability and also due to the reduced weighted average number of shares on issue following the completion of the on-market share buyback program in the prior year.

Our continued focus on effective use of capital across the business was reflected in an improvement in Return on Funds Employed of 0.9 percentage points to 20.2 per cent.

### Dividends/Capital Management

Your Board maintains a policy to pay 65-85 per cent of net profit after tax as ordinary dividends.

Consistent with this policy, the Board resolved to pay a final ordinary dividend of 9 cents per share, fully-franked. This brings the full-year ordinary dividend to 16.5 cents per share, fully-franked compared to 15 cents for the prior year.<sup>2</sup>

The record date for entitlement to receive the final dividend will be 25 August 2017 with the dividend being paid on 5 September 2017. The Dividend Reinvestment Plan will not be offered to shareholders for the final ordinary dividend.

GWA's financial position remains strong which provides the company with ongoing financial flexibility to implement its strategic growth agenda through the market cycle. Net debt at 30 June 2017, was \$79.8 million, compared to \$88.4 million in the previous year.

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<sup>1</sup> Unless specified, all amounts and comparisons are based on results in respect of Continuing Operations which exclude the Gliderol Garage Doors business which was divested on 31 July 2015

<sup>2</sup> Excluding the FY16 fully-franked special dividend of 1 cent per share paid in September 2016

GWA's financial metrics, comprising leverage, gearing, and interest cover ratios continued to strengthen on the prior year and remain consistent with investment grade.

### **Strategy**

GWA has a clearly defined strategy to build its competitive position in its core markets to maximise returns for shareholders.

Our strategy has evolved from a focus on manufacturing products to a focus on developing solutions for customers and consumers to create "pull" for our brands.

The Group is focused on growing revenue and profitable market share through customer and consumer initiatives targeting specific segments where we have significant opportunities to grow.

We are also driving further efficiencies in overhead costs and supply chain to enable reinvestment in the business and maintain margins through the cycle.

Importantly, our strategy requires us to build our internal capability, engagement and culture to deliver sustainable results.

The Group has made significant progress in implementing this strategy in FY17 which is detailed in the Managing Director's Review of Operations.

### **Board Renewal**

The Board was pleased to welcome the appointments of Jane McKellar and Stephen Goddard as Non-Executive Directors at the conclusion of the 2016 Annual General Meeting.

Jane and Stephen bring significant experience to the Board, specifically within retail and customer-focused businesses, which is a strong complement to our strategy.

Robert Anderson retired from the Board at the conclusion of the 2016 Annual General Meeting. Bill Bartlett will retire at the conclusion of the 2017 Annual General Meeting. Both Robert and Bill have made valuable contributions to the Board over many years and we wish them both well in their future endeavours.

### **Diversity**

GWA is committed to promoting diversity through the implementation of targeted employment policies and initiatives to achieve a diverse workforce. The Board understands the significant benefits that arise from increasing the pool of diverse employees. In line with GWA's approach to embedding diversity in the organisation, the company's Diversity Policy has been refreshed and renamed the Diversity and Inclusion Policy and is available on the Group's website.

A number of measurable objectives have been approved by the Board to promote and encourage diversity, particularly the improvement of female representation within our workforce. These objectives are assessed annually and are reported in the Corporate Governance Statement which is also available on the Group's website.

During the year, the Group conducted a detailed review of its recruitment practices leading to the implementation of a new simplified process which continues to encourage the promotion of equal opportunity and diversity.

GWA also completed a detailed review of employment policies and practices during the year to ensure that, among other things, flexibility is offered to attract and retain female talent. Together with this review, the Group introduced a new policy enabling victims of domestic violence to take an additional five days paid leave per year.

The Board supports the recommendations of the ASX Corporate Governance Council on diversity and has provided the required diversity disclosures in its Corporate Governance Statement. The Group lodged its Workplace Gender Equality Report with the Workplace Gender Equality Agency in May 2017 and the report is available on the Group's website under Gender Equality Reporting.

### **Executive Remuneration**

GWA's remuneration policies continue to be assessed with the independent advice of Guerdon Associates who were engaged by the Board for the FY18 executive remuneration review. We aim to provide remuneration to executives which is fair and which is designed to attract and retain a high quality management team with the requisite experience, knowledge, skills and judgement required for the business.

In order to achieve this objective, the key principle is that fixed remuneration for executives varies between the median and third quartiles relative to companies of comparable size and scope. The remuneration package for the Managing Director, Tim Salt, was determined by the Board in FY16 following the provision of market data from Guerdon Associates and was aligned with the market median in relation to a group of comparable companies to GWA.

The Board continued the freeze on executive fixed remuneration for FY17. This is the second consecutive year executive fixed remuneration has been frozen. The short term incentive payments for the Managing Director and other executives for FY17 reflect the improved group performance and profitability driven by sales growth in the Bathrooms & Kitchens business exceeding market growth for the period. This growth enabled the Board to increase dividend payments to shareholders for FY17 and resulted in higher shareholder returns.

### **Safety**

GWA continues to focus on providing a safe workplace for employees, contractors, visitors and customers, while driving a positive safety culture and actively reducing and mitigating risk.

In FY17, GWA introduced a Safety Interaction Program to develop and drive safety behaviour engagement between employees and business 'safety' leaders. The intent is to acknowledge and celebrate 'safe' behaviour, while addressing 'at-risk' behaviour.

We measure a range of safety performance indicators. 'Lead' indicators such as the number of safety interactions conducted, hazards reported and actions closed were measured in FY17. GWA also measures key 'lag' indicators which measure lost time and medically treated injuries, hours lost due to injury and total injuries which represents a combination of lost time and medically treated injuries.

Our safety performance in respect of lag indicators in FY17 was below our expectation and the Group did not achieve its key lag indicator targets. Actions are being implemented to address this issue and the Board and management remain focused on initiatives to improve the Group's safety performance and culture with the aim of an injury-free workplace.

### **Carbon Emissions**

The Board is committed to reducing energy, carbon emissions, water and waste across the GWA Group operations. GWA has deregistered from reporting the Group's carbon emissions under the Federal Government's National Greenhouse and Energy Reporting (NGER) scheme as its energy and emissions are below the reporting thresholds from FY15. GWA is a low emissions intensity entity and continues to report its carbon emissions on the GWA website [www.gwagroup.com.au](http://www.gwagroup.com.au) under Carbon Reporting.

For FY17 total carbon emissions from GWA's controlled facilities are expected to be approximately 7,300 tonnes CO<sub>2</sub>e, representing a 15 per cent reduction on the prior year. This reduction is due to a combination of factors including the closure of the Norwood plastics factory and the implementation of energy efficiency measures across the group.

### **Conclusion**

GWA delivered improved financial performance in FY17 while continuing to build a stronger business for the future.

On behalf of the Board, I acknowledge and thank Tim Salt, his executive team and our people across GWA for their contribution over the past year in delivering this result.

GWA remains in a strong financial position and we have a clear strategy and focus to build our platform further to maximise returns to shareholders.

## Managing Director's Review of Operations

I am pleased to report that GWA delivered a solid financial result for the year ended 30 June 2017. We continued to make significant progress on our strategy to build a stronger platform for future growth across our business.

During the year, we maintained our focus on building profitable market share in the core segments of Renovations and Replacements, Commercial and Detached Housing which has assisted GWA in achieving continued growth at both the top line and bottom line and also margin improvement.

Meanwhile, we continued to progress our strategic priorities. Our strategy is focused on improving engagement with our major customers, leveraging our strong brands and assets to drive revenue and market share growth and simplifying our business by continuing to address our cost base and improving our supply chain.

As a result, GWA has strengthened its competitive position over the past year. While we still have considerable work to do to deliver our strategic goals, I am pleased with the progress we're continuing to make in creating a stronger platform to deliver growth through the market cycle.

### Market conditions<sup>1</sup>

In total GWA estimates that the increase in market activity weighted across its end markets was approximately 1.3 per cent for the year ended 30 June 2017.

- Market activity for home **Renovations and Replacements**, (approximately 52% of GWA revenue) is forecast to have decreased by 0.2 per cent (MAT).
- **Detached House** completions (representing approximately 22 per cent of GWA revenue) decreased by 5.9 per cent
- **Medium and high-density** dwelling completions (approximately 11 per cent of GWA revenue) increased by 29.3 per cent.
- On a value of work done basis, **Commercial** building activity (approximately 15% of GWA revenue) is forecast to have declined by 2.8 per cent (MAT).

### Group Results Overview<sup>2</sup>

| A\$ million     | FY16  | FY17  | % change |
|-----------------|-------|-------|----------|
| Sales Revenue   | 439.7 | 446.3 | +2%      |
| EBITDA          | 84.3  | 86.2  | +2%      |
| <b>EBIT</b>     | 78.3  | 80.6  | +3%      |
| EBIT margin (%) | 17.8% | 18.1% | +0.3ppts |
| <b>NPAT</b>     | 51.9  | 53.7  | +3%      |

GWA's revenue continues to grow ahead of the market. Group net sales increased by 2 per cent to \$446.3 million, reflecting an improvement in Bathrooms & Kitchens' sales of 3 per cent; partially offset by a 2 per cent decline in sales from Door & Access Systems compared to the prior year.

Group EBITDA increased by 2 per cent to \$86.2 million while Group EBIT improved by 3 per cent to \$80.6 million. Group EBIT in the second half of FY17 increased by 5 per cent compared to the first half, in line with market guidance provided at the half year result in February 2017.

<sup>1</sup> Source: BIS Shrapnel, GWA estimates (B&K FY17)

<sup>2</sup> Unless specified, all amounts and comparisons are based on results for Continuing Operations which exclude the Gliderol Garage Doors business which was divested on 31 July 2015

Continued focus on cost containment and margin led to a further reduction in corporate costs of 2 per cent which assisted in improved earnings and also an increase in Group EBIT margin to 18.1 per cent from 17.8 per cent in the prior year.

Further information on division earnings is provided below.

Net profit after tax increased by 3 per cent to \$53.7 million, reflecting the increase in EBIT together with lower interest expense compared to the prior year due to lower average borrowings and lower interest rates in FY17.

The effective tax rate for the year was 28.7 per cent compared to the prior year's rate of 27.6 per cent.

GWA's earnings per share of 20.3 cents improved by 7 per cent on the prior year from increased profitability and the reduced weighted average number of shares on issue in FY17 following the completion of the accretive on-market share buyback program on 20 June 2016.

GWA continues to generate strong cashflow with cashflow from operations of \$88.8 million in FY17 compared to \$91.7 million in the prior year. Cash conversion remains strong with operating cashflow 103 per cent of EBITDA.

Cash restructuring costs of \$11.5 million relate primarily to the closure of the Norwood factory. As disclosed previously, these costs were provided for in previous accounts and the cash outflow did not impact GWA's net profit in FY17.

Capital expenditure of \$4.9 million was \$1.4 million higher than the prior year and included investments in new products, tooling and information technology.

GWA continues its focus on generating strong returns on capital employed in the business with Return on Funds Employed up 0.9 percentage points on the prior year to 20.2 per cent.

### **Financial Position and Capital Management**

GWA remains in a solid financial position with financial flexibility to support strategic growth initiatives and manage through the market cycle.

Net debt at 30 June 2017 was \$79.8 million compared to \$88.4 million in the prior year.

GWA's credit metrics remain consistent with investment grade with the company's gearing ratio (net debt/net debt plus equity) of 20 per cent compared to 22 per cent at 30 June 2016 and leverage ratio (net debt/EBITDA) of 0.9 times compared to 1.1 times for the prior year.

Meanwhile, GWA's strong financial position continues to be reflected in the improved interest cover ratio (EBITDA/net interest) which at 30 June 2017 was 17.1 times compared to 14.3 times last year.

GWA maintains significant headroom within its three-year revolving \$225 million facility which matures in October 2019, providing ongoing financial flexibility.

### **Dividend**

The Board resolved to pay a final dividend of 9 cents per share fully-franked, bringing the full-year dividend to 16.5 cents per share fully-franked compared with 15 cents for the full-year FY16<sup>3</sup> - a 10 per cent increase on the prior year. This represents a full-year

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<sup>3</sup> Excluding the FY16 fully-franked special dividend of 1 cent per share paid in September 2016.

FY17 dividend payout ratio of 81 per cent which is in line with the company's dividend policy to pay out as ordinary dividends 65-85 per cent of net profit after tax.

The record date for entitlement to receive the final dividend will be 25 August 2017 with the dividend being paid on 5 September 2017. The Dividend Reinvestment Plan will not be offered to shareholders for the final ordinary dividend.

## **Division Results**

### **Bathrooms & Kitchens**

*The Bathrooms & Kitchens' division continued to deliver growth at both the top line and bottom line, from increased market share in core segments, together with an improvement in margin from a focus on profitable product mix and continued cost control.*

| <b>A\$ million</b>                     | <b>FY16</b> | <b>FY17</b> | <b>% change</b> |
|--|-------------|-------------|-----------------|
| <i>Sales Revenue</i>                   | 342.0       | 350.4       | +3%             |
| <i>EBIT</i>                            | 84.6        | 87.6        | +4%             |
| <i>EBIT Margin</i>                     | 24.7%       | 25.0%       | +0.3ppts        |
| <i>Return on Funds Employed (ROFE)</i> | 24.1%       | 25.2%       | +1.1ppts        |

Revenue in the Bathrooms & Kitchens division increased by 3 per cent. Net sales continue to grow ahead of the market as GWA continues to build profitable market share in its core focus segments of Renovations and Replacements, Commercial and Detached Housing. Revenue growth also reflected improved product mix and pricing.

Sales growth in the second half was impacted by the timing of public holidays in April and fewer trading days compared to the prior corresponding period.

Revenue growth was strong across the eastern states with net sales in NSW up 11 per cent, Victoria up 5 per cent and QLD up 3 per cent. While construction markets in WA continued to remain weak, the rate of decline in sales from WA in FY17 slowed from the previous year.

Sales of sanitaryware increased by 6 per cent on the prior year, assisted by the launch of the new Caroma Cleanflush range of rimless toilets where market response has been very positive. GWA has recorded strong sales of Cleanflush since launch and built market share through launching and extending new products in tapware, showers, basins and toilets in FY17.

GWA continues to focus on selling higher value products, particularly in the Renovations and Replacements and Commercial segments which resulted in improved mix compared to the prior year.

The Caroma brand continues to resonate positively in the market with net sales from the Caroma brand increasing strongly on the prior year.

Cost savings across the division also assisted to recover the impact of higher product costs resulting from the impact of the lower Australian dollar compared to the prior year.

The average A\$/US\$ exchange rate for FY17 was 3 per cent lower than the prior year.

EBIT of \$87.6 million was 4 per cent higher than the prior year's earnings of \$84.6 million.

Ongoing cost discipline and focus on higher margin product categories resulted in an increase in EBIT margin of 0.3 percentage points to 25.0 per cent compared to 24.7 per cent for FY16.

Meanwhile, Return on Funds Employed of 25.2 per cent was 1.1 percentage points higher than the prior year.

### **Door & Access Systems**

*Earnings in Door & Access Systems improved 52 per cent on the first half following the implementation of initiatives to refocus the business to address short-term performance and strengthen for the medium term. However, ongoing weak construction markets in WA, where GWA has a strong relative market position, impacted earnings with full-year EBIT 14 per cent lower than the prior year.*

| <b>A\$ million</b>                     | <b>FY16</b> | <b>FY17</b> | <b>% change</b> |
|--|-------------|-------------|-----------------|
| <i>Sales Revenue</i>                   | 97.7        | 95.9        | (2%)            |
| <i>EBIT</i>                            | 7.3         | 6.3         | (14%)           |
| <i>EBIT Margin</i>                     | 7.5%        | 6.6%        | (0.9ppts)       |
| <i>Return on Funds Employed (ROFE)</i> | 13.7%       | 12.3%       | (1.4ppts)       |

Revenue in Door & Access Systems declined by 2 per cent to \$95.9 million. Sales were generally stronger in the eastern states, with Victoria and QLD up 2 per cent and NSW in line with the prior year. However, the weak construction markets in Western Australia, where GWA has a strong relative market position, resulted in revenue from WA declining by 27 per cent.

EBIT of \$6.3 million was 14 per cent lower than the prior year's earnings of \$7.3 million. However, earnings in the second half of \$3.8 million were significantly ahead of the first half of \$2.5 million following initiatives implemented to address short term performance and strengthen and refocus the business for the medium term.

These include refocusing the sales team to better target the core builder segment, a simplified structure to improve customer service and rationalisation of the API branch network in Victoria.

Return on Funds Employed of 12.3 per cent was 1.4 percentage points lower than the prior year of 13.7 per cent with 2H17 ahead of 1H17.

### **Strategy**

Over the course of FY17, GWA continued to make significant progress on its key strategic objectives:

- Leverage and build on core assets and brands to drive revenue and market share growth;
- Add value to customers through improved insights, analytics and processes;
- Build a "fit for future" culture, engagement and capability;
- Build an advantaged supply chain to deliver superior new product development, quality and service at best cost; and
- Drive cost out in SG&A and supply chain to improve profitability and allow selective reinvestment.

As a result, the group continues to build a stronger platform to compete more effectively through the cycle to maximise value creation for shareholders.

*Leverage and build on core assets and brands to drive revenue and market share growth*

GWA remains focused on building profitable market share in the core categories of Renovations & Replacements, Commercial and Detached Housing which are accretive to earnings, while competing selectively in the Multi-Residential segment. We continued to build market share in FY17 through initiatives such as an expansion of the Caroma Cleanflush range, having recently launched two further variants of Cleanflush for the Commercial segment.

Our new product development pipeline continues to strengthen with new products launching this year with a specific focus on the Renovations & Replacements and Commercial segments. During FY18, GWA will also open two new concept centres in Adelaide and Sydney, supported by further investment in our core brands as part of our strategy to further enhance the profile of our portfolio of market leading brands.

*Add value to customers through improved insights, analytics and processes.*

GWA continues to build engagement with key customers and has commenced joint business planning with major merchants to agree mutual targets and growth agendas.

We have specific plans in place with each major customer in relation to product ranging and also increased visibility and presence in our customers' showrooms. We are also continuing to work collaboratively on building a deeper understanding of our customers' business and their shoppers/customers to better support their growth.

*Build a "fit for future" culture, engagement and capability*

Our focus continues on our internal capability to drive greater accountability and agility across the organisation. A critical component of this strategic priority is to ensure all our people understand GWA's purpose of "making life better" and demonstrate the values and behaviours to drive our business. To further our ambitions we have embarked on leadership development initiatives for the top 60 leaders in the business. In addition we have rolled out functional capability training in both Marketing and Sales.

*Build an advantaged supply chain to deliver superior new product development, quality and service at best cost*

GWA continues to strengthen its supply network. We continue to progress the integrated business planning initiative to better align demand and supply to improve customer service.

The new international sea freight partnership is delivering improvements in container yield and we have established our first consolidation centre in Asia to further reduce freight costs and enable cross category shipping of our product direct to capital cities across Australia.

*Drive cost out in SG&A and supply chain to improve profitability and allow selective reinvestment*

GWA is currently tracking ahead of its target to achieve \$13-15 million in cost savings progressively by FY19 through a combination of SG&A and supply chain efficiencies. These savings are being used to reinvest in growth initiatives as well as providing margin resilience and to offset cost inflation through the market cycle.

In summary, GWA has made substantial progress over the past year. While we still have a lot of work to do, I remain confident that we are continuing to create a strong foundation to achieve our strategic goals and maximise value creation for shareholders over the medium term.

## **Prospects and Risks**

GWA expects the Renovation and Replacements segment, the largest segment accounting for just over half of GWA's revenue, to remain relatively stable in FY18.

Residential construction activity is expected to slow, however the pipeline of building work yet to be completed remains reasonably strong, supporting continued demand for GWA's brands into FY18.

GWA's forward order book remains solid with several major Commercial projects secured, primarily across the eastern states.

GWA monitors foreign exchange rates closely and adopts appropriate mitigation strategies as appropriate. Approximately 79 per cent of foreign exchange exposure is hedged for FY18.

The company continues to pursue initiatives to improve revenue and market share across its core product categories and segments through the launch of new products and services, working collaboratively with key customers and engaging with end consumers as part of our brand "pull" strategy.

In the meantime, we remain focused on continuing to address the company's cost base through SG&A and supply chain savings.

The company's financial position remains robust with the ability to generate strong operating cashflow across the business.

The risks to this outlook include:

- a significant deterioration in the Renovations and Replacements market and dwelling completions activity impacting sales growth and margins;
- a significant movement in the Australian dollar impacting the price of imported products leading to changes in market pricing in order to maintain margins and competitiveness; and
- unforeseen disruptions impacting product supply from offshore suppliers leading to reputational damage, lower sales and loss of market share.

GWA expects to provide a further update at the company's Annual General Meeting on 27 October 2017.

## Directors' Report as at 30 June 2017

Your directors present their report on the consolidated entity of GWA Group Limited (the Group) and the entities it controlled during FY17.

### Directors

The following persons were directors of the Group during the financial year and up to the date of this report unless otherwise stated.

D D McDonough, Chairman and Non-Executive Director  
J F Mulcahy, Deputy Chairman and Non-Executive Director  
T R Salt, Managing Director and Chief Executive Officer (appointed 1 July 2016)  
W J Bartlett, Non-Executive Director  
P A Birtles, Non-Executive Director  
R J Thornton, Executive Director  
J M McKellar, Non-Executive Director (appointed 28 October 2016)  
S T Goddard, Non-Executive Director (appointed 28 October 2016)  
R M Anderson, Non-Executive Director (retired 28 October 2016)

On 14 July 2016, the Chairman announced the retirement of W J Bartlett from the Board at the 2017 Annual General Meeting on 27 October 2017.

Details of the directors' qualifications, experience and special responsibilities are outlined in the director profiles in the Annual Report.

Details of the directorships of other listed companies held by each director in the three years prior to the end of FY17, and the period for which each directorship has been held, are outlined in the director profiles in the Annual Report.

### Company Secretary

Mr R J Thornton was appointed Company Secretary of GWA Group Limited in 2003. Mr Thornton continued in his role as Company Secretary following his appointment as Executive Director in May 2009. Details of Mr Thornton's qualifications and experience are outlined in the director profiles in the Annual Report.

### Directors' Interests

The relevant interest of each director in the share capital of the Group as notified by the directors to the Australian Securities Exchange in accordance with Section 205G(1) of the *Corporations Act 2001* as at the date of this report is:

| Director       | Ordinary Shares |
|----------------|-----------------|
| D D McDonough  | 130,000         |
| J F Mulcahy    | 40,950          |
| T R Salt*      | 29,760          |
| W J Bartlett   | 30,207          |
| P A Birtles    | 13,650          |
| R J Thornton*  | 100,102         |
| J M McKellar   | -               |
| S T Goddard    | 10,000          |
| <b>Total**</b> | <b>354,669</b>  |

#### Notes:

\* The executive directors, Mr T R Salt and Mr R J Thornton, are holders of Performance Rights under the GWA Group Limited Long Term Incentive Plan. For details of the Performance Rights held, please refer to section 5.2.1 of the Remuneration Report.

\*\* Section 5.3.3 of the Remuneration Report sets out the number of shares held directly, indirectly or beneficially by key management personnel or their related entities at balance date as prescribed in Accounting Standard AASB 124, this being 359,669 shares (2016: 16,732,241 shares).

## Directors' Meetings

The number of meetings of directors (including meetings of Committees of directors) held during FY17 and the number of meetings attended by each director is outlined in the following table:

| Director                    | Board |   | Audit and Risk Committee |   | Nomination and Remuneration Committee |   |
|-----------------------------|-------|---|--------------------------|---|---------------------------------------|---|
|                             | A     | B | A                        | B | A                                     | B |
| D D McDonough               | 9     | 9 | 4                        | 4 | 3                                     | 3 |
| J F Mulcahy                 | 9     | 9 | -                        | - | 3                                     | 3 |
| T R Salt                    | 9     | 9 | -                        | - | -                                     | - |
| W J Bartlett                | 9     | 9 | 4                        | 3 | 3                                     | 3 |
| P A Birtles                 | 9     | 9 | 4                        | 4 | -                                     | - |
| R J Thornton <sup>(1)</sup> | 9     | 9 | -                        | - | -                                     | - |
| J M McKellar <sup>(2)</sup> | 5     | 5 | -                        | - | -                                     | - |
| S T Goddard <sup>(2)</sup>  | 5     | 5 | -                        | - | -                                     | - |
| R M Anderson <sup>(3)</sup> | 4     | 4 | -                        | - | -                                     | - |

### Notes:

**A** – Number of meetings held during the time the director held office during the year

**B** – Number of meetings attended

<sup>(1)</sup> R J Thornton attends Committee meetings as Company Secretary

<sup>(2)</sup> J M McKellar and S T Goddard were appointed Non-Executive Directors on 28 October 2016

<sup>(3)</sup> R M Anderson retired as Non-Executive Director on 28 October 2016

## Principal Activities

The principal activities during the year of the consolidated entity were the research, design, manufacture, import and marketing of building fixtures and fittings to residential and commercial premises and the distribution of these various products through a range of distribution channels in Australia, New Zealand and selected international markets. There have been no significant changes in the nature of the activities of the consolidated entity during the year.

## Operating and Financial Review

The Operating and Financial Review for the consolidated entity during the financial year ended 30 June 2017 is provided in the Managing Director's Review of Operations, and forms part of this Directors' Report.

## Dividends

Dividends paid or declared by the Group to shareholders since the end of the previous financial year were:

### Declared and paid during FY17

| Dividends                | Cents per share | Total Amount \$'000 | Franked       | Date of Payment   |
|--------------------------|-----------------|---------------------|---------------|-------------------|
| Final 2015/16 Ordinary   | 8.0             | 21,116              | Fully Franked | 16 September 2016 |
| Special 2015/16          | 1.0             | 2,639               | Fully Franked | 16 September 2016 |
| Interim 2016/17 Ordinary | 7.5             | 19,796              | Fully Franked | 7 March 2017      |

Franked dividends declared and paid during the year were franked at the corporate tax rate of 30%.

### **Declared after end of FY17**

After the balance date the following dividend was approved by the directors. The dividend has not been provided and there are no income tax consequences at 30 June 2017.

| <b>Dividend</b>        | <b>Cents per share</b> | <b>Total Amount \$'000</b> | <b>Franked</b> | <b>Date of Payment</b> |
|------------------------|------------------------|----------------------------|----------------|------------------------|
| Final 2016/17 Ordinary | 9.0                    | 23,755                     | Fully Franked  | 5 September 2017       |

The financial effect of the final dividend has not been brought to account in the financial statements for the year ended 30 June 2017 and will be recognised in subsequent financial reports.

The record date for the final dividend is 25 August 2017 and the dividend payment date is 5 September 2017. The Dividend Reinvestment Plan will not be offered to shareholders for the final dividend.

### **Events Subsequent to Reporting Date**

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Group, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

### **Likely Developments**

Likely developments and expected results of the operations of the consolidated entity are provided in the Managing Director's Review of Operations.

Further information on likely developments and expected results of the operations of the consolidated entity have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

### **Environmental Regulation**

#### **Environmental Licenses**

The consolidated entity holds licenses issued by environmental protection and water authorities that specify limits for discharges to the environment, which arise from the operations of entities that it controls. These licenses regulate the management of discharge to air, storm water run-off, removal and transport of waste associated with the manufacturing operations in Australia. Where appropriate, an independent review of the consolidated entity's compliance with license conditions is made by external advisers.

The consolidated entity, in conjunction with external advisers, monitors storage and treatment of hazardous materials within particular operations. Prior to any discharge to sewers, effluent is treated and monitored to ensure strict observance with license conditions. The directors are not aware of any breaches of the consolidated entity's license conditions during FY17.

## **Indemnification and Insurance of Directors and Officers**

### **Indemnification**

The Group's constitution provides that, to the extent permitted by the law, every current (and former) director or secretary of the Group shall be indemnified out of the assets of the Group against all costs, expenses and liabilities which results directly or indirectly from facts or circumstances relating to the person serving (or having served) in their capacity as director or secretary of the Group, but excluding any liability arising out of conduct involving a lack of good faith or conduct known to the person to be wrongful or any liability to the Group or related body corporate.

### **Insurance Premiums**

The Group has paid premiums in respect of insurance contracts which provide cover against certain liabilities of every current (and former) director and officer of the Group and its controlled entities. The contracts of insurance prohibit disclosure of the total amount of the premiums paid, or the nature of the liabilities covered under the policies.

Premiums were paid in respect of every current (and former) director and officer of the Group and controlled entities, including the directors named in the Directors' Report, the Chief Financial Officer and all persons concerned or taking part in the management of the Group and its controlled entities.

### **Non-Audit Services**

During the year KPMG, the consolidated entity's auditor, has performed certain other services in addition to the audit and review of the financial statements.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the consolidated entity and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the consolidated entity, KPMG, and its network firms for audit and non-audit services provided during the year are outlined in Note 21 of the financial statements.

### **Lead Auditor's Independence Declaration**

The Lead Auditor's Independence Declaration is set out in the Annual Report and forms part of the Directors' Report for FY17.

### **Rounding**

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 relating to the rounding of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded in accordance with that Instrument to the nearest thousand dollars, unless otherwise stated.

## Remuneration Report - Audited

### Introduction

This report covers the following matters for FY17:

1. Board role in setting remuneration strategy and principles;
2. Relationship between remuneration policy and Group performance;
3. Description of non-executive director remuneration;
4. Description of executive remuneration;
5. Details of director and executive remuneration; and
6. Key terms of employment contracts.

#### 1. Board role in setting remuneration strategy and principles

The Board reviews, approves and monitors GWA's remuneration strategy. The strategy is designed to provide remuneration that is fair and which is designed to attract and retain management and directors with the experience, knowledge, skills and judgement required for success.

The Board also engages with all stakeholders to continuously refine and improve executive and director remuneration policies and practices.

The Board delegates some aspects of the review and monitoring process to the Nomination and Remuneration Committee. The Committee's role and responsibilities include:

- Review of Board size and composition;
- Assessment of the necessary and desirable skills and competencies of Board members;
- Review of Board, Managing Director and other executive succession plans;
- Evaluation of the performance and contributions of Board members;
- Recommendations for the appointment and removal of directors;
- Review of the remuneration framework for non-executive directors;
- Review of the Group's executive remuneration and incentive policies and schemes;
- Review of Managing Director and other executives remuneration packages;
- Review of Managing Director and other executives performance objectives;
- Evaluation of Managing Director performance against objectives;
- Review of Managing Director and other executive development plans;
- Review of the Group's recruitment, retention and termination policies and procedures;
- Review of the Group's superannuation arrangements;
- Review of the Group's overall remuneration budget;
- Review of the annual Remuneration Report for inclusion in the Directors' Report;
- Approval of engagement of external remuneration consultants;
- Review of Diversity Policy and assessing progress against measurable objectives; and
- Reporting to the Board on the Committee's role and responsibilities covering all the functions in its charter.

The charter for the Nomination and Remuneration Committee is available on the Company's website at [www.gwagroup.com.au](http://www.gwagroup.com.au) under Corporate Governance Policies.

During the reporting period, the Nomination and Remuneration Committee obtained market data from Guerdon Associates for the FY18 executive remuneration review. Guerdon Associates does not provide other services to the Group and is otherwise independent. No remuneration recommendations as defined under Division 1, Part 1.2.98 (1) of the *Corporations Act 2001*, were made by Guerdon Associates.

## **1.1 Managing Director succession**

Mr Tim Salt joined the Group on 7 September 2015 as Executive General Manager of GWA's Bathrooms & Kitchens business and transitioned to the roles of Chief Executive Officer and Managing Director from 1 January 2016 and 1 July 2016 respectively.

The remuneration arrangements for Mr Salt as Chief Executive Officer were determined by the Nomination and Remuneration Committee in FY16 following the provision of market data from Guerdon Associates. Based on the benchmark data, Mr Salt's total remuneration was aligned with the market median in relation to a group of 16 companies of comparable operational scope and size to GWA. The remuneration arrangements for Mr Salt were advised to the market on 27 November 2015 and did not change following the appointment of Mr Salt as Managing Director from 1 July 2016.

The following is a summary of Mr Salt's remuneration package:

- Total Fixed Remuneration (TFR) comprising salary, superannuation and all other benefits other than incentive plans of \$1,000,000;
- Participation in GWA's Short Term Incentive (STI) Plan:
  - STI opportunity of 40% of TFR based on Mr Salt meeting Board approved Key Performance Indicator (KPI) objectives, with provision for a maximum 50% of TFR for outperformance against these KPIs.
- Participation in GWA's Long Term Incentive (LTI) Plan:
  - LTI opportunity of 60% of TFR over a three year performance period and subject to achievement of performance hurdles in respect of growth in Return on Funds Employed (ROFE) and Total Shareholder Return (TSR).

For the FY18 executive remuneration review, the benchmark data and analysis provided by Guerdon Associates confirmed that the Managing Director's remuneration remains aligned with peer company CEO remuneration levels and market practice.

## **1.2 FY17 and FY18 director and executive remuneration**

As outlined in the 2016 Remuneration Report, the Board determined that the fixed remuneration for the Managing Director and other executives was to be frozen for FY17. This is the second consecutive year that fixed remuneration for the Managing Director and other executives has been frozen. See section 4.2 for further details. This position is reflected in the Remuneration Tables included in the 2017 Remuneration Report. The Board has also determined that the fixed remuneration for the Managing Director and other executives will remain frozen for FY18 with the exception of one executive who received a 4% increase in fixed remuneration.

Following the Board's approval of a 16% reduction in non-executive director remuneration in FY16, non-executive director remuneration remained frozen in FY17. See section 3.1 for further details. This position is reflected in the Remuneration Tables included in the 2017 Remuneration Report. The Board has also determined that non-executive director remuneration will remain frozen for FY18.

## **1.3 Long Term Incentive Plan – FY18 changes**

The Board has approved important changes to the LTI Plan for FY18 which will apply to any grant of Performance Rights to the Managing Director and other executives. The changes relate to the Return on Funds Employed (ROFE) hurdle, which is the second performance measure under the LTI Plan. The performance requirements under the ROFE hurdle have been increased to require a higher level of performance over the three year performance period before vesting will occur and at all vesting thresholds.

The Board has changed the ROFE performance requirements for FY18 after taking into consideration the following:

- the Company's strong ROFE performance in FY16 and FY17 of 19.3% and 20.2% respectively;
- the need to sustain an appropriate level of performance through the market cycle which is forecast to decline over the next 3 years;
- the increasing investment required to support the Group's strategic growth initiatives in marketing, research and development, customer delivery and information technology; and
- shareholder feedback in relation to the ROFE hurdle.

The changes are reflected in the ROFE table in section 4.4.3.1.

There are no changes to the Total Shareholder Return (TSR) hurdle under the LTI Plan.

For the FY18 LTI grant the disposal restriction period for ordinary shares issued under the LTI Plan upon the achievement of performance hurdles will be reduced to seven years from the grant date as the previous disposal restriction period of fifteen years was considered excessive. The reduction in the disposal restriction period will still ensure that executives retain the ordinary shares for a reasonable period.

## **2. Relationship between remuneration policy and Group performance**

Remuneration is linked to performance by:

- Applying challenging financial and non-financial measures to assess performance; and
- Ensuring that these measures focus management on operational and strategic business objectives that create shareholder value.

GWA measures performance on the following key corporate measures:

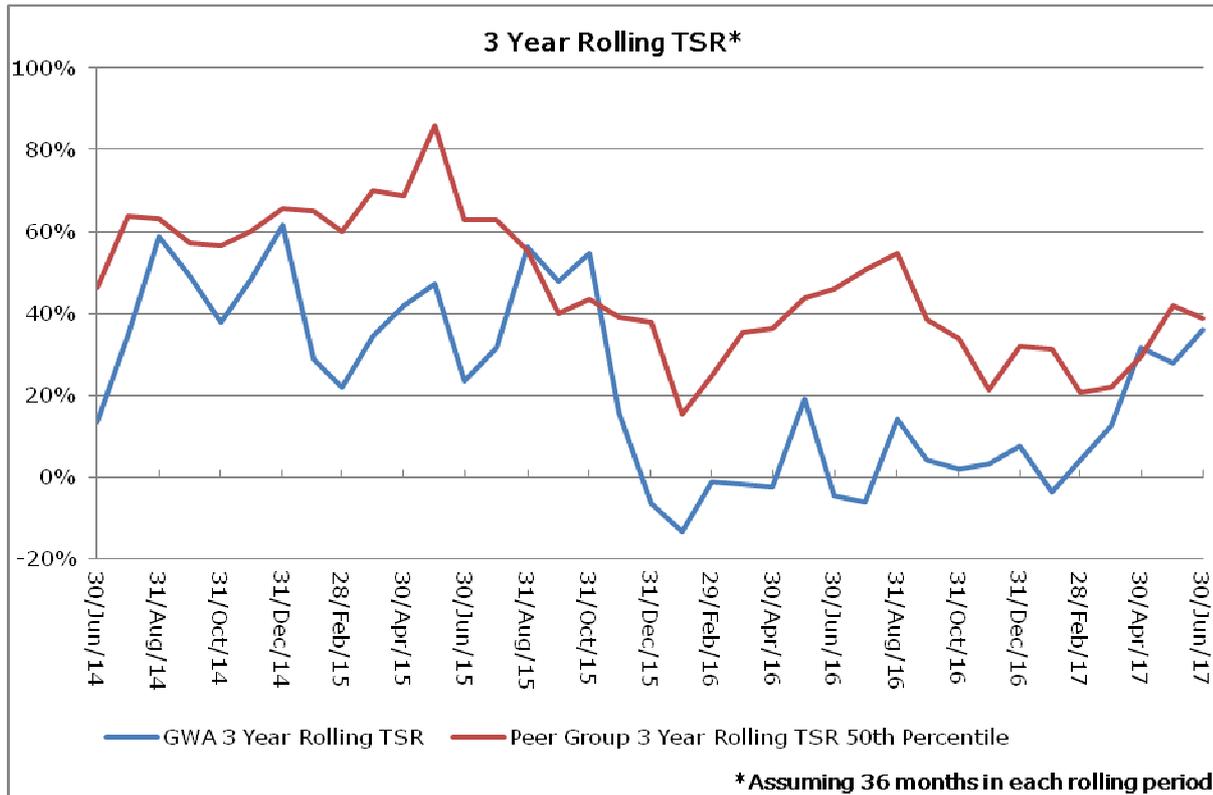
- Earnings before interest and tax (EBIT);
- Return on funds employed (ROFE); and
- Total shareholder return (TSR).

The Board has the discretion to normalise the EBIT and ROFE measures where they are unduly distorted by significant or abnormal events, and in order to ensure that the measures reflect underlying trading performance. Examples include the impact of restructuring costs or other non-recurring expenses to ensure management is not discouraged from undertaking initiatives in the long term interests of shareholders.

Any adjustments to normalise the EBIT and ROFE measures, and the reasons for any adjustments, will be disclosed. There were no adjustments to normalise the EBIT and ROFE measures for FY17.

Remuneration for all executives varies with performance on these key measures together with achievement of KPI objectives, which underpin delivery of the financial outcomes, and are linked to the consolidated entity's performance review process.

The following graph shows the Group's relative performance over a rolling 3 year period to 30 June 2017 compared to the peer group companies used for the FY17 grant of Performance Rights to executives, being James Hardie Industries PLC, Fletcher Building Ltd, Boral Ltd, Adelaide Brighton Ltd, DuluxGroup Ltd, Brickworks Ltd, Super Retail Group Ltd, CSR Ltd, ARB Corp Ltd, Bapcor Ltd, Breville Group Ltd, Asaleo Care Ltd, GUD Holdings Ltd, Cedar Woods Properties Ltd, Villa World Ltd, Decmil Group Ltd, Simonds Group Ltd, Hills Ltd and Fleetwood Corp Ltd.



The following is a summary of key statistics for the Group over the last five years:

| Financial Year         | Normalised EBIT <sup>(a)</sup> (\$m) | Normalised EPS <sup>(a)</sup> (cents) | Total DPS (cents) <sup>(f)</sup> | Capital Return <sup>(e)</sup> (cents) | Share Price (30 June) (\$) | Market Capitalisation (30 June) (\$m) |
|------------------------|--------------------------------------|---------------------------------------|----------------------------------|---------------------------------------|----------------------------|---------------------------------------|
| 2012/13 <sup>(d)</sup> | 66.8                                 | 12.9                                  | 12.0                             | -                                     | 2.40                       | 735.7                                 |
| 2013/14 <sup>(c)</sup> | 64.5                                 | 12.4                                  | 5.5                              | -                                     | 2.63                       | 806.2                                 |
| 2014/15 <sup>(b)</sup> | 72.8                                 | 14.8                                  | 6.0                              | 22.8                                  | 2.28                       | 636.0                                 |
| 2015/16 <sup>(b)</sup> | 78.3                                 | 19.0                                  | 16.0                             | -                                     | 2.09                       | 551.7                                 |
| 2016/17                | 80.6                                 | 20.3                                  | 16.5                             | -                                     | 3.15                       | 831.4                                 |

**Notes:**

- (a) excludes significant items
- (b) excludes the discontinued operations of Gliderol, Dux and Bravis
- (c) FY14 performance has been re-presented to exclude the discontinued operations in FY15 and FY16
- (d) FY13 performance has not been re-presented and includes the discontinued operations in FY15 and FY16
- (e) a capital return of 22.8 cents per share and a special dividend of 6 cents per share from the Bravis and Dux net sale proceeds was paid to shareholders on 15 June 2015
- (f) includes ordinary and special dividends

The remuneration and incentive framework focuses executives on sustaining short term operating performance coupled with moderate long term strategic growth.

The Group delivered another improved profit performance in FY17 driven by sales growth in the core Bathrooms & Kitchens business exceeding market growth for the period. This enabled the Board to increase dividend payments to shareholders for FY17 with the dividend pay-out ratio towards the high end of the Group's dividend policy. The improved performance for FY17 was reflected in the higher GWA share price and resulted in higher shareholder returns.

The Group has continued its progress against the strategic objectives in FY17 to enhance the operating performance of the business and to maximise returns to shareholders over time. The progress against the strategic objectives is outlined in the Managing Director's Review of Operations. The successful execution of the Group's strategic objectives were included as performance goals and reflected in the financial performance targets for the executives under the STI Plan for FY17; refer Section 4.3 Short Term Incentive.

The remuneration and incentive framework has allowed the Group to respond to the high levels of dwelling construction activity in FY17. STI payments related to performance improvement and strategy execution has encouraged management to respond quickly and make long term decisions to sustain competitiveness and improve profitability. This has enabled the Group to take advantage of the upswing in market activity over recent years while ensuring that the Group is well placed to maximise returns through the market cycle.

### **3. Description of non-executive director remuneration**

Fees for non-executive directors are fixed and are not linked to the financial performance of the Group to ensure non-executive directors maintain their independence.

At the 2004 Annual General Meeting, shareholders approved non-executive director fees up to an annual maximum aggregate amount of \$1.095 million including statutory superannuation. The actual fees paid to the non-executive directors are outlined in the Remuneration Tables in section 5.1.

Non-executive director remuneration consists of base fees and statutory superannuation, plus an additional fee for chairing a Board committee. The payment of committee fees recognises the additional time commitment required by a chair of a Board committee. Non-executive directors are not able to participate in the executive incentive schemes.

The Nomination and Remuneration Committee obtains market benchmarking data from an external remuneration adviser to ensure that the level and allocation of non-executive director remuneration is market based and fairly represents the responsibilities and time spent by the directors on Group matters.

Retirement benefits other than statutory superannuation are not available for non-executive directors.

GWA does not require its non-executive directors to hold GWA shares, however the holding of shares is actively encouraged.

#### **3.1 Non-executive director remuneration changes**

The Board approved a reduction in non-executive director remuneration effective from FY16 as follows:

- The Chairman's remuneration was reduced to \$280,000 (including statutory superannuation);
- For all other non-executive directors, remuneration was reduced to \$120,000 (including statutory superannuation); and
- Committee membership fees are no longer paid apart from a fee of \$10,000 for the Chair of a Committee.

The changes brought non-executive director remuneration in line with the peer group median based on the market benchmarking data provided by Guerdon Associates for the FY16 remuneration review.

Following the changes, total non-executive director remuneration for FY16 reduced by 16% from the prior year. Non-executive director remuneration has remained frozen in FY17 as reflected in the Remuneration Tables included in the 2017 Remuneration Report. The Board has also determined that non-executive director remuneration will remain frozen for FY18.

## 4. Description of executive remuneration

### 4.1 Executive remuneration structure

Executive remuneration has a fixed component and a component that varies with performance. The variable component comprises a short term incentive (STI) which provides rewards for performance over a 1 year period, and a long term incentive (LTI) which provides rewards for performance over a 3 year period. The maximum total remuneration that can be provided to an executive is capped, with incentive payments expressed as a percentage of total fixed remuneration. Total fixed remuneration for the purposes of incentives includes superannuation and non-monetary benefits.

The remuneration structure implemented for the executives, including the Managing Director, recognises the short term challenges posed by operating in the cyclical Australian building industry, ability to sustain competitiveness, deliver value and growth in mature markets and maintain operating cash flows for dividends.

#### 4.1.1 Managing Director remuneration structure

The FY17 incentives structure for the Managing Director is provided in the following table:

| <b>Managing Director</b> | <b>Maximum STI as % of fixed remuneration</b> | <b>Maximum LTI as % of fixed remuneration (grant date fair value)</b> | <b>Maximum total performance pay as % of fixed remuneration</b> |
|--------------------------|---|---|---|
| FY17                     | 50  | 60  | <b>110</b>  |

The FY17 STI components for the Managing Director are provided in the following table:

| <b>Managing Director</b> | <b>Financial Targets as maximum % of fixed remuneration</b> | <b>Personal Goals as maximum % of fixed remuneration</b> | <b>Maximum STI as % of fixed remuneration</b> |
|--------------------------|---|--|---|
| FY17                     | 30  | 20   | <b>50</b>                                     |

#### 4.1.2 Other Executives' remuneration structure

The FY17 incentives structure for other executives is provided in the following table:

| <b>Other Executives</b> | <b>Maximum STI as % of fixed remuneration</b> | <b>Maximum LTI as % of fixed remuneration (grant date fair value)</b> | <b>Maximum total performance pay as % of fixed remuneration</b> |
|-------------------------|---|---|---|
| FY17                    | 50  | 30  | <b>80</b>   |

The FY17 STI components for the other executives are provided in the following table:

| <b>Other Executives</b> | <b>Financial Targets as maximum % of fixed remuneration</b> | <b>Personal Goals as maximum % of fixed remuneration</b> | <b>Maximum STI as % of fixed remuneration</b> |
|-------------------------|---|--|---|
| FY17                    | 30  | 20   | <b>50</b>                                     |

### 4.1.3 Actual remuneration received by executives for FY17

The following table sets out the actual value of remuneration received by the executives for FY17, derived from the various components of their remuneration during FY17. This table differs from the more detailed statutory remuneration disclosures in the Remuneration Tables in section 5.1 due to the exclusion of LTI amounts not vested or reversal of accounting expenses associated with LTI grants.

| <b>Executives<br/>FY17</b>   | <b>Fixed<br/>Remuneration<br/>\$(<sup>a</sup>)</b> | <b>Short<br/>Term<br/>Incentive<br/>\$(<sup>b</sup>)</b> | <b>Long<br/>Term<br/>Incentive<br/>(Earned)<br/>\$(<sup>c</sup>)</b> | <b>Termination<br/>Benefits<br/>\$</b> | <b>Total<br/>\$</b> |
|--|--|--|--|--|---------------------|
| T Salt, Managing Director <sup>(d)</sup>   | 1,001,247  | 500,000  | -  | -                                      | 1,501,247           |
| R Thornton, Executive Director   | 415,060  | 204,770  | 56,470   | -                                      | 676,300             |
| P Gibson, Group Chief Financial Officer  | 752,453  | 375,000  | -  | -                                      | 1,127,453           |
| S Mitchell, Group General Manager –<br>Supply Chain                                  | 399,808  | 173,040  | -  | -                                      | 572,848             |
| S Ralphsmith, Executive General<br>Manager – GWA Door & Access Systems               | 399,999  | -  | -  | -                                      | 399,999             |
| C Norwell, General Manager Sales –<br>GWA Bathrooms & Kitchens                       | 399,999  | 200,000  | -  | -                                      | 599,999             |
| K Veitch, Group General Manager –<br>People, Culture & Communications <sup>(e)</sup> | 208,045  | 60,000   | -  | 100,000                                | 368,045             |
| <b>Total</b>   | <b>3,576,611</b>                                   | <b>1,512,810</b>   | <b>56,470</b>  | <b>100,000</b>                         | <b>5,245,891</b>    |

#### Notes:

- (a) Fixed remuneration represents amounts actually paid to the executives during FY17 and includes base salary, non-monetary benefits and superannuation.
- (b) Represents the STI payments awarded for FY17 inclusive of deferred amounts. These amounts, exclusive of the deferred amounts, will be paid in FY18.
- (c) The performance hurdles for the 2014 LTI grant were tested in FY17 and partially achieved; refer section 5.2.1 Performance Rights. Excludes the value of any unvested LTI grants expensed or reversed during FY17.
- (d) Mr Tim Salt was appointed Managing Director effective 1 July 2016. He was previously Executive General Manager of GWA's Bathrooms & Kitchens business from 7 September 2015 and Chief Executive Officer from 1 January 2016. For details of Mr Salt's remuneration arrangements as Managing Director refer to section 1.1.
- (e) Ms Kay Veitch ceased employment on 31 December 2016.

### 4.2 Fixed remuneration

Fixed remuneration is the sum of salary and the direct cost of providing employee benefits, including superannuation, motor vehicles, car parking and fringe benefits tax.

The level of fixed remuneration is set:

- to retain proven performers who possess difficult to source experience;
- to attract external recruits with depth and breadth of expertise usually acquired while working with larger companies; and
- in recognition of the short term challenges posed by cyclical factors and the focus on conserving market leadership, cash flow and dividends where opportunities for outperformance and subsequent incentive payments are more limited.

The Board targets the setting of fixed remuneration for executives between the median and third quartiles or higher if warranted by superior performance and relative to companies of comparable size and operational scope to GWA. The comparator companies are primarily from the Consumer Discretionary, Industrial and Material sectors.

Based on an independent survey by Guerdon Associates for the FY18 executive remuneration review, the fixed remuneration for the executive positions at GWA are close to or above market benchmark median levels for companies of comparable operational scope and size to GWA, having regard to market capitalisation, EBITDA, total assets and revenue. The 15 listed companies included in the survey provided reliable and robust statistical remuneration benchmarking and shared some common attributes with GWA, but few direct competitors and good position matches exist for precise remuneration positioning. The Nomination and

Remuneration Committee therefore exercised judgement in determining appropriate remuneration levels, having regard to the background and experience of the individuals.

While market levels of remuneration are monitored on a regular basis, there is no contractual requirement that pay will be adjusted each year. Where these levels are above the 75<sup>th</sup> percentile, fixed remuneration will either be frozen or increases will be below market levels. For FY16 and FY17, the Board froze the fixed remuneration for the Managing Director and other executives. This is reflected in the Remuneration Tables in section 5.1. The Board has also determined that fixed remuneration for the Managing Director and other executives will remain frozen for FY18 with the exception of one executive who received a 4% increase in fixed remuneration.

### **4.3 Short-term incentive (STI)**

#### **4.3.1 STI overview**

The STI plan provides for an annual payment that varies with performance measured over the Group's financial year to 30 June 2017. The STI is aligned to shareholder interests as executives will only become entitled to the majority of payments if profitability improves (allowing for the building cycle), with maximum incentive payments above the reasonably achievable level linked directly to shareholder wealth creation. As noted in section 4.1, the maximum STI that can be earned is capped to minimise excessive risk taking.

The STI payment is made in cash after finalisation of the annual audited financial statements. As outlined in the Remuneration Tables in section 5.1, 50% of the financial target component of the STI is deferred for the executives that achieved their STI financial targets for FY17. The deferred component is subject to further testing by the Board to confirm the integrity of the achievement of the STI financial targets following finalisation of the FY18 audited financial statements. If the Board is satisfied the deferred component will be paid to the executives in September 2018 together with interest at market rates. However, if the Board is not satisfied the deferred component will be subject to forfeiture.

#### **4.3.2 STI performance requirements**

##### **4.3.2.1 Financial Performance Targets**

For FY17, STI financial performance targets are based on Earnings Before Interest and Tax (EBIT) and Return On Funds Employed (ROFE) targets as determined by the Nomination and Remuneration Committee. The use of EBIT and ROFE as the basis of STI financial targets is aimed at ensuring executives are accountable for delivering both profit and return on funds improvements.

The Board is of the view that a combination of EBIT and ROFE targets are an effective basis for STI targets as they are currently key metrics used in the business. The EBIT and ROFE targets are weighted equally and assessed separately and on an aggregated basis for divisional and corporate executives.

Under the STI framework, a divisional executive may receive an STI payment if divisional financial targets are achieved, although the overall corporate financial targets may not have been achieved, and vice versa. The 'reasonably achievable' and 'stretch' STI financial targets are determined by the Nomination and Remuneration Committee at the beginning of the financial year following approval of the divisional and corporate budgets by the Board.

The budget performance levels are taken into consideration in setting the financial targets but different targets may be set (either higher or lower than budget) that ensure management is motivated while reflecting the degree of difficulty in achieving the budget. Performance between the 'reasonably achievable' and 'stretch' levels is rewarded on a pro rata basis.

The Board retains the right to vary from policy in exceptional circumstances. However, any variation from policy and the reasons for it will be disclosed.

#### **4.3.2.1.1 FY17 STI Financial Performance Outcomes**

For FY17, Bathrooms & Kitchens achieved their EBIT and ROFE STI financial targets at the 'stretch' level reflecting the strong performance of the business and gains in market share during the period. GWA Corporate almost achieved their EBIT and ROFE STI financial targets at the 'stretch' level for FY17, however the Board exercised its discretion to award STI achievement for GWA Corporate executives at the 'stretch' level. This decision was aligned with shareholders interests as the Group's profit performance for FY17 was strong and above market expectations, generated higher returns to shareholders for the period both from the ability to pay higher dividends to shareholders and a significant improvement in GWA's share price.

Door & Access Systems did not achieve their STI financial targets for FY17. Accordingly, no STI payments were awarded to Door & Access Systems executives for FY17.

In accordance with the STI Plan rules, 50% of the STI incentive payment relating to financial targets has been deferred for GWA Corporate and Bathrooms & Kitchens' executives and will be subject to further testing and potential clawback in August 2018 under the STI Plan rules. The full amount of the STI cash bonuses (including the deferred component) is reflected in the Remuneration Tables in section 5.1.

The deferred component of the STI incentive payment for FY16 for GWA Corporate and Bathrooms & Kitchens' executives was tested by the Board in August 2017 to confirm the integrity of the achievement of the STI financial targets in FY16. Following satisfaction with the testing, the Board approved the payment of the deferred component to GWA Corporate and Bathrooms & Kitchens' executives together with interest at market rates.

#### **4.3.2.2 Personal Goals**

The personal goals set for each executive includes achievement of key milestones to improve or consolidate the Group or business unit's strategic position; the goals vary with the individual's role, risks and opportunities.

The achievement of personal goals reinforces the Group's leadership model for improved performance management through achieving measurable personal goals established during the performance review process at the beginning of the financial year. Strict criteria have been established by the Nomination and Remuneration Committee for the setting of personal goals in order for them to be approved. The goals can be drawn from a number of areas specific to individual roles but must be specific, measurable, aligned, realistic and time based. Weightings are allocated to the personal goals based on their importance to the individual's role and the Group.

Personal goals include both measurable financial and business improvement goals. The measurable financial goals are financial outcomes which the individual aims to achieve through their effort and that of their team. Examples may include achieving working capital reductions, sales/margin targets or cost reduction targets. The measurable business improvement goals are outcomes which drive business improvement and which may or may not have an immediate financial outcome but will improve the business in the short to medium term. Examples may include improved safety and environmental performance, delivering a major project on time and budget, market share and productivity improvements or implementing a change or strategic initiative.

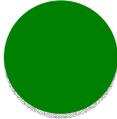
Assessment of the personal goals STI component for FY17 has been determined following a formal performance review process conducted for the executives. The performance reviews for the executives are conducted semi-annually by the Managing Director with the outcomes reviewed and approved by the Nomination and Remuneration Committee. The personal goals of the executives for FY18 were established at the performance reviews.

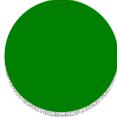
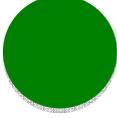
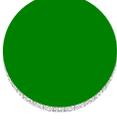
The Managing Director's performance review is conducted semi-annually by the Chairman following input from the Board and with the outcomes reviewed and approved by the Nomination and Remuneration Committee. An assessment of the Managing Director's key performance goals subject to STI incentive payments for FY17 is provided in section 4.3.2.2.1. GWA Corporate and Bathrooms & Kitchens' executives were awarded STI payments for FY17 based on achievement of personal goals following their performance reviews. However, Door & Access Systems' executives did not achieve the minimum level of financial performance for FY17 to enable the payment of any personal goal STI component. This is reflected in the Remuneration Tables in section 5.1.

The inclusion of personal goals in the remuneration structure ensures that executives can be recognised for good business performance, including periods where troughs in the building industry cycle mean financial performance is consequently weaker. The Group operates in the cyclical building industry so fluctuations in profitability can occur through the cycle which is out of the control of the executives. The reward for achievement of personal goals provides specific focus on responding to changes in the economic cycle, as well as on continuous performance improvement. Hence the personal goals are a key part of the Group's performance management process.

#### 4.3.2.2.1 Managing Director's key performance goals and outcomes

An assessment of the Managing Director's key performance goals and financial targets subject to STI incentive payments for FY17 is provided in the following table.

| FY17 Goals   | Results  | Assessment  |
|--|--|---|
| <b>Personal Objectives</b>   |  |   |
| Achieve leading safety performance with the aim of an injury free workplace        | Performance for FY17 is primarily assessed on 'leading' safety indicators that include proactive measures to improve safety, rather than 'lagging' indicators. Substantial progress was made to improve the Group's safety culture with a number of safety initiatives implemented, despite not achieving the Total Injury 'lag' target for FY17. Ownership and accountability for safety exists at all levels in the business with "Caring For Each Other" central to the newly developed cultural pillars.   |  |
| Progress key FY17 strategic growth objectives and ensure resourced and prioritised | Substantial progress has been made with each of the strategic growth objectives in FY17 as outlined in the Managing Director's Review of Operations. Performance is assessed on the basis of the improvement in the Group's sales and profitability, principally driven by the strong performance of Bathrooms & Kitchens in FY17, which achieved 'stretch' targets, and through successful execution of growth initiatives in target market segments leading to gains in market share. Improvement plans have been implemented in Door & Access Systems during FY17 to lift returns and address the underperformance. |  |

|   |  |   |
|---|--|---|
| Build employee engagement and culture to deliver the strategy | The Group has undergone significant cultural transformation to enable delivery of the strategy. Cultural pillars and social contract have been established outlining the values and behaviours expected of employees in the business and to improve delivery and accountability for performance at all levels. Performance has been assessed via engagement surveys as well as other factors. Employee engagement has risen strongly with improved agility, customer and consumer focus, accountability and collaboration. This has assisted the improvement in Group financial performance during FY17. |    |
| Develop group growth strategy and formulate plans to deliver  | Long term growth plans have been developed for the Group in order to accelerate growth and improve shareholder returns. The plans outline growth initiatives to extend and defend the core businesses, build emerging businesses and create growth options into the future as part of the transformation of the business in line with the strategy. A strategic planning cycle with management and the Board has been implemented in FY17 to speed up strategy development and execution, with work plans in place for each of the strategic growth initiatives.   |    |
| <b>Financial targets</b>                                      |  |   |
| STI financial performance targets                             | For FY17, GWA Corporate and Bathrooms & Kitchens achieved their EBIT and ROFE financial performance targets at the 'stretch' level reflecting the strong trading performance and gains in market share during the period. Door & Access Systems did not achieve their STI financial performance targets for FY17, although the impact on the Group's financial results relative to 'stretch' levels was negligible. This is reflected in the Remuneration Tables in section 5.1.   |  |

**Key**

-  Fully achieved
-  Partially achieved
-  Not achieved

## 4.4 Long-term incentive (LTI)

### 4.4.1 LTI overview

Executives participate in a LTI Plan. This is an equity based plan that provides for a reward that varies with Group performance over three year periods. Three years is considered to be the maximum time period over which financial projections and detailed business plans can reasonably be made, and reflects what the Board considers is a reasonable period to require and test the sustainability of earnings accretion from investments and working capital improvement given the nature of the business.

The LTI is provided as Performance Rights, with each right entitling the holder to an ordinary share in the Group (or in limited cases to a cash payment), subject to meeting financial performance hurdles and the holder remaining in employment with the Group until the nominated vesting date.

If the vesting conditions and performance hurdles are achieved, ordinary shares will be issued to the participants at no cost. Until that time, the participants have no right to dividends or voting rights on unvested Performance Rights. If the performance hurdles are not met then the Performance Rights are cancelled. The LTI Plan rules do not allow for re-testing of the performance hurdles after the initial performance period.

The performance hurdles for the LTI are selected by the Nomination and Remuneration Committee. The basis of the grants of Performance Rights to executives is as follows:

- 50% of the Performance Rights are subject to a Total Shareholder Return (TSR) hurdle (which is a relative performance requirement); and
- 50% of the Performance Rights are subject to a Return On Funds Employed (ROFE) hurdle (which is an absolute performance requirement).

Both TSR and ROFE are key measures on which the Group's strategic plan is focused. Therefore ensuring LTI rewards are contingent on these measures is consistent with the Board approved strategy.

The ROFE performance hurdle is calculated by reference to the Group's audited accounts. Threshold performance is required to be above the Group's Weighted Average Cost of Capital (WACC), which takes into account the minimum return required by investors given the perceived risk of the investment.

For the FY17 LTI grant, a participant may not dispose of the ordinary shares issued under the LTI until the fifteenth anniversary of the grant date and the shares are subject to a holding lock upon issue. This was to ensure that executives retain a suitable shareholding in the Group. There are limited circumstances where a participant may dispose of the shares before the end of the fifteen year period, including cessation of employment with the Group or where the Board grants approval. In considering an application from a participant to dispose of the shares, the Board will consider whether the sale is in the best interests of the Group, relevant policies and regulations, the extent of the executives Group shareholdings as a multiple of fixed remuneration, and such other factors as it considers relevant to the application.

In accordance with the rules of the LTI Plan, the executives are prohibited from entering into hedging transactions or arrangements which reduce or limit the economic risk of holding unvested Performance Rights.

In the event of a change of control, the Board will determine in its discretion the extent to which outstanding Performance Rights granted to executives will vest and be exercised into ordinary shares. In exercising its discretion the Board will consider whether the vesting conditions are unlikely to be satisfied and the outstanding Performance Rights cancelled. If the Board makes the decision that not all outstanding Performance Rights will vest on a change of control, then all remaining Performance Rights will be cancelled.

For the FY17 LTI grant, the proportion of Performance Rights that can vest will be calculated and the shares will vest in August 2019 subject to achieving the performance hurdles. If the performance hurdles are not met the Performance Rights are cancelled.

All unvested rights will be forfeited if the Board determines that an executive has committed an act of fraud, defalcation or gross misconduct or in other circumstances specified by the Board.

The maximum number of outstanding Performance Rights granted to executives must not exceed 5% of the total number of shares on issue by the Group. The total number of outstanding Performance Rights granted to executives at 30 June 2017 was 1,823,500 which represents 0.7% of the Group's total issued shares.

#### 4.4.2 LTI performance requirements

For the FY17 LTI grant, the performance hurdles continue to provide for vesting scales graduated with performance and demanding performance hurdles.

##### 4.4.2.1 TSR hurdle

The performance hurdles and vesting proportions for the TSR performance measure that applied to the FY17 LTI grant is outlined in the following table:

| <b>TSR of GWA Group Limited relative to TSRs of Comparator Companies</b> | <b>Proportion of Performance Rights to Vest if TSR hurdle is met</b> |
|--|--|
| Less than the 50 <sup>th</sup> percentile                                | 0%   |
| 50 <sup>th</sup> percentile  | 12.5%  |
| Between the 50 <sup>th</sup> percentile and 75 <sup>th</sup> percentile  | Straight line vesting between 12.5% and 50%                          |
| 75 <sup>th</sup> percentile or higher                                    | 50% (i.e. 50% of total grant)  |

The group of comparator companies for the TSR hurdle includes 19 domestic ASX listed companies exposed to similar economic, market, and/or financial factors, including:

James Hardie Industries PLC, Fletcher Building Ltd, Boral Ltd, Adelaide Brighton Ltd, DuluxGroup Ltd, Brickworks Ltd, Super Retail Group Ltd, CSR Ltd, ARB Corp Ltd, Bapcor Ltd, Breville Group Ltd, Asaleo Care Ltd, GUD Holdings Ltd, Cedar Woods Properties Ltd, Villa World Ltd, Decmil Group Ltd, Simonds Group Ltd, Hills Ltd, Fleetwood Corp Ltd

The Board has discretion to adjust the comparator group to take into account events including, but not limited to, takeovers, mergers, de-mergers and similar transactions that might occur over the performance period.

##### 4.4.2.2 ROFE hurdle

The performance hurdles and vesting proportions for the ROFE performance measure that applied to the FY17 LTI grant is outlined in the following table:

| <b>GWA Group Limited ROFE over three year performance period</b> | <b>Proportion of Performance Rights to Vest if ROFE hurdle is met</b> |
|--|---|
| ROFE less than 15% per annum                                     | 0%  |
| ROFE equal to 15% per annum                                      | 12.5%   |
| ROFE between 15% and 18% per annum                               | Straight line vesting between 12.5% and 50%                           |
| ROFE equal to 18% or higher per annum                            | 50% (i.e. 50% of total grant)   |

The ROFE hurdle is calculated as earnings before interest and tax (EBIT) divided by funds employed. Funds employed is calculated as net assets minus cash plus borrowings.

#### 4.4.3 LTI performance requirements – FY18 changes

As outlined in section 1.3, the Board has approved important changes to the LTI Plan for FY18 which will apply to any grant of Performance Rights to the Managing Director and other executives. The changes relate to the ROFE hurdle which is the second performance measure under the LTI Plan. The performance requirements under the ROFE hurdle have been increased to require a higher level of performance over the three year performance period before vesting will occur and at all vesting thresholds.

The changes are reflected in the ROFE table in section 4.4.3.1. There are no changes to the TSR hurdle.

For the FY18 LTI grant the disposal restriction period for ordinary shares issued under the LTI Plan upon the achievement of performance hurdles will be reduced to seven years from the grant date as the previous disposal restriction period of fifteen years was considered excessive. The reduction in the disposal restriction period will still ensure that executives retain the ordinary shares for a reasonable period.

##### 4.4.3.1 ROFE hurdle – FY18 changes

The performance hurdles and vesting proportions for the ROFE performance measure that will apply to the FY18 LTI grant to the Managing Director and other executives is outlined in the following table:

| <b>GWA Group Limited ROFE over three year performance period</b> | <b>Proportion of Performance Rights to Vest if ROFE hurdle is met</b> |
|--|---|
| ROFE less than 16% per annum                                     | 0%  |
| ROFE equal to 16% per annum                                      | 12.5%   |
| ROFE between 16% and 19% per annum                               | Straight line vesting between 12.5% and 50%                           |
| ROFE equal to 19% or higher per annum                            | 50% (i.e. 50% of total grant)   |

## 5. Details of director and executive remuneration

### 5.1 Remuneration Tables

Details of the nature and amount of each element of remuneration for each director of the Group and other key management personnel (KMP) for the year ended 30 June 2017 are provided in the following Remuneration Tables.

|   |             | Short-term        |                   |                   | Long-term                   |                    | Post-employment          |                      | Total            | Proportion of remuneration performance based | STI Cash Bonus vested in year | STI Cash Bonus forfeited in year |
|---|-------------|-------------------|-------------------|-------------------|-----------------------------|--------------------|--------------------------|----------------------|------------------|--|-------------------------------|----------------------------------|
|   |             | Salary & Fees     | STI Cash Bonus    | Non-Monetary      | Value of Share-Based Awards | Long Service Leave | Super-annuation Benefits | Termination Benefits |                  |  |                               |                                  |
|   |             | \$ <sup>(a)</sup> | \$ <sup>(b)</sup> | \$ <sup>(c)</sup> | \$ <sup>(d)</sup>           | \$                 | \$                       | \$                   |                  |  |                               |                                  |
| <b>Non-Executive Directors <sup>(i)</sup></b>                               |             |                   |                   |                   |                             |                    |                          |                      |                  |  |                               |                                  |
| <b>D McDonough, Chairman</b>  | 2017        | 260,423           | -                 | -                 | -                           | -                  | 19,615                   | -                    | 280,038          | -  | -                             | -                                |
|   | 2016        | 254,800           | -                 | -                 | -                           | -                  | 25,199                   | -                    | 279,999          | -  | -                             | -                                |
| <b>J Mulcahy, Deputy Chairman</b>   | 2017        | 117,649           | -                 | -                 | -                           | -                  | 12,350                   | -                    | 129,999          | -  | -                             | -                                |
|   | 2016        | 117,649           | -                 | -                 | -                           | -                  | 12,350                   | -                    | 129,999          | -  | -                             | -                                |
| <b>W Bartlett, Non-Executive Director</b>                                   | 2017        | 118,149           | -                 | -                 | -                           | -                  | 12,350                   | -                    | 130,499          | -  | -                             | -                                |
|   | 2016        | 117,649           | -                 | -                 | -                           | -                  | 12,350                   | -                    | 129,999          | -  | -                             | -                                |
| <b>P Birtles, Non-Executive Director</b>                                    | 2017        | 108,600           | -                 | -                 | -                           | -                  | 11,400                   | -                    | 120,000          | -  | -                             | -                                |
|   | 2016        | 108,599           | -                 | -                 | -                           | -                  | 11,400                   | -                    | 119,999          | -  | -                             | -                                |
| <b>J McKellar, Non-Executive Director<br/>(Appointed 28 October 2016)</b>   | 2017        | 81,450            | -                 | -                 | -                           | -                  | 8,550                    | -                    | 90,000           | -  | -                             | -                                |
|   | 2016        | -                 | -                 | -                 | -                           | -                  | -                        | -                    | -                | -  | -                             | -                                |
| <b>S Goddard, Non-Executive Director<br/>(Appointed 28 October 2016)</b>    | 2017        | 70,950            | -                 | -                 | -                           | -                  | 19,050                   | -                    | 90,000           | -  | -                             | -                                |
|   | 2016        | -                 | -                 | -                 | -                           | -                  | -                        | -                    | -                | -  | -                             | -                                |
| <b>R Anderson, Non-Executive Director<br/>(Retired 28 October 2016)</b>     | 2017        | 37,184            | -                 | -                 | -                           | -                  | 3,470                    | -                    | 40,654           | -  | -                             | -                                |
|   | 2016        | 109,589           | -                 | -                 | -                           | -                  | 10,410                   | -                    | 119,999          | -  | -                             | -                                |
| <b>Total - Non-Executive Directors</b>                                      | <b>2017</b> | <b>794,405</b>    | <b>-</b>          | <b>-</b>          | <b>-</b>                    | <b>-</b>           | <b>86,785</b>            | <b>-</b>             | <b>881,190</b>   |  |                               |                                  |
|   | <b>2016</b> | <b>708,286</b>    | <b>-</b>          | <b>-</b>          | <b>-</b>                    | <b>-</b>           | <b>71,709</b>            | <b>-</b>             | <b>779,995</b>   |  |                               |                                  |
| <b>Executive Directors <sup>(j)</sup></b>                                   |             |                   |                   |                   |                             |                    |                          |                      |                  |  |                               |                                  |
| <b>T Salt, Managing Director<br/>(Appointed 1 July 2016) <sup>(e)</sup></b> | 2017        | 976,330           | 500,000           | 1,248             | 257,070                     | -                  | 35,000                   | -                    | 1,769,648        | 42.8   | 100                           | -                                |
|   | 2016        | 1,062,845         | 100,000           | -                 | 135,760                     | -                  | 16,089                   | -                    | 1,314,694        | 17.9   | 50                            | 50                               |
| <b>R Thornton, Executive Director</b>                                       | 2017        | 376,785           | 204,770           | 5,521             | 93,094                      | 6,320              | 19,615                   | -                    | 706,105          | 42.2   | 100                           | -                                |
|   | 2016        | 393,152           | 81,908            | 2,014             | 22,160                      | 6,343              | 19,307                   | -                    | 524,884          | 19.8   | 40                            | 60                               |
| <b>Total – Directors Remuneration</b>                                       | <b>2017</b> | <b>2,147,520</b>  | <b>704,770</b>    | <b>6,769</b>      | <b>350,164</b>              | <b>6,320</b>       | <b>141,400</b>           | <b>-</b>             | <b>3,356,943</b> |  |                               |                                  |
|   | <b>2016</b> | <b>2,164,283</b>  | <b>181,908</b>    | <b>2,014</b>      | <b>157,920</b>              | <b>6,343</b>       | <b>107,105</b>           | <b>-</b>             | <b>2,619,573</b> |  |                               |                                  |

|   |             | Short-term        |                   |                   | Long-term                   |                    | Post-employment          |                      | Total            | Proportion of remuneration performance based | STI Cash Bonus vested in year | STI Cash Bonus forfeited in year |
|---|-------------|-------------------|-------------------|-------------------|-----------------------------|--------------------|--------------------------|----------------------|------------------|--|-------------------------------|----------------------------------|
|   |             | Salary & Fees     | STI Cash Bonus    | Non-Monetary      | Value of Share-Based Awards | Long Service Leave | Super-annuation Benefits | Termination Benefits |                  |  |                               |                                  |
|   |             | \$ <sup>(a)</sup> | \$ <sup>(b)</sup> | \$ <sup>(c)</sup> | \$ <sup>(d)</sup>           | \$                 | \$                       | \$                   |                  |  |                               |                                  |
| <b>Executives <sup>(j)</sup></b>  |             |                   |                   |                   |                             |                    |                          |                      |                  |  |                               |                                  |
| <b>P Gibson, Group Chief Financial Officer</b>  | 2017        | 729,423           | 375,000           | 2,454             | 107,189                     | -                  | 34,999                   | -                    | 1,249,065        | 38.6   | 100                           | 0                                |
|   | 2016        | 738,076           | 150,000           | -                 | 61,662                      | -                  | 34,999                   | -                    | 984,737          | 21.5   | 40                            | 60                               |
| <b>S Mitchell, Group General Manager - Supply Chain <sup>(f)</sup></b>  | 2017        | 356,653           | 173,040           | 624               | 86,608                      | -                  | 35,000                   | -                    | 651,925          | 39.8   | 84                            | 16                               |
|   | 2016        | 351,623           | 80,000            | -                 | 61,724                      | -                  | 30,000                   | -                    | 523,347          | 27.1   | 40                            | 60                               |
| <b>S Ralphsmith, Executive General Manager – GWA Door &amp; Access Systems <sup>(g)</sup></b>                                     | 2017        | 382,223           | -                 | -                 | 86,608                      | -                  | 30,000                   | -                    | 498,831          | 17.4   | -                             | 100                              |
|   | 2016        | 375,928           | 16,000            | -                 | 61,724                      | -                  | 38,000                   | -                    | 491,652          | 15.8   | 12                            | 88                               |
| <b>C Norwell, General Manager Sales – GWA Bathrooms &amp; Kitchens (Appointed 7 April 2016)</b>                                   | 2017        | 368,461           | 200,000           | -                 | 57,529                      | -                  | 30,000                   | -                    | 655,990          | 39.3   | 100                           | -                                |
|   | 2016        | 92,400            | 88,235            | -                 | 32,645                      | -                  | 7,500                    | -                    | 220,779          | 54.8   | 100                           | -                                |
| <b>K Veitch, Group General Manager - People, Culture &amp; Communications (Ceased employment 31 December 2016) <sup>(h)</sup></b> | 2017        | 185,596           | 60,000            | 1,872             | 30,862                      | -                  | 17,500                   | 100,000              | 395,830          | 23.0   | 60                            | 40                               |
|   | 2016        | 349,161           | 76,000            | -                 | 61,724                      | -                  | 34,000                   | -                    | 520,886          | 26.4   | 38                            | 62                               |
| <b>Total – Executives Remuneration</b>  | <b>2017</b> | <b>2,022,356</b>  | <b>808,040</b>    | <b>4,950</b>      | <b>368,796</b>              | <b>-</b>           | <b>147,499</b>           | <b>100,000</b>       | <b>3,451,641</b> |  |                               |                                  |
|   | <b>2016</b> | <b>1,907,189</b>  | <b>410,235</b>    | <b>-</b>          | <b>279,479</b>              | <b>-</b>           | <b>144,499</b>           | <b>-</b>             | <b>2,741,402</b> |  |                               |                                  |
| <b>Total – Directors and Executives Remuneration <sup>(k)</sup></b>   | <b>2017</b> | <b>4,169,876</b>  | <b>1,512,810</b>  | <b>11,719</b>     | <b>718,960</b>              | <b>6,320</b>       | <b>288,899</b>           | <b>100,000</b>       | <b>6,808,584</b> |  |                               |                                  |
|   | <b>2016</b> | <b>4,071,472</b>  | <b>592,143</b>    | <b>2,014</b>      | <b>437,399</b>              | <b>6,343</b>       | <b>251,604</b>           | <b>-</b>             | <b>5,360,975</b> |  |                               |                                  |

## Notes to the Remuneration Tables

- (a) Salary and fees represents base salary and includes the movement in annual leave provision. The fixed remuneration for the Managing Director and other executives was frozen by the Board for FY16 and FY17; refer section 4.2.
- (b) The Short Term Incentive (STI) Plan cash bonuses include the deferred component and relates to performance during FY17 based on the achievement of personal goals and financial performance targets. GWA Corporate and Bathrooms & Kitchens achieved their STI financial performance targets in FY17 and in accordance with the STI Plan rules, 50% of the amount has been deferred and will be subject to further testing in August 2018. Door & Access Systems did not achieve their STI financial performance targets in FY17. The FY17 STI cash bonuses for GWA Corporate and Bathrooms & Kitchens' executives will be paid in FY18, excluding the deferred component. The amounts have been determined following individual performance reviews and have been approved by the Nomination and Remuneration Committee.
- (c) The short term non-monetary benefits include insurance and other minor benefits including any applicable fringe benefits tax.
- (d) The Long Term Incentive (LTI) Plan was approved by shareholders at the 2008 Annual General Meeting. The outstanding Performance Rights at 30 June 2017 were granted to executives in each of the years 30 June 2015, 2016 and 2017 (as applicable) and are subject to vesting conditions and the achievement of specified performance hurdles over the three year performance periods. During FY17, 50% of the Performance Rights in respect of the 2014 LTI grant lapsed as the TSR hurdle was not achieved and 50% of the Performance Rights vested as the EPS hurdle was fully achieved. The fair value of the Performance Rights granted in 30 June 2015, 2016 and 2017 were calculated using Black Scholes Model (ROFE and EPS hurdles) and Monte Carlo Simulation (TSR hurdle) valuation methodologies and allocated to each financial year evenly over the three year performance period. If the specified performance hurdles are not achieved, then no benefits will be received by the executives under the LTI Plan and the Performance Rights are cancelled.
- (e) Mr Tim Salt was appointed Managing Director effective 1 July 2016. He was previously Executive General Manager of GWA's Bathrooms & Kitchens business from 7 September 2015 and Chief Executive Officer from 1 January 2016. For details of Mr Salt's remuneration arrangements as Managing Director please refer to section 1.1 Managing Director Succession.
- (f) Mr Sean Mitchell is ceasing employment on 31 August 2017. As part of his termination arrangements, Mr Mitchell will receive a payment equal to 3 months salary in lieu of providing notice in line with his employment agreement, 3 months severance payment and statutory entitlements (\$206,000 excluding statutory entitlements). Mr Mitchell participated in the FY17 STI Plan subject to achieving the STI financial performance targets. For the outstanding Performance Rights held by Mr Mitchell under the LTI Plan, the rights will continue to be tested in the normal manner with any shares issued on a pro rata basis subject to achieving the LTI performance hurdles.
- (g) Mr Sean Ralphsmith is ceasing employment on 31 August 2017. As part of his termination arrangements, Mr Ralphsmith will receive a payment equal to 3 months salary in lieu of providing notice in line with his employment agreement, 3 months severance payment and statutory entitlements (\$200,000 excluding statutory entitlements). Mr Ralphsmith participated in the FY17 STI Plan subject to achieving the STI financial performance targets. For the outstanding Performance Rights held by Mr Ralphsmith under the LTI Plan, the rights will continue to be tested in the normal manner with any shares issued on a pro rata basis subject to achieving the LTI performance hurdles.
- (h) Ms Kay Veitch ceased employment on 31 December 2016. As part of her termination arrangements, Ms Veitch received a payment equal to 3 months salary in lieu of providing notice in line with her employment agreement, and statutory entitlements. Ms Veitch continued to participate in the FY17 STI Plan on a pro rata basis subject to achieving the STI financial performance targets. For the outstanding Performance Rights held by Ms Veitch under the LTI Plan, the rights will continue to be tested in the normal manner with any shares issued on a pro rata basis subject to achieving the LTI performance hurdles.
- (i) Non-executive director remuneration was frozen by the Board for FY17. The total non-executive director remuneration is within the annual aggregate maximum amount approved by shareholders. For details of non-executive director remuneration changes in FY16 please refer to section 3.1.
- (j) The fixed remuneration for the Managing Director and other executives was frozen by the Board for FY16 and FY17; refer section 4.2. For the actual remuneration received by the executives for FY17 please refer to the table in section 4.1.3.
- (k) Totals in FY17 are higher than FY16 mainly due to the higher STI payments for GWA Corporate and Bathrooms & Kitchens' executives following the strong trading performance for FY17. This is aligned with shareholders interests as the Group's profit performance for FY17 was above market expectations, generating higher returns to shareholders for the period both from the improvement in GWA's share price and higher dividend payments to shareholders.

## 5.2 Share based payments

### 5.2.1 Performance Rights

The following table shows details of the Performance Rights granted to key management personnel during the year ended 30 June 2017 and in prior years that affects compensation in this or future reporting periods.

|   | Year of grant | Number of rights granted | Grant date*      | % vested in year | % forfeit in year | Fair value of rights at grant date \$* | Issue price used to determine number of rights granted |
|---|---------------|--------------------------|------------------|------------------|-------------------|--|--|
| <b>Executive Directors</b>  |               |                          |                  |                  |                   |  |  |
| T Salt, Managing Director<br>(Appointed 1 July 2016)  | 2017          | 214,500                  | 24 February 2017 | -                | -                 | 363,931                                | 2.80   |
|   | 2016          | 262,000                  | 23 March 2016    | -                | -                 | 407,279                                | 2.29   |
|   | 2015          | -                        |                  | -                | -                 | -                                      | -  |
|   | 2014          | -                        |                  | -                | -                 | -                                      | -  |
| R Thornton, Executive Director  | 2017          | 44,000                   | 24 February 2017 | -                | -                 | 74,653                                 | 2.80   |
|   | 2016          | 65,000                   | 23 March 2016    | -                | -                 | 115,408                                | 1.89   |
|   | 2015          | 45,000                   | 25 February 2015 | -                | -                 | 89,222                                 | 2.72   |
|   | 2014          | 40,000                   | 24 February 2014 | 50               | 50                | 74,400                                 | 3.12   |
| <b>Executives</b>   |               |                          |                  |                  |                   |  |  |
| P Gibson, Group Chief Financial Officer   | 2017          | 80,500                   | 24 February 2017 | -                | -                 | 136,580                                | 2.80   |
|   | 2016          | 119,000                  | 23 March 2016    | -                | -                 | 184,986                                | 1.89   |
|   | 2015          | -                        |                  | -                | -                 | -                                      | -  |
|   | 2014          | -                        |                  | -                | -                 | -                                      | -  |
| S Mitchell, Group General Manager - Supply Chain  | 2017          | 44,000                   | 24 February 2017 | -                | -                 | 74,653                                 | 2.80   |
|   | 2016          | 63,000                   | 23 March 2016    | -                | -                 | 97,934                                 | 1.89   |
|   | 2015          | 44,000                   | 25 February 2015 | -                | -                 | 87,239                                 | 2.72   |
|   | 2014          | -                        |                  | -                | -                 | -                                      | -  |
| S Ralphsmith, Executive General Manager - GWA Door & Access Systems                                     | 2017          | 44,000                   | 24 February 2017 | -                | -                 | 74,653                                 | 2.80   |
|   | 2016          | 63,000                   | 23 March 2016    | -                | -                 | 97,934                                 | 1.89   |
|   | 2015          | 44,000                   | 25 February 2015 | -                | -                 | 87,239                                 | 2.72   |
|   | 2014          | -                        |                  | -                | -                 | -                                      | -  |
| C Norwell, General Manager Sales - GWA Bathrooms & Kitchens<br>(Appointed 7 April 2016)                 | 2017          | 44,000                   | 24 February 2017 | -                | -                 | 74,653                                 | 2.80   |
|   | 2016          | 63,000                   | 23 March 2016    | -                | -                 | 97,934                                 | 1.89   |
|   | 2015          | -                        |                  | -                | -                 | -                                      | -  |
|   | 2014          | -                        |                  | -                | -                 | -                                      | -  |
| K Veitch, Group General Manager People Culture & Communications<br>(Ceased employment 31 December 2016) | 2017          | -                        |                  | -                | -                 | -                                      | -  |
|   | 2016          | 63,000                   | 23 March 2016    | -                | 50                | 97,934                                 | 1.89   |
|   | 2015          | 44,000                   | 25 February 2015 | -                | 17                | 87,239                                 | 2.72   |
|   | 2014          | -                        |                  | -                | -                 | -                                      | -  |

#### Note:

\* The issue price used to determine the number of Performance Rights offered to key management personnel during FY17 was \$2.80 being the volume weighted average price of the Group's shares calculated over the 20 trading days after the Group's Annual General Meeting on 28 October 2016. The grant dates and corresponding fair values per right in the table have been determined in accordance with Australian Accounting Standards. Fair values have been calculated using the Black Scholes Model valuation methodology for the ROFE hurdle and Monte Carlo simulation for the TSR hurdle. The fair value of rights issued during the year under the ROFE hurdle was \$2.11 per right and TSR hurdle was \$1.28 per right.

All of the rights carry an exercise price of nil. The rights granted on 25 February 2015, 23 March 2016 and 24 February 2017 will vest on the date of the release to the Australian Securities Exchange of the Group's annual audited financial statements for the years 30 June 2017, 2018 and 2019 respectively, subject to the achievement of the performance hurdles. The rights granted to Mr Thornton were approved by shareholders at the 2014, 2015 and 2016 Annual General Meetings in accordance with ASX Listing Rule 10.14. The rights granted to Mr Salt in FY16 did not require shareholder approval as he was not a director of the Company at the time of the grant. The rights granted to Mr Salt in FY17 were approved by shareholders at the 2016 Annual General Meeting in accordance with ASX Listing Rule 10.14.

Rights were forfeited where an employee ceased employment with the Group during the year in accordance with the rules of the LTI Plan. For the rights granted to key management personnel on 24 February 2014, the Group did not achieve the TSR hurdle and fully achieved the EPS hurdle for the performance period of 1 July 2013 to 30 June 2016. The rights subject to the TSR hurdle lapsed in FY17 resulting in the forfeiture of 20,000 rights with a grant date fair value of \$27,200 for current key management personnel. The rights subject to the EPS hurdle fully vested in FY17 resulting in the exercise of 18,200 shares (adjusted for the share consolidation effective on 9 June 2015) with a grant date fair value of \$47,200 for current key management personnel.

The number of rights outstanding at 30 June 2017 represents the balance yet to be tested.

### **5.3 Key management personnel transactions**

#### **5.3.1 Loans to key management personnel and their related parties**

No loans were made to key management personnel or their related parties during the year ended 30 June 2017 (2016: nil).

#### **5.3.2 Other key management personnel transactions with the Group or its controlled entities**

There were no other key management personnel transactions with the Group or its controlled entities during the year ended 30 June 2017 (2016: nil).

From time to time, key management personnel of the Group or its controlled entities, or their related entities, may purchase goods from the consolidated entity. These purchases are on the same terms and conditions as those entered into by other consolidated entity employees or customers and are trivial or domestic in nature.

### 5.3.3 Movements in shares

The movement during the reporting period in the number of ordinary shares in GWA Group Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

|   | Held at 1 July 2016 | Granted as compensation | Purchases | Sales | Held at 30 June 2017 |
|---|---------------------|-------------------------|-----------|-------|----------------------|
| <b>Non-Executive Directors</b>                |                     |                         |           |       |                      |
| D McDonough                                   | 118,300             | -                       | 11,700    | -     | 130,000              |
| J Mulcahy                                     | 40,950              | -                       | -         | -     | 40,950               |
| W Bartlett                                    | 30,207              | -                       | -         | -     | 30,207               |
| P Birtles                                     | 13,650              | -                       | -         | -     | 13,650               |
| J McKellar (Appointed 28 October 2016)        | n/a                 | -                       | -         | -     | -                    |
| S Goddard (Appointed 28 October 2016)         | n/a                 | -                       | 10,000    | -     | 10,000               |
| R Anderson (Retired 28 October 2016)          | 16,435,332          | -                       | -         | -     | n/a                  |
| <b>Executive Directors</b>                    |                     |                         |           |       |                      |
| T Salt (Appointed 1 July 2016)                | 11,900              | -                       | 17,860    | -     | 29,760               |
| R Thornton                                    | 81,902              | 18,200                  | -         | -     | 100,102              |
| <b>Executives</b>                             |                     |                         |           |       |                      |
| P Gibson                                      | -                   | -                       | 5,000     | -     | 5,000                |
| S Mitchell                                    | -                   | -                       | -         | -     | -                    |
| S Ralphsmith                                  | -                   | -                       | -         | -     | -                    |
| C Norwell (Appointed 7 April 2016)            | -                   | -                       | -         | -     | -                    |
| K Veitch (Ceased employment 31 December 2016) | -                   | -                       | -         | -     | n/a                  |

|                                      | Held at 1 July 2015 | Granted as compensation | Purchases | Sales | Held at 30 June 2016 |
|--------------------------------------|---------------------|-------------------------|-----------|-------|----------------------|
| <b>Non-Executive Directors</b>       |                     |                         |           |       |                      |
| D McDonough                          | 118,300             | -                       | -         | -     | 118,300              |
| J Mulcahy                            | 40,950              | -                       | -         | -     | 40,950               |
| R Anderson                           | 16,435,332          | -                       | -         | -     | 16,435,332           |
| W Bartlett                           | 30,207              | -                       | -         | -     | 30,207               |
| P Birtles                            | 13,650              | -                       | -         | -     | 13,650               |
| <b>Executive Directors</b>           |                     |                         |           |       |                      |
| T Salt (Appointed 1 July 2016)       | n/a                 | -                       | 11,900    | -     | 11,900               |
| R Thornton                           | 65,975              | 15,927                  | -         | -     | 81,902               |
| P Crowley (Retired 31 December 2015) | 459,550             | 84,532                  | -         | -     | n/a                  |
| <b>Executives</b>                    |                     |                         |           |       |                      |
| P Gibson                             | -                   | -                       | -         | -     | -                    |
| S Mitchell                           | -                   | -                       | -         | -     | -                    |
| S Ralphsmith                         | -                   | -                       | -         | -     | -                    |
| K Veitch                             | -                   | -                       | -         | -     | -                    |
| C Norwell (Appointed 7 April 2016)   | n/a                 | -                       | -         | -     | -                    |

The relevant interest of each director in the share capital of the Group as notified by the directors to the Australian Securities Exchange in accordance with Section 205G(1) of the *Corporations Act 2001* as at 30 June 2017 is listed in the Directors' Report under Directors' Interests.

During the FY17 reporting period, there were 18,200 shares granted to key management personnel as compensation (2016: 100,459). The aggregate number of shares held by key management personnel or their related parties at 30 June 2017 was 359,669 (2016: 16,732,241).

## **6. Key terms of employment contracts**

### **6.1 Notice and termination payments**

The specified executives in the Directors' Report including the Managing Director, Mr Tim Salt, are on open-ended contracts.

The employment contract for Mr Salt provides that if either the Group or Mr Salt wishes to terminate employment for any reason, no less than one year's written notice of termination is required. The Group retains the right to immediately terminate the employment contract of Mr Salt by making payment equal to twelve months salary in lieu of providing notice.

For the other specified executives, the Group or the executives are required to give no less than three months notice of termination of employment for any reason. The Group retains the right to immediately terminate the employment contracts of the executives by making payment equal to three months salary in lieu of providing notice.

The executives are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The termination arrangements for the executives are specified in their employment contracts and any other termination payments require approval of the Nomination and Remuneration Committee. Shareholder approval is required for termination payments in excess of twelve months salary.

Unless the Board determines otherwise, executives will not be eligible for an STI payment and Performance Rights held by executives under the LTI Plan will lapse upon cessation of employment with the Group.

The Directors' Report is made out in accordance with a resolution of the directors:



**Darryl D McDonough**  
**Chairman**



**Tim R Salt**  
**Managing Director**

**Sydney, 21 August 2017**

GWA Group Limited  
and its controlled entities  
ABN 15 055 964 380

Annual financial report  
30 June 2017

GWA Group Limited and its controlled entities  
Consolidated statement of profit or loss and other comprehensive income

**For the period ended 30 June**

*In thousands of AUD*

|   | Note | 2017           | 2016           |
|---|------|----------------|----------------|
| <b>Continuing operations</b>  |      |                |                |
| Sales revenue   | 3a   | 446,332        | 439,666        |
| Cost of sales   | 4a   | (260,361)      | (259,924)      |
| <b>Gross profit</b>   |      | <b>185,971</b> | <b>179,742</b> |
| Other income  | 3b   | 428            | 779            |
| Selling expenses  |      | (63,736)       | (60,939)       |
| Administrative expenses   |      | (41,420)       | (41,288)       |
| Other expenses  | 4b   | (649)          | (29)           |
| <b>Operating profit</b>   |      | <b>80,594</b>  | <b>78,265</b>  |
| Finance income  |      | 575            | 500            |
| Finance expenses  |      | (5,913)        | (7,008)        |
| <b>Net financing costs</b>  | 4d   | <b>(5,338)</b> | <b>(6,508)</b> |
| <b>Profit before tax</b>  |      | <b>75,256</b>  | <b>71,757</b>  |
| Income tax expense  | 5    | (21,585)       | (19,837)       |
| <b>Profit from continuing operations</b>                                |      | <b>53,671</b>  | <b>51,920</b>  |
| <b>Discontinued operations</b>  |      |                |                |
| Profit from discontinued operations, net of income tax                  | 27   | -              | 1,761          |
| <b>Profit for the period</b>  |      | <b>53,671</b>  | <b>53,681</b>  |
| <b>Other comprehensive income</b>                                       |      |                |                |
| <b>Items that may be reclassified subsequently to profit or loss:</b>   |      |                |                |
| Exchange differences on translation of foreign subsidiaries, net of tax |      | 79             | 78             |
| Cashflow hedges, net of tax   |      | 2,146          | (2,850)        |
| <b>Other comprehensive income / (loss), net of tax</b>                  |      | <b>2,225</b>   | <b>(2,772)</b> |
| <b>Total comprehensive income for the period</b>                        |      | <b>55,896</b>  | <b>50,909</b>  |
| <b>Earnings per share (cents)</b>                                       |      |                |                |
| <b>Total</b>  |      |                |                |
| - Basic   | 6    | 20.33          | 19.66          |
| - Diluted   | 6    | 20.22          | 19.58          |
| <b>Continuing operations</b>  |      |                |                |
| - Basic   | 6    | 20.33          | 19.02          |
| - Diluted   | 6    | 20.22          | 18.94          |

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

## GWA Group Limited and its controlled entities Consolidated statement of financial position

**As at 30 June**

*In thousands of AUD*

|                                      | Note | 2017           | 2016           |
|--------------------------------------|------|----------------|----------------|
| <b>Current assets</b>                |      |                |                |
| Cash and cash equivalents            | 7a   | 36,360         | 35,696         |
| Trade and other receivables          | 8    | 65,862         | 51,983         |
| Inventories                          | 9    | 72,319         | 76,361         |
| Other                                |      | 2,679          | 2,267          |
| <b>Total current assets</b>          |      | <b>177,220</b> | <b>166,307</b> |
| <b>Non-current assets</b>            |      |                |                |
| Deferred tax assets                  | 10   | 16,023         | 18,189         |
| Property, plant and equipment        | 11   | 10,493         | 11,281         |
| Intangible assets                    | 12   | 314,242        | 314,894        |
| Other                                |      | 286            | 188            |
| <b>Total non-current assets</b>      |      | <b>341,044</b> | <b>344,552</b> |
| <b>Total assets</b>                  |      | <b>518,264</b> | <b>510,859</b> |
| <b>Current liabilities</b>           |      |                |                |
| Trade and other payables             | 13   | 50,783         | 40,510         |
| Employee benefits                    | 14   | 6,528          | 6,889          |
| Income tax payable                   | 5    | 7,346          | 1,851          |
| Provisions                           | 15   | 10,594         | 22,430         |
| <b>Total current liabilities</b>     |      | <b>75,251</b>  | <b>71,680</b>  |
| <b>Non-current liabilities</b>       |      |                |                |
| Trade and other payables             | 13   | 827            | 432            |
| Loans and borrowings                 | 16   | 112,000        | 120,000        |
| Employee benefits                    | 14   | 7,316          | 8,447          |
| Provisions                           | 15   | 2,267          | 2,602          |
| <b>Total non-current liabilities</b> |      | <b>122,410</b> | <b>131,481</b> |
| <b>Total liabilities</b>             |      | <b>197,661</b> | <b>203,161</b> |
| <b>Net assets</b>                    |      | <b>320,603</b> | <b>307,698</b> |
| <b>Equity</b>                        |      |                |                |
| Issued capital                       | 17   | 307,838        | 307,877        |
| Reserves                             | 17   | (334)          | (3,356)        |
| Retained earnings                    |      | 13,099         | 3,177          |
| <b>Total equity</b>                  |      | <b>320,603</b> | <b>307,698</b> |

The consolidated statement of financial position should be read in conjunction with the accompanying notes.

## GWA Group Limited and its controlled entities Consolidated statement of cash flows

### For the year ended 30 June

*In thousands of AUD*

|  | <b>2017</b>     | <b>2016</b>     |
|--|-----------------|-----------------|
| <b>Cash flows from operating activities</b>                |                 |                 |
| Receipts from customers                                    | 483,652         | 502,464         |
| Payments to suppliers and employees                        | (406,387)       | (421,842)       |
| Cash generated from operations                             | 77,265          | 80,622          |
| Interest and facility fees paid                            | (5,881)         | (6,662)         |
| Interest received  | 575             | 500             |
| Income taxes paid  | (14,788)        | (19,536)        |
| <b>Net cash from operating activities</b>                  | <b>57,171</b>   | <b>54,924</b>   |
| <b>Cash flows from investing activities</b>                |                 |                 |
| Proceeds from sale of property, plant and equipment        | 370             | 70              |
| Acquisition of property, plant and equipment               | (3,681)         | (2,708)         |
| Acquisition of intangible assets                           | (1,600)         | (920)           |
| Proceeds from business disposals, net of transaction costs | -               | 3,570           |
| <b>Net cash (used in)/from investing activities</b>        | <b>(4,911)</b>  | <b>12</b>       |
| <b>Cash flows from financing activities</b>                |                 |                 |
| Proceeds from borrowings                                   | 27,000          | 20,000          |
| Repayment of borrowings                                    | (35,000)        | (25,000)        |
| Dividends paid   | (43,551)        | (18,718)        |
| Capital return to holders of LTI grants                    | (39)            | (44)            |
| Payment for on-market share buy-back                       | -               | (30,029)        |
| <b>Net cash used in financing activities</b>               | <b>(51,590)</b> | <b>(53,791)</b> |
| <b>Net increase in cash and cash equivalents</b>           | <b>670</b>      | <b>1,145</b>    |
| Cash and cash equivalents at the beginning of the year     | 35,696          | 33,043          |
| Effect of exchange rate changes                            | (6)             | 181             |
| Cash within assets held for sale                           | -               | 1,327           |
| <b>Cash and cash equivalents at 30 June</b>                | <b>36,360</b>   | <b>35,696</b>   |

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

The cash flows of the Gliderol business are included in the consolidated statement of cash flows for the year ended 30 June 2016 only for the part of the year that they were owned by GWA Group Limited and its controlled entities. Accordingly, the consolidated statement of cash flows for the years ended 30 June 2017 and 30 June 2016 are not comparable (Refer Note 27).

# GWA Group Limited and its controlled entities

## Consolidated statement of changes in equity

### For the period ended 30 June 2017

In thousands of AUD

|   | Share Capital  | Translation Reserve | Hedging Reserve | Equity Compensation Reserve | Retained Earnings | Total          |
|---|----------------|---------------------|-----------------|-----------------------------|-------------------|----------------|
| Balance as at 1 July 2016   | 307,877        | (1,072)             | (3,931)         | 1,647                       | 3,177             | 307,698        |
| <b>Total comprehensive income for the period</b>                        |                |                     |                 |                             |                   |                |
| Profit for the period   | -              | -                   | -               | -                           | 53,671            | 53,671         |
| <i>Other comprehensive income</i>                                       |                |                     |                 |                             |                   |                |
| Exchange differences on translation of foreign subsidiaries, net of tax | -              | 79                  | -               | -                           | -                 | 79             |
| Cash flow hedges, net of tax  | -              | -                   | 2,146           | -                           | -                 | 2,146          |
| Total other comprehensive income  | -              | 79                  | 2,146           | -                           | -                 | 2,225          |
| Total comprehensive income  | -              | 79                  | 2,146           | -                           | 53,671            | 55,896         |
| <b>Transaction with owners, recorded directly in equity</b>             |                |                     |                 |                             |                   |                |
| Share-based payments, net of tax  | (39)           | -                   | -               | 797                         | (198)             | 560            |
| Dividends paid  | -              | -                   | -               | -                           | (43,551)          | (43,551)       |
| Total transactions with owners  | (39)           | -                   | -               | 797                         | (43,749)          | (42,991)       |
| <b>Balance at 30 June 2017</b>  | <b>307,838</b> | <b>(993)</b>        | <b>(1,785)</b>  | <b>2,444</b>                | <b>13,099</b>     | <b>320,603</b> |

### For the period ended 30 June 2016

In thousands of AUD

|   | Share capital  | Translation reserve | Hedging reserve | Equity compensation reserve | (Accumulated losses) / Retained earnings | Total          |
|---|----------------|---------------------|-----------------|-----------------------------|--|----------------|
| Balance at 1 July 2015  | 337,942        | (1,150)             | (1,081)         | 2,180                       | (31,997)                                 | 305,894        |
| <b>Total comprehensive income for the period</b>                        |                |                     |                 |                             |  |                |
| Profit for the period   | -              | -                   | -               | -                           | 53,681                                   | 53,681         |
| <i>Other comprehensive income</i>                                       |                |                     |                 |                             |  |                |
| Exchange differences on translation of foreign subsidiaries, net of tax | -              | 78                  | -               | -                           | -  | 78             |
| Cash flow hedges, net of tax  | -              | -                   | (2,850)         | -                           | -  | (2,850)        |
| Total other comprehensive income  | -              | 78                  | (2,850)         | -                           | -  | (2,772)        |
| Total comprehensive income  | -              | 78                  | (2,850)         | -                           | 53,681                                   | 50,909         |
| <b>Transaction with owners, recorded directly in equity</b>             |                |                     |                 |                             |  |                |
| Share-based payments, net of tax  | (44)           | -                   | -               | (533)                       | 211                                      | (366)          |
| On-market share buy-back, net of tax                                    | (30,021)       | -                   | -               | -                           | -  | (30,021)       |
| Dividends paid  | -              | -                   | -               | -                           | (18,718)                                 | (18,718)       |
| Total transactions with owners  | (30,065)       | -                   | -               | (533)                       | (18,507)                                 | (49,105)       |
| <b>Balance at 30 June 2016</b>  | <b>307,877</b> | <b>(1,072)</b>      | <b>(3,931)</b>  | <b>1,647</b>                | <b>3,177</b>                             | <b>307,698</b> |

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section I: Overview

#### 1. Significant accounting policies

GWA Group Limited (the 'Company') is a for-profit company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2017 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity').

The principal activities during the year of the consolidated entity were the research, design, manufacture, import, and marketing of building fixtures and fittings to residential and commercial premises and the distribution of these various products through a range of distribution channels in Australia, New Zealand and selected international markets.

The financial report was authorised for issue by the directors on 21 August 2017.

#### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASB') adopted by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. The consolidated entity's financial report complies with International Financial Reporting Standards ('IFRS') adopted by the International Accounting Standards Board ('IASB').

#### (b) Basis of preparation

The financial report is presented in Australian dollars which is the Company's functional currency and the functional currency of the majority of the consolidated entity.

The financial report is prepared on the historical cost basis except for derivative financial instruments that are measured at fair value.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191 dated 24 March 2016 and in accordance with that Instrument, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 12 - measurement of the recoverable amounts of intangible assets
- Note 18 - valuation of financial instruments

The accounting policies set out in this consolidated financial report have been applied consistently to all periods presented. The accounting policies have been applied consistently by all entities in the consolidated entity. The entity has elected not to early adopt any accounting standards or amendments.

Certain comparative information included in note disclosures have been amended in these financial statements to conform to the current year presentation.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section I: Overview (continued)

#### 1. Significant accounting policies (continued)

##### (c) Changes in accounting policies, disclosures, standards and interpretations

###### (i) Standards and Interpretations affecting amounts reported in the current period

The following new and revised Standards and Interpretations have been adopted by the consolidated entity for the first time for the year ended 30 June 2017:

- AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*
- AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*
- AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 Presentation of Financial Statements*
- AASB 1057 *Application of Australian Accounting Standards and AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs*

The initial adoption of the above revisions have not had a material impact on the amounts reported or disclosed in the consolidated annual financial statements.

###### (ii) Standards and Interpretations issued but not yet effective

At the date of authorisation of the consolidated financial statements, the following Standards and Interpretations were issued but not yet effective.

| Standard/Interpretation  | Effective for the annual reporting period beginning on | Expected to be initially applied in the period ending |
|--|--|---|
| AASB 2016-1 <i>Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses</i>              | 1 January 2017   | 30 June 2018  |
| AASB 2016-2 <i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 Statement of Cash Flows</i> | 1 January 2017   | 30 June 2018  |
| AASB 9 <i>Financial Instruments</i> <sup>(1)</sup>   | 1 January 2018   | 30 June 2019  |
| AASB 15 <i>Revenue from Contracts with Customers</i> <sup>(2)</sup>  | 1 January 2018   | 30 June 2019  |
| AASB 2016-5 <i>Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions</i>    | 1 January 2018   | 30 June 2019  |
| AASB 16 <i>Leases</i> <sup>(3)</sup>   | 1 January 2019   | 30 June 2020  |
| IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>   | 1 January 2019   | 30 June 2020  |

(1) AASB 9 will be first applicable for the year commencing 1 July 2018. Based on a preliminary assessment of financial instruments currently held, the impact of this standard is not expected to be material to the results and balances of the consolidated entity.

(2) AASB 15 will be first applicable for the year commencing 1 July 2018. Based on a preliminary assessment of current revenue streams and customer contracts, the impact of this standard is not expected to be material to the results and balances of the consolidated entity.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section I: Overview (continued)

#### 1. Significant accounting policies (continued)

##### (c) Changes in accounting policies, disclosures, standards and interpretations (continued)

##### (ii) Standards and Interpretations issued but not yet effective (continued)

- (3) AASB 16 will be first applicable for the year commencing 1 July 2019. Based on a preliminary assessment of current lease arrangements, the impact of this standard is expected to be material to the results and balances of the consolidated entity with the recognition of Right of Use Assets and Lease Liabilities, and corresponding depreciation and interest expense for the majority of operating leases. However, until a detailed review is undertaken, it is not practicable to provide a reasonable estimate of the effect of this standard.

These assessments will be updated by the consolidated entity closer to their adoption dates.

For all other Standards and Interpretations issued but not yet effective listed above, the consolidated entity is assessing the potential impact on its consolidated financial statements.

##### (d) Basis of consolidation

##### (i) Business combinations

The consolidated entity accounts for business combinations using the acquisition method when control is transferred to the consolidated entity. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Transaction costs are expensed as incurred.

##### (ii) Subsidiaries

Subsidiaries are entities controlled by the consolidated entity. The consolidated entity controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial results and balances of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

##### (iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and unrealised income and expense arising from intra-group transactions, are eliminated.

##### (e) Foreign currency

##### (i) 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 reporting date are retranslated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are retranslated to Australian dollars using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section I: Overview (continued)

#### 1. Significant accounting policies (continued)

##### (e) Foreign currency (continued)

##### (ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at foreign exchange rates ruling at the reporting 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 retranslation at balance date are recognised in other comprehensive income, and presented in the foreign currency translation reserve (FCTR) in equity.

When a foreign operation is disposed such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

##### (iii) Net investment in foreign operations

Foreign exchange differences arising from the retranslation of the net investment in foreign operations (including monetary items neither planned to be settled nor likely to be settled in the foreseeable future), and of related hedges are recognised in the FCTR to the extent that the hedge is effective. They are released into profit or loss as part of the gain or loss on disposal.

##### (f) Current vs non-current classification

The consolidated entity presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Expected to be realised within twelve months after the reporting period;
- Held primarily for trading; or
- Cash and cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is due to be settled within twelve months after the reporting period;
- Held primarily for trading; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section II: Results for the year

#### 2. Operating segments

The consolidated entity has two continuing reportable segments, as described below. The segments are managed separately because they operate in different markets and require different marketing strategies. For each segment the CEO reviews internal management reports on a monthly basis. The following describes the operations in each of the consolidated entity's reportable segments:

- Bathrooms & Kitchens – This segment includes the sale of vitreous china toilet suites, basins, plastic cisterns, tapware, baths, kitchen sinks, laundry tubs and bathroom accessories.
- Door & Access Systems – This segment includes the sale of door locks and levers and supply and maintenance of commercial door systems.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before interest and income tax as included in the management reports that are reviewed by the CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of the segments relative to other entities that operate in these industries.

Segment results include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, loans and borrowings, treasury financial instruments and income tax assets and liabilities.

Discontinued operations in the prior period includes the sale of Gliderol Garage Doors. Refer to Note 27 for further information regarding discontinued operations.

*In thousands of AUD*

|  | <b>Bathrooms &amp; Kitchens</b> |             | <b>Door &amp; Access Systems</b> |             | <b>Discontinued</b> |             | <b>Total</b> |             |
|--|---------------------------------|-------------|----------------------------------|-------------|---------------------|-------------|--------------|-------------|
|  | <b>2017</b>                     | <b>2016</b> | <b>2017</b>                      | <b>2016</b> | <b>2017</b>         | <b>2016</b> | <b>2017</b>  | <b>2016</b> |
| Sales revenue  | 350,437                         | 341,953     | 95,895                           | 97,713      | -                   | 4,798       | 446,332      | 444,464     |
| Segment profit/(loss) before significant items and tax | 87,603                          | 84,582      | 6,293                            | 7,318       | -                   | (605)       | 93,896       | 91,295      |
| Bravis product defect issues                           | -                               | -           | -                                | -           | -                   | 2,805       | -            | 2,805       |
| Segment profit/(loss) before income tax                | 87,603                          | 84,582      | 6,293                            | 7,318       | -                   | 2,200       | 93,896       | 94,100      |
| Depreciation   | 1,842                           | 1,983       | 1,034                            | 935         | -                   | 103         | 2,876        | 3,021       |
| Amortisation   | -                               | -           | 406                              | 406         | -                   | 41          | 406          | 447         |
| Capital expenditure                                    | 3,017                           | 1,896       | 662                              | 758         | -                   | 44          | 3,679        | 2,698       |
| Reportable segment assets                              | 400,532                         | 389,947     | 60,153                           | 61,157      | -                   | -           | 460,685      | 451,104     |
| Reportable segment liabilities                         | 49,214                          | 49,673      | 9,711                            | 9,816       | -                   | -           | 58,925       | 59,489      |

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section II: Results for the year (continued)

#### 2. Operating segments (continued)

##### Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

*In thousands of AUD*

|  | 2017           | 2016           |
|--|----------------|----------------|
| <b>Revenues</b>  |                |                |
| Total revenue for reportable segments                    | 446,332        | 444,464        |
| Elimination of discontinued operations                   | -              | (4,798)        |
| Consolidated revenue - continuing operations             | <u>446,332</u> | <u>439,666</u> |
| <b>Profit</b>  |                |                |
| Total profit for reportable segments                     | 93,896         | 94,100         |
| Elimination of discontinued operations                   | -              | (2,200)        |
| Unallocated amounts: corporate expenses                  | (13,302)       | (13,635)       |
| Profit from operating activities                         | 80,594         | 78,265         |
| Net financing costs                                      | (5,338)        | (6,508)        |
| Consolidated profit before tax - continuing operations   | <u>75,256</u>  | <u>71,757</u>  |
| <b>Assets</b>  |                |                |
| Total assets for reportable segments                     | 460,685        | 451,104        |
| Unallocated amounts: corporate assets*                   | 57,579         | 59,755         |
| Consolidated total assets                                | <u>518,264</u> | <u>510,859</u> |
| <b>Liabilities</b>                                       |                |                |
| Total liabilities for reportable segments                | 58,925         | 59,489         |
| Unallocated amounts: corporate liabilities**             | 138,736        | 143,672        |
| Consolidated total liabilities                           | <u>197,661</u> | <u>203,161</u> |
| <b>Reconciliations of other material items</b>           |                |                |
| <b>Depreciation</b>                                      |                |                |
| Total depreciation for reportable segments               | 2,876          | 3,021          |
| Elimination of discontinued operations                   | -              | (103)          |
| Unallocated amounts: depreciation on corporate assets    | 487            | 470            |
| Consolidated depreciation - continuing operations        | <u>3,363</u>   | <u>3,388</u>   |
| <b>Amortisation</b>                                      |                |                |
| Total amortisation for reportable segments               | 406            | 447            |
| Elimination of discontinued operations                   | -              | (41)           |
| Unallocated amounts: amortisation on corporate assets    | 1,793          | 2,191          |
| Consolidated amortisation - continuing operations        | <u>2,199</u>   | <u>2,597</u>   |
| <b>Capital expenditure</b>                               |                |                |
| Total capital expenditure for reportable segments        | 3,679          | 2,698          |
| Elimination of discontinued operations                   | -              | (44)           |
| Unallocated amounts: corporate capital expenditure       | 1,602          | 930            |
| Consolidated capital expenditure - continuing operations | <u>5,281</u>   | <u>3,584</u>   |

\*Corporate assets include cash and cash equivalents, tax assets and treasury financial instruments at fair value.

\*\* Corporate liabilities include loans and borrowings, tax liabilities and treasury financial instruments at fair value.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section II: Results for the year (continued)

#### 2. Operating segments (continued)

##### Geographical Segments

The business segments are managed on a worldwide basis, but operate mainly in one geographical area being Australia. A sales office is also operated in New Zealand. Sales revenue from geographical areas outside Australia comprised only 6% of the consolidated entity's total sales revenue for the current year (2016: 6%).

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

| <i>In thousands of AUD</i> | Australia |         | New Zealand |        | Consolidated |         |
|----------------------------|-----------|---------|-------------|--------|--------------|---------|
|                            | 2017      | 2016    | 2017        | 2016   | 2017         | 2016    |
| External sales revenue     | 421,443   | 415,336 | 24,889      | 24,330 | 446,332      | 439,666 |
| Non-current assets*        | 319,784   | 321,107 | 5,237       | 5,256  | 325,021      | 326,363 |

\* Non-current assets exclude financial instruments and deferred tax assets.

##### Major customers

The consolidated entity conducts business with 3 customers where the net revenue generated from each customer exceeds 10% of the consolidated entity's net revenue. Net revenue from these customers represent \$72,682,000 (2016: \$71,365,000), \$65,065,000 (2016: \$56,073,000) and \$60,440,000 (2016: \$63,426,000) respectively of the consolidated entity's total net revenues for the current year of \$446,332,000 (2016: \$439,666,000). The revenues from these customers are reported in the Bathrooms & Kitchens and Door & Access Systems segments.

#### 3. Revenue and other income

##### (a) Sales revenue

| <i>In thousands of AUD</i> | 2017           | 2016           |
|----------------------------|----------------|----------------|
| Sales revenue              | 446,332        | 439,666        |
|                            | <u>446,332</u> | <u>439,666</u> |

##### *Sales revenue*

Sales revenue is measured at the fair value of the consideration received or receivable, net of returns, discounts and rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer which is typically when goods are delivered to the customer, recovery of the consideration is probable, the associated costs and 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.

##### (b) Other income

| <i>In thousands of AUD</i>      | 2017       | 2016       |
|---------------------------------|------------|------------|
| Foreign currency gains          | 130        | 334        |
| Other - scrap income, royalties | 298        | 445        |
|                                 | <u>428</u> | <u>779</u> |

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section II: Results for the year (continued)

#### 4. Expenses

##### (a) Cost of sales

| <i>In thousands of AUD</i> | <b>2017</b>    | <b>2016</b>    |
|----------------------------|----------------|----------------|
| Cost of sales              | 260,361        | 259,924        |
|                            | <u>260,361</u> | <u>259,924</u> |

##### *Cost of sales*

Cost of sales comprises the cost of manufacturing and purchase of goods including supply chain costs such as freight and warehousing.

##### (b) Other expenses

| <i>In thousands of AUD</i> | <b>2017</b> | <b>2016</b> |
|----------------------------|-------------|-------------|
| Foreign currency losses    | 433         | 29          |
| Other                      | 216         | -           |
|                            | <u>649</u>  | <u>29</u>   |

##### (c) Personnel expenses

| <i>In thousands of AUD</i>   | <b>2017</b>   | <b>2016</b>   |
|--|---------------|---------------|
| Wages and salaries – including superannuation contributions, annual leave and long service leave | 85,105        | 87,851        |
| Equity-settled share-based payment transactions  | 1,028         | 99            |
|  | <u>86,133</u> | <u>87,950</u> |

##### *Defined contribution superannuation funds*

The consolidated entity makes contributions to defined contribution superannuation funds. A defined contribution superannuation fund is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution superannuation funds are recognised as an employee benefit expense in profit or loss in the periods during which the services are rendered by employees.

The amount recognised as an expense was \$5,866,000 for the financial year ended 30 June 2017 (2016: \$6,430,000).

##### (d) Net financing costs

| <i>In thousands of AUD</i>                           | <b>2017</b>  | <b>2016</b>  |
|--|--------------|--------------|
| <b>Finance income</b>                                |              |              |
| Interest income on call deposits                     | 470          | 447          |
| Other  | 105          | 53           |
|  | <u>575</u>   | <u>500</u>   |
| <b>Finance expense</b>                               |              |              |
| Interest expense on financial liabilities            | 4,623        | 5,034        |
| Interest expense on swaps                            | 976          | 1,241        |
| Fees on financial liabilities including amortisation | 314          | 733          |
|  | <u>5,913</u> | <u>7,008</u> |
| <b>Net financing costs</b>                           | <u>5,338</u> | <u>6,508</u> |

##### *Net financing costs*

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested and gains and losses on hedging instruments that are recognised in profit or loss. Borrowing costs are expensed as incurred unless they relate to qualifying assets. Interest income is recognised in profit or loss as it accrues, using the effective interest method.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section II: Results for the year (continued)

#### 5. Income tax expenses

##### Recognised in profit or loss

*In thousands of AUD*

|  | <b>2017</b>   | <b>2016</b>   |
|--|---------------|---------------|
| <b>Current tax expense</b>                           |               |               |
| Current year   | 21,431        | 15,497        |
| Adjustments for prior years                          | (1,068)       | (780)         |
|  | <u>20,363</u> | <u>14,717</u> |
| <b>Deferred tax expense / (benefit)</b>              |               |               |
| Origination and reversal of temporary differences    | 1,222         | 5,120         |
|  | <u>21,585</u> | <u>19,837</u> |
| <b>Tax expense from continuing operations</b>        | <u>21,585</u> | <u>19,837</u> |
| Tax expense / (benefit) from discontinued operations | -             | 439           |
| <b>Total tax expense</b>                             | <u>21,585</u> | <u>20,276</u> |

##### Numerical reconciliation between tax expense and pre-tax profit

*In thousands of AUD*

|  | <b>2017</b>   | <b>2016</b>   |
|--|---------------|---------------|
| Profit from continuing operations before tax             | 75,256        | 71,757        |
| Profit from discontinued operations before tax           | -             | 2,200         |
| Profit before tax  | <u>75,256</u> | <u>73,957</u> |
| Tax expense using the domestic rate of 30% (2016: 30%)   | 22,577        | 22,187        |
| Tax expense / (benefit) due to:                          |               |               |
| Non-deductible expenses                                  | 135           | 94            |
| Non-assessable accounting gain on disposal of CGT assets | -             | (629)         |
| Rebateable research and development                      | (217)         | (207)         |
| Other items  | 158           | (168)         |
|  | <u>22,653</u> | <u>21,277</u> |
| (Over) / under provided in prior years                   | (1,068)       | (1,001)       |
| Income tax expense on pre-tax profit                     | <u>21,585</u> | <u>20,276</u> |

##### Deferred tax recognised directly in equity

*In thousands of AUD*

|   | <b>2017</b> | <b>2016</b>    |
|---|-------------|----------------|
| Derivatives                             | 919         | (1,222)        |
| Share buy-back and capital return costs | 25          | 16             |
|   | <u>944</u>  | <u>(1,206)</u> |

##### Income tax payable

*In thousands of AUD*

|                       | <b>2017</b>  | <b>2016</b>  |
|-----------------------|--------------|--------------|
| Current tax liability | <u>7,346</u> | <u>1,851</u> |

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section II: Results for the year (continued)

#### 5. Income tax expenses (continued)

##### *Income tax*

Tax expense comprises current and deferred tax. Current and deferred taxes are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.
- temporary differences related to investments in subsidiaries and associates and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax, the consolidated entity takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The consolidated entity believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the consolidated entity to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Company and its wholly-Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is GWA Group Limited.

The current tax liability for the consolidated entity represents the amount of income taxes payable. In accordance with tax consolidation legislation, the Company as the head entity of the Australian tax-consolidated group has assumed the current tax liability initially recognised by the members in the tax-consolidated group.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section II: Results for the year (continued)

#### 5. Income tax expenses (continued)

##### *Goods and Services Tax*

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

#### 6. Earnings per share

*In cents*

|   | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|
| <b>Total</b>                            |             |             |
| - Basic                                 | 20.33       | 19.66       |
| - Diluted                               | 20.22       | 19.58       |
|   |             |             |
| - Basic (excluding significant items)   | 20.33       | 18.94       |
| - Diluted (excluding significant items) | 20.22       | 18.86       |
|   |             |             |
| <b>Continuing operations</b>            |             |             |
| - Basic                                 | 20.33       | 19.02       |
| - Diluted                               | 20.22       | 18.94       |
|   |             |             |
| - Basic (excluding significant items)   | 20.33       | 19.02       |
| - Diluted (excluding significant items) | 20.22       | 18.94       |

Basic earnings per share (EPS) is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section II: Results for the year (continued)

#### 6. Earnings per share (continued)

The calculation of basic and diluted EPS has been based on the following profit attributable to ordinary shareholders.

##### Profit attributable to ordinary shareholders – basic/diluted

| <i>In thousands of AUD</i>                                | <b>2017</b>   | <b>2016</b>   |
|---|---------------|---------------|
| Continuing operations                                     |               |               |
| Profit before significant items                           | 53,671        | 51,920        |
| Net significant items                                     | -             | -             |
| Profit for the year from continuing operations            | <u>53,671</u> | <u>51,920</u> |
| Discontinued operations                                   |               |               |
| (Loss) / profit before significant items                  | -             | (202)         |
| Net significant items                                     | -             | 1,963         |
| Profit / (loss) for the year from discontinued operations | <u>-</u>      | <u>1,761</u>  |
| Profit / (loss) for the year                              | <u>53,671</u> | <u>53,681</u> |

The calculation of basic earnings per share has been based on the following weighted average number of shares outstanding.

##### Weighted average number of ordinary shares (basic)

| <i>In thousands of shares</i>                         | <b>2017</b>    | <b>2016</b>    |
|---|----------------|----------------|
| Issued ordinary shares at 1 July                      | 263,948        | 278,948        |
| Effect of on-market share buy-back*                   | -              | (5,923)        |
| Weighted average number of ordinary shares at 30 June | <u>263,948</u> | <u>273,025</u> |

\* On 16 November 2015, GWA announced an on-market share buy-back program as part of its ongoing capital management initiatives. The share buy-back was completed on 17 June 2016. As at 30 June 2016, 15,000,356 shares were purchased on-market and subsequently cancelled (refer to note 17 for further details). This reduction is reflected in the calculation of the weighted average number of ordinary shares at 30 June 2016.

The calculation of diluted earnings per share has been based on the following weighted average number of ordinary shares outstanding adjusted for the effects of all dilutive potential ordinary shares.

##### Weighted average number of ordinary shares (diluted)

| <i>In thousands of shares</i>                        | <b>2017</b>    | <b>2016</b>    |
|--|----------------|----------------|
| Weighted average number of ordinary shares (basic)   | 263,948        | 273,025        |
| Effect of performance rights on issue                | 1,512          | 1,162          |
| Weighted average number of ordinary shares (diluted) | <u>265,460</u> | <u>274,187</u> |

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section III: Assets and Liabilities

#### 7. Cash and cash equivalents

##### (a) Balances

| <i>In thousands of AUD</i>                               | <b>2017</b>   | <b>2016</b>   |
|--|---------------|---------------|
| Bank balances  | 12,872        | 21,150        |
| Call deposits  | 23,488        | 14,546        |
| Cash and cash equivalents in the statement of cash flows | <u>36,360</u> | <u>35,696</u> |

Cash and cash equivalents comprise cash balances and call deposits with an original maturity date of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

The consolidated entity's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 18.

##### (b) Reconciliation of cash flows from operating activities to net profit

| <i>In thousands of AUD</i>                                   | <b>2017</b>   | <b>2016</b>   |
|--|---------------|---------------|
| Profit / (loss) for the year                                 | 53,671        | 53,681        |
| <i>Adjustments for:</i>                                      |               |               |
| Depreciation   | 3,363         | 3,491         |
| Amortisation   | 2,199         | 2,638         |
| Share-based payments - non cash component                    | 587           | (322)         |
| Foreign exchange (gain) / loss - unrealised                  | 65            | (292)         |
| (Gain) / loss on sale of PP&E and intangible assets          | (142)         | (58)          |
| Write down of inventories                                    | 3,583         | 1,713         |
| Other non cash movements                                     | (474)         | (23)          |
| <i>Changes in assets and liabilities:</i>                    |               |               |
| Decrease / (increase) in trade and other receivables         | (13,879)      | 11,046        |
| Decrease / (increase) in inventories                         | 4,042         | 3,365         |
| Decrease / (increase) in prepayments                         | (510)         | 369           |
| (Decrease) / increase in trade payables and accrued expenses | 10,668        | (10,573)      |
| (Decrease) / increase in taxes payable and deferred taxes    | 7,661         | 740           |
| (Decrease) / increase in provisions and employee benefits    | (13,663)      | (10,851)      |
| <b>Net cash flows from / (used in) operating activities</b>  | <u>57,171</u> | <u>54,924</u> |

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section III: Assets and Liabilities (continued)

#### 8. Trade and other receivables

| <i>In thousands of AUD</i> | <b>2017</b>   | <b>2016</b>   |
|----------------------------|---------------|---------------|
| Net trade receivables      | 65,124        | 50,502        |
| Other                      | 738           | 1,481         |
|                            | <b>65,862</b> | <b>51,983</b> |

Trade and other receivables are initially measured at fair value and subsequently at their amortised cost less impairment losses. For financial assets carried at amortised cost, the consolidated entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the consolidated entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The consolidated entity's exposure to credit and currency risk and impairment loss related to trade and other receivables are disclosed in Note 18.

#### 9. Inventories

| <i>In thousands of AUD</i>    | <b>2017</b>   | <b>2016</b>   |
|-------------------------------|---------------|---------------|
| Raw materials and consumables | 3,655         | 4,078         |
| Work in progress              | 357           | 149           |
| Finished goods                | 68,307        | 72,134        |
|                               | <b>72,319</b> | <b>76,361</b> |

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The future estimated recoverability of inventory was determined with consideration of excess inventory volumes, discontinued product lines and risk weightings applied by management with reference to their assessment of recovery rates.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section III: Assets and Liabilities (continued)

#### 10. Deferred tax assets and liabilities

##### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| <i>In thousands of AUD</i>     | Assets |         | Liabilities |         | Net    |        |
|--------------------------------|--------|---------|-------------|---------|--------|--------|
|                                | 2017   | 2016    | 2017        | 2016    | 2017   | 2016   |
| Property, plant and equipment  | -      | -       | (15)        | (741)   | (15)   | (741)  |
| Intangible assets              | 1,582  | 1,710   | (479)       | (517)   | 1,103  | 1,193  |
| Inventories                    | 3,893  | 2,578   | -           | -       | 3,893  | 2,578  |
| Employee benefits              | 4,152  | 4,599   | -           | -       | 4,152  | 4,599  |
| Provisions                     | 4,452  | 7,486   | -           | -       | 4,452  | 7,486  |
| Other items                    | 2,645  | 3,108   | (207)       | (34)    | 2,438  | 3,074  |
| Tax assets / (liabilities)     | 16,724 | 19,481  | (701)       | (1,292) | 16,023 | 18,189 |
| Set off of tax                 | (701)  | (1,292) | 701         | 1,292   | -      | -      |
| Net tax assets / (liabilities) | 16,023 | 18,189  | -           | -       | 16,023 | 18,189 |

##### Movement in temporary differences during the year

| <i>In thousands of AUD</i>    | Balance<br>1 July 16 | Recognised<br>in income | Recognised<br>in equity | Balance<br>30 June 17 |
|-------------------------------|----------------------|-------------------------|-------------------------|-----------------------|
| Property, plant and equipment | (741)                | 726                     | -                       | (15)                  |
| Intangible assets             | 1,193                | (90)                    | -                       | 1,103                 |
| Inventories                   | 2,578                | 1,315                   | -                       | 3,893                 |
| Employee benefits             | 4,599                | (447)                   | -                       | 4,152                 |
| Provisions                    | 7,486                | (3,034)                 | -                       | 4,452                 |
| Other items                   | 3,074                | 308                     | (944)                   | 2,438                 |
|                               | 18,189               | (1,222)                 | (944)                   | 16,023                |

| <i>In thousands of AUD</i>    | Balance<br>1 July 15 | Recognised<br>in income | Recognised<br>in equity | Balance<br>30 June 16 |
|-------------------------------|----------------------|-------------------------|-------------------------|-----------------------|
| Property, plant and equipment | (632)                | (109)                   | -                       | (741)                 |
| Intangible assets             | 1,043                | 150                     | -                       | 1,193                 |
| Inventories                   | 2,090                | 488                     | -                       | 2,578                 |
| Employee benefits             | 4,834                | (235)                   | -                       | 4,599                 |
| Provisions                    | 11,856               | (4,370)                 | -                       | 7,486                 |
| Other items                   | 2,912                | (1,044)                 | 1,206                   | 3,074                 |
|                               | 22,103               | (5,120)                 | 1,206                   | 18,189                |

##### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

| <i>In thousands of AUD</i>                | 2017   | 2016   |
|---|--------|--------|
| Capital losses                            | 71,352 | 67,346 |
| Revenue losses from foreign jurisdictions | 104    | 212    |

The deductible capital losses accumulated at balance date do not expire under current tax legislation. Refer to Note 5 for the consolidated entity's accounting policy on deferred tax.

GWA Group Limited and its controlled entities  
Notes to the consolidated financial statements

**Section III: Assets and Liabilities (continued)**

**11. Property, plant and equipment**

| <i>In thousands of AUD</i>                       | <b>Plant and<br/>equipment</b> | <b>Work in<br/>progress</b> | <b>Total</b>    |
|--|--------------------------------|-----------------------------|-----------------|
| <b>Cost</b>                                      |                                |                             |                 |
| Balance at 1 July 2016                           | 71,817                         | 2,408                       | 74,225          |
| Additions  | 3,804                          | 62                          | 3,866           |
| Disposals transferred to restructuring provision | (27,168)                       | -                           | (27,168)        |
| Disposals  | (5,557)                        | -                           | (5,557)         |
| Transfers  | 187                            | (187)                       | -               |
| Exchange rate movements                          | (3)                            | (2)                         | (5)             |
| Balance at 30 June 2017                          | <u>43,080</u>                  | <u>2,281</u>                | <u>45,361</u>   |
| Balance at 1 July 2015                           | 127,472                        | 804                         | 128,276         |
| Additions  | 1,386                          | 1,781                       | 3,167           |
| Disposals of discontinued operations             | (9,573)                        | (177)                       | (9,750)         |
| Disposals transferred to restructuring provision | (1,540)                        | -                           | (1,540)         |
| Other disposals                                  | (46,002)                       | -                           | (46,002)        |
| Exchange rate movements                          | 74                             | -                           | 74              |
| Balance at 30 June 2016                          | <u>71,817</u>                  | <u>2,408</u>                | <u>74,225</u>   |
| <b>Depreciation and impairment losses</b>        |                                |                             |                 |
| Balance at 1 July 2016                           | (62,944)                       | -                           | (62,944)        |
| Depreciation                                     | (3,363)                        | -                           | (3,363)         |
| Depreciation charged to restructuring provision  | (102)                          | -                           | (102)           |
| Disposal transferred to restructuring provision  | 26,155                         | -                           | 26,155          |
| Disposals  | 5,383                          | -                           | 5,383           |
| Exchange rate movements                          | 3                              | -                           | 3               |
| Balance at 30 June 2017                          | <u>(34,868)</u>                | <u>-</u>                    | <u>(34,868)</u> |
| Balance at 1 July 2015                           | (114,162)                      | (177)                       | (114,339)       |
| Depreciation                                     | (3,491)                        | -                           | (3,491)         |
| Depreciation charged to restructuring provision  | (1,677)                        | -                           | (1,677)         |
| Disposal of discontinued operations              | 9,573                          | 177                         | 9,750           |
| Disposal transferred to restructuring provision  | 916                            | -                           | 916             |
| Other disposals                                  | 45,965                         | -                           | 45,965          |
| Exchange rate movements                          | (68)                           | -                           | (68)            |
| Balance at 30 June 2016                          | <u>(62,944)</u>                | <u>-</u>                    | <u>(62,944)</u> |
| <b>Carrying amounts</b>                          |                                |                             |                 |
| As at 30 June 2017                               | <u>8,212</u>                   | <u>2,281</u>                | <u>10,493</u>   |
| As at 30 June 2016                               | <u>8,873</u>                   | <u>2,408</u>                | <u>11,281</u>   |

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section III: Assets and Liabilities (continued)

#### 11. Property, plant and equipment (continued)

##### *Recognition and Measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in profit or loss as an expense as incurred.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within 'other income' or 'other expenses' in profit or loss.

##### *Depreciation*

Depreciation is recognised in profit or loss as incurred on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

- plant and equipment                      3-15 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed annually.

##### *Impairment*

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired. The recoverable amount of property, plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. Impairment losses are recognised in profit or loss.

GWA Group Limited and its controlled entities  
Notes to the consolidated financial statements

**Section III: Assets and Liabilities (continued)**

**12. Intangible assets**

| <i>In thousands of AUD</i>                | <b>Software</b> | <b>Brand names</b> | <b>Trade names, designs, patents and customer relationships</b> | <b>Goodwill</b> | <b>Total</b> |
|---|-----------------|--------------------|---|-----------------|--------------|
| <b>Cost</b>                               |                 |                    |   |                 |              |
| Balance at 1 July 2016                    | 28,337          | 302,800            | 5,580   | 6,006           | 342,723      |
| Additions                                 | 1,600           | -                  | -   | -               | 1,600        |
| Disposals                                 | (295)           | -                  | -   | -               | (295)        |
| Exchange rate movements                   | -               | -                  | -   | -               | -            |
| Balance at 30 June 2017                   | 29,642          | 302,800            | 5,580   | 6,006           | 344,028      |
| Balance at 1 July 2015                    | 35,099          | 302,767            | 12,897  | 30,080          | 380,843      |
| Additions                                 | 909             | -                  | -   | -               | 909          |
| Disposals of discontinued operations      | (475)           | -                  | (7,317)   | (24,074)        | (31,866)     |
| Other disposals                           | (7,196)         | -                  | -   | -               | (7,196)      |
| Exchange rate movements                   | -               | 33                 | -   | -               | 33           |
| Balance at 30 June 2016                   | 28,337          | 302,800            | 5,580   | 6,006           | 342,723      |
| <b>Amortisation and impairment losses</b> |                 |                    |   |                 |              |
| Balance at 1 July 2016                    | (25,155)        | -                  | (2,674)   | -               | (27,829)     |
| Amortisation                              | (1,793)         | -                  | (406)   | -               | (2,199)      |
| Disposals                                 | 242             | -                  | -   | -               | 242          |
| Balance at 30 June 2017                   | (26,706)        | -                  | (3,080)   | -               | (29,786)     |
| Balance at 1 July 2015                    | (30,635)        | -                  | (9,585)   | (24,074)        | (64,294)     |
| Amortisation                              | (2,201)         | -                  | (437)   | -               | (2,638)      |
| Disposal of discontinued operations       | 485             | -                  | 7,348   | 24,074          | 31,907       |
| Other disposals                           | 7,196           | -                  | -   | -               | 7,196        |
| Balance at 30 June 2016                   | (25,155)        | -                  | (2,674)   | -               | (27,829)     |
| <b>Carrying amounts</b>                   |                 |                    |   |                 |              |
| As at 30 June 2017                        | 2,936           | 302,800            | 2,500   | 6,006           | 314,242      |
| As at 30 June 2016                        | 3,182           | 302,800            | 2,906   | 6,006           | 314,894      |

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section III: Assets and Liabilities (continued)

#### 12. Intangible assets (continued)

##### *Recognition and measurement*

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Goodwill acquired in business combinations is initially measured at cost being the excess of the cost of the business combination over the consolidated entity's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised only if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete development.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the profit or loss as incurred. Expenditure incurred in developing, maintaining or enhancing brand names is recognised in the Income Statement in the year in which it is incurred.

##### *Amortisation*

Amortisation is recognised in the Income Statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets are amortised from the date they are available for use. The estimated useful lives in the current and comparative periods are as follows:

- |                          |                                   |
|--------------------------|-----------------------------------|
| • goodwill               | indefinite                        |
| • brand names            | indefinite                        |
| • software               | 4 years                           |
| • trade names            | 10-20 years                       |
| • designs                | 15 years                          |
| • patents                | 3-19 years (based on patent term) |
| • customer relationships | 8 years                           |

Brand names are not amortised as the directors believe that they have an indefinite useful life.

##### *Impairment*

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Intangible assets with an indefinite useful life are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value is impaired.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its own value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section III: Assets and Liabilities (continued)

#### 12. Intangible assets (continued)

##### *Impairment (continued)*

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets of CGU's. Subject to an operating segment ceiling test, CGU's to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGU's that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of CGU's), and then to reduce the carrying amounts of the other assets in the CGU (or group of CGU's) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss 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.

##### **Carrying value of brand names and goodwill for each cash generating unit and segment**

*In thousands of AUD*

|                       | <b>2017</b>    | <b>2016</b>    |
|-----------------------|----------------|----------------|
| Bathroom and Kitchens | 284,198        | 284,198        |
| Door & Access Systems | 24,608         | 24,608         |
|                       | <b>308,806</b> | <b>308,806</b> |

##### **Impairment testing for brand names and goodwill**

The recoverable amounts of all brand names and goodwill were assessed as at 30 June 2017 based on internal value in use calculations and no impairment was identified for any cash generating units (2016: nil).

Value in use was determined by discounting the future cash flows to be generated from the continuing use of the business unit and to which the brand or goodwill is attached and was based on the following assumptions:

- Cash flows were projected based on actual operating results and business plans of the units approved by the Board, with projected cash flows to five years before a terminal value was calculated. Maintainable earnings were adjusted for an allocation of corporate overheads.
- Management used a constant growth rate of 2.8% (2016: 2.5%) in calculating terminal values of the units, which does not exceed the long-term average growth rate for the industry.
- Pre-tax discount rates between 12.5% - 14.1% were used (2016: 12.5% - 13.0%).

The key assumptions relate to dwelling completions, economic activity and market share. The values assigned to the key assumptions represent management's assessment of future trends in the Bathrooms & Kitchens and Door & Access Systems industries and are based on both external sources and internal sources (historical data).

The recoverable amount of the cash generating units exceeds their carrying values at 30 June 2017 and there are no reasonably possible changes in any of the key assumptions that would cause the cash generating units' carrying amounts to exceed their recoverable amount.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section III: Assets and Liabilities (continued)

#### 13. Trade and other payables

| <i>In thousands of AUD</i>                        | <b>2017</b>   | <b>2016</b>   |
|---|---------------|---------------|
| <b>Current</b>                                    |               |               |
| Trade payables and accrued expenses               | 48,232        | 34,861        |
| Forward exchange contracts used for hedging (net) | 2,188         | 3,944         |
| Interest rate swaps used for hedging (net)        | 363           | 1,705         |
|   | <u>50,783</u> | <u>40,510</u> |
| <b>Non-current</b>                                |               |               |
| Trade payables and accrued expenses               | 827           | 432           |

Trade and other payables are initially measured at fair value and subsequently at their amortised cost.

The consolidated entity's exposure to currency risk and liquidity risk related to trade and other payables are disclosed in Note 18.

Refer to Note 18 for details on forward exchange contracts and interest rate swaps.

#### 14. Employee benefits

| <i>In thousands of AUD</i>       | <b>2017</b>  | <b>2016</b>  |
|----------------------------------|--------------|--------------|
| <b>Current</b>                   |              |              |
| Liability for annual leave       | 4,756        | 5,398        |
| Liability for long service leave | 1,772        | 1,491        |
|                                  | <u>6,528</u> | <u>6,889</u> |
| <b>Non-current</b>               |              |              |
| Liability for long service leave | 7,316        | 8,447        |

##### *Short-term employee benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the consolidated entity has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### *Long-term employee benefits*

The consolidated entity's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted to present value using market yields at the reporting date on corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section III: Assets and Liabilities (continued)

#### 15. Provisions

| <i>In thousands of AUD</i> | <b>Warranties</b> | <b>Restructuring</b> | <b>Site restoration</b> | <b>Other</b> | <b>Total</b> |
|----------------------------|-------------------|----------------------|-------------------------|--------------|--------------|
| Balance at 1 July 2016     | 2,609             | 19,235               | 1,758                   | 1,430        | 25,032       |
| Additional provisions made | 605               | -                    | 326                     | 261          | 1,192        |
| Provisions used            | (616)             | (12,242)             | (100)                   | (405)        | (13,363)     |
| Balance at 30 June 2017    | 2,598             | 6,993                | 1,984                   | 1,286        | 12,861       |
| Current                    | 2,554             | 6,912                | 444                     | 684          | 10,594       |
| Non-current                | 44                | 81                   | 1,540                   | 602          | 2,267        |
|                            | 2,598             | 6,993                | 1,984                   | 1,286        | 12,861       |

#### *Recognition and Measurement*

A provision is recognised when the consolidated entity has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### *Warranties*

The provision for warranties relates to future warranty expense on products sold during the current and previous financial years. A provision for warranties is recognised when the underlying products or services are sold. The provision is based on estimates made from historical warranty data associated and a weighting of all possible outcomes against their associated probabilities.

#### *Restructuring*

The restructuring provision relates to the estimated costs of redundancies, site closures and product rationalisation related to business restructuring. A provision for restructuring is recognised when the consolidated entity has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

#### *Site restoration*

A provision for restoration in respect of owned and leased premises is recognised when the obligation to restore arises. The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date. Future restoration obligations are reviewed annually and any changes are reflected in the present value of the provision at the end of the reporting period. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section IV. Funding and Risk Management

#### 16. Loans and borrowings

This note provides information about the contractual terms of the consolidated entity's loans and borrowings, which are measured at amortised cost. For more information about the consolidated entity's exposure to interest rate and foreign currency risk, see note 18.

##### **Non-current liabilities**

*In thousands of AUD*

|                                   | <b>2017</b> | <b>2016</b> |
|-----------------------------------|-------------|-------------|
| Unsecured cash advance facilities | 112,000     | 120,000     |

##### **Financing facilities**

###### **Facilities available**

|                                   |                |                |
|-----------------------------------|----------------|----------------|
| Standby letters of credit         | 2,000          | 2,000          |
| Bank guarantees                   | 7,000          | 7,000          |
| Unsecured cash advance facilities | 225,000        | 225,000        |
|                                   | <b>234,000</b> | <b>234,000</b> |

###### **Facilities utilised at reporting date**

|                                   |                |                |
|-----------------------------------|----------------|----------------|
| Standby letters of credit         | -              | -              |
| Bank guarantees                   | 4,116          | 4,116          |
| Unsecured cash advance facilities | 112,000        | 120,000        |
|                                   | <b>116,116</b> | <b>124,116</b> |

###### **Facilities not utilised at reporting date**

|                                   |                |                |
|-----------------------------------|----------------|----------------|
| Standby letters of credit         | 2,000          | 2,000          |
| Bank guarantees                   | 2,884          | 2,884          |
| Unsecured cash advance facilities | 113,000        | 105,000        |
|                                   | <b>117,884</b> | <b>109,884</b> |

##### *Recognition and Measurement*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are measured at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

##### **Unsecured cash advance facility**

On 19 October 2016, GWA successfully completed the extension of its syndicated banking facility. The facility comprises a single revolving facility of \$225,000,000 which matures in October 2019.

Prior to 19 October 2016 and as at 30 June 2016, the facility matured in October 2018.

The loan bears interest at market rates and interest is typically payable every 30 to 90 days. The consolidated entity partially hedges its exposure to variable interest rates through interest rate swap transactions.

##### **Letter of credit**

The letter of credit facilities are committed facilities available to be drawn down under the facility agreements. The limits are specified in the facility agreement.

##### **Bank guarantees**

The bank guarantees are committed facilities available to be drawn down under the facility agreement. The limits are specified in the facility agreement.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section IV. Funding and Risk Management (continued)

#### 17. Capital and reserves

##### Share capital

| <i>In thousands of AUD</i>                                   | Ordinary shares |                | AUD            |                |
|--|-----------------|----------------|----------------|----------------|
|  | 2017            | 2016           | 2017           | 2016           |
| On issue at 1 July – fully paid                              | 263,948         | 278,948        | 307,877        | 337,942        |
| On-market buy-back shares acquired and cancelled, net of tax | -               | (15,000)       | -              | (30,021)       |
| Capital return to holders of FY14 LTI grant                  | -               | -              | (39)           | (44)           |
| On issue at 30 June – fully paid                             | <u>263,948</u>  | <u>263,948</u> | <u>307,838</u> | <u>307,877</u> |

##### Ordinary Shares

Ordinary shares are classified as equity. Incremental costs (transaction costs) directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

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

The Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

##### On-market share buy-back

On 16 November 2015, GWA announced its intention to commence an on-market share buy-back program as part of its ongoing capital management initiatives. The share buy-back commenced on 1 December 2015 and completed on 17 June 2016. As at 30 June 2016, 15,000,356 shares, representing 5.4% of GWA's issued share capital, were purchased on-market and subsequently cancelled. The ordinary shares were bought back at an average price of \$2.00 per share for a total cost of \$30,021,000 (including \$21,000 of associated transaction costs, net of income tax).

##### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the retranslation of the financial statements of foreign operations where their functional currency is different from the presentation currency of the reporting entity, as well as from the retranslation of liabilities that hedge the Company's net investment in a foreign subsidiary.

##### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

##### Equity compensation reserve

The equity compensation reserve represents the fair value of the cumulative net charges of performance rights granted (refer Note 19).

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section IV. Funding and Risk Management (continued)

#### 17. Capital and reserves (continued)

##### Dividends

Dividends recognised in the current year are:

|                       | <b>Costs per share</b><br><i>(In cents)</i> | <b>Total amount</b><br><i>(In thousands of AUD)</i> | <b>Franked</b> | <b>Date of Payment</b> |
|-----------------------|---|---|----------------|------------------------|
| <b>2017</b>           |   |   |                |                        |
| Interim 2017 ordinary | 7.5   | 19,796  | 100%           | 7th March 2017         |
| Final 2016 ordinary   | 8.0   | 21,116  | 100%           | 16th September 2016    |
| Special 2016          | 1.0   | 2,639   | 100%           | 16th September 2016    |
| Total amount          | <u>16.5</u>                                 | <u>43,551</u>                                       |                |                        |
| <b>2016</b>           |   |   |                |                        |
| Interim 2016 ordinary | 7.0   | 18,718  | 100%           | 5th April 2016         |
| Total amount          | <u>7.0</u>                                  | <u>18,718</u>                                       |                |                        |

Dividends are recognised as a liability in the period in which they are declared. Franked dividends declared or paid during the year were franked at the tax rate of 30%.

After the balance date the following dividends were approved by the directors. These will be paid out of the parent entity's current year profit at the time in accordance with the Corporations Act 2001. The dividends have not been provided for. The declaration and subsequent payment of the dividend has no income tax consequences.

|                     | <b>Costs per share</b><br><i>(In cents)</i> | <b>Total amount</b><br><i>(In thousands of AUD)</i> | <b>Franked</b> | <b>Date of Payment</b> |
|---------------------|---|---|----------------|------------------------|
| Final 2017 ordinary | 9.0   | 23,755  | 100%           | 5th September 2017     |

The financial effect of these dividends has not been brought to account in the financial statements for the financial year ended 30 June 2017 and will be recognised in subsequent financial reports.

##### Dividend franking account

| <i>In thousands of AUD</i>   | <b>The Company</b> |               |
|--|--------------------|---------------|
|  | <b>2017</b>        | <b>2016</b>   |
| 30 per cent franking credits available to shareholders of GWA Group Limited for subsequent financial years | <u>14,770</u>      | <u>13,689</u> |

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- (a) franking credits/debits that will arise from the payment/settlement of the current tax liabilities/assets; and
- (b) franking debits that will arise from the payment of dividends recognised as a liability at year-end.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section IV. Funding and Risk Management (continued)

#### 18. Financial instruments and financial risk management

##### (a) Policies

Exposure to credit, interest rate and currency risks arises in the normal course of the consolidated entity's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

##### **Risk management policy**

The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Finance Risk Committee, which is responsible for developing and monitoring risk management policies. The Finance Risk Committee is required to report regularly to the Board on its activities.

Risk management policies are established to identify and analyse the risk faced by the consolidated entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the consolidated entity's activities.

The Audit and Risk Committee oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the consolidated entity. The Audit and Risk Committee is assisted in its oversight role by the Internal Audit function. The Internal Audit function conducts both regular and ad hoc reviews of risk management controls and procedures. The results of the reviews are reported to the Audit and Risk Committee.

##### **Capital management policy**

The Board's policy is to maintain a strong capital base and grow shareholder wealth. The Board monitors debt levels, cash flows and financial forecasts to establish appropriate levels of dividends and funds available to reinvest in the businesses or invest in growth opportunities.

The Board focuses on growing shareholder wealth by monitoring the performance of the consolidated entity by reference to the return on funds employed. The Board defines return on funds employed as trading earnings before interest and tax divided by net assets after adding back net debt.

There were no changes to the Board's approach to capital management during the year.

##### **Derivative financial instruments**

The consolidated entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. In accordance with its treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised in profit or loss, unless the derivative qualifies for hedge accounting, in which case the recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of interest rate swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the reporting date, being the present value of the quoted forward price.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section IV. Funding and Risk Management (continued)

#### 18. Financial instruments and financial risk management (continued)

##### (a) Policies (continued)

###### Derivative financial instruments (continued)

###### *Hedging*

The consolidated entity holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

On initial designation of the derivative as the hedging instrument, the consolidated entity formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The consolidated entity makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to hedge risk, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variation in cash flows that could ultimately affect reported profit or loss.

Derivatives are recognised initially at fair value and attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount recognised in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period as the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in profit or loss.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section IV. Funding and Risk Management (continued)

#### 18. Financial instruments and financial risk management (continued)

##### (b) Credit risk

Credit risk is the risk of financial loss to the consolidated entity if a customer or other counterparty to a financial instrument fails to discharge their obligations.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. A risk assessment process is used for customers requiring credit and credit insurance is utilised. Goods are sold subject to retention of title clauses in most circumstances. The consolidated entity does not require collateral in respect of financial assets.

The consolidated entity maintains an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables.

Transactions involving derivative financial instruments are with counterparties with sound credit ratings. Given their sound credit ratings, management does not expect any counterparty to fail to meet its obligations.

The consolidated entity has three major customers which comprise 57% of the trade receivables carrying amount at 30 June 2017 (2016: 39%).

The carrying amount of financial assets represents the maximum credit exposure of the consolidated entity. The maximum exposure to credit risk at balance date was:

| <i>In thousands of AUD</i> | <b>2017</b>    | <b>2016</b>   |
|----------------------------|----------------|---------------|
| Cash and cash equivalents  | 36,360         | 35,696        |
| Net trade receivables      | 65,124         | 50,502        |
| Other receivables          | 738            | 1,481         |
|                            | <u>102,222</u> | <u>87,679</u> |

The ageing of trade receivables for the consolidated entity at balance date was as follows:

| <i>In thousands of AUD</i>             | <b>2017</b>        | <b>2017</b>       | <b>2016</b>        | <b>2016</b>       |
|--|--------------------|-------------------|--------------------|-------------------|
|  | <b>Receivables</b> | <b>Impairment</b> | <b>Receivables</b> | <b>Impairment</b> |
| Not yet due                            | 55,206             | -                 | 51,357             | -                 |
| Past due 0-30 days                     | 26,065             | -                 | 15,193             | -                 |
| Past due 31-60 days                    | 611                | (7)               | 678                | (2)               |
| Past due 61-120 days                   | 40                 | (4)               | 164                | (8)               |
| Past due 120+ days                     | 73                 | (9)               | 84                 | (75)              |
| Less accrued rebates and credit claims | (16,851)           | -                 | (16,889)           | -                 |
|  | <u>65,144</u>      | <u>(20)</u>       | <u>50,587</u>      | <u>(85)</u>       |

There were no trade receivables with re-negotiated terms.

The movement in the allowance for impairment in respect of trade receivables during the year for the consolidated entity was as follows:

| <i>In thousands of AUD</i>                    | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|
| Balance at 1 July                             | (85)        | (223)       |
| Impairment losses (recognised) / written back | (14)        | 109         |
| Provisions used during the year               | 79          | 29          |
| Balance at 30 June                            | <u>(20)</u> | <u>(85)</u> |

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section IV. Funding and Risk Management (continued)

#### 18. Financial instruments and financial risk management (continued)

##### (c) Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The consolidated entity prepares cash flow forecasts and maintains financing facilities with a number of institutions to ensure sufficient funds will be available to meet obligations without incurring excessive costs. The cash flows of the consolidated entity are controlled by management and reported monthly to the Board who is ultimately responsible for maintaining liquidity.

The contractual maturities of financial liabilities and derivatives that are cash flow hedges of the consolidated entity, including estimated interest payments are as follows:

| <b>Maturity analysis</b>                          | <b>Carrying amount</b> | <b>Contractual cash flows</b> | <b>0-6 months</b> | <b>6 - 12 months</b> | <b>1-2 years</b> | <b>2-5 years</b> | <b>5+ years</b> |
|---|------------------------|-------------------------------|-------------------|----------------------|------------------|------------------|-----------------|
| <i>In thousands of AUD</i>                        |                        |                               |                   |                      |                  |                  |                 |
| <b>2017</b>                                       |                        |                               |                   |                      |                  |                  |                 |
| <b>Non-derivatives financial liabilities</b>      |                        |                               |                   |                      |                  |                  |                 |
| Unsecured cash advance facilities                 | (112,000)              | (121,942)                     | (2,169)           | (2,169)              | (4,338)          | (113,266)        | -               |
| Trade and other payables                          | (51,610)               | (52,114)                      | (51,061)          | -                    | (117)            | (351)            | (585)           |
| <b>Derivative financial liabilities</b>           |                        |                               |                   |                      |                  |                  |                 |
| Interest rate swaps used for hedging (net)        | (363)                  | (363)                         | (189)             | (64)                 | (82)             | (28)             | -               |
| Forward exchange contracts used for hedging (net) | (2,188)                | (2,188)                       | (1,053)           | (1,135)              | -                | -                | -               |
| <b>Total at 30 June 2017</b>                      | <b>(166,161)</b>       | <b>(176,607)</b>              | <b>(54,472)</b>   | <b>(3,368)</b>       | <b>(4,537)</b>   | <b>(113,645)</b> | <b>(585)</b>    |
| <b>2016</b>                                       |                        |                               |                   |                      |                  |                  |                 |
| <b>Non-derivatives financial liabilities</b>      |                        |                               |                   |                      |                  |                  |                 |
| Unsecured cash advance facilities                 | (120,000)              | (129,391)                     | (2,012)           | (2,012)              | (4,025)          | (121,342)        | -               |
| Trade and other payables                          | (35,293)               | (35,293)                      | (34,861)          | -                    | (96)             | (144)            | (192)           |
| <b>Derivative financial liabilities</b>           |                        |                               |                   |                      |                  |                  |                 |
| Interest rate swaps used for hedging (net)        | (1,705)                | (926)                         | (438)             | (362)                | (96)             | (30)             | -               |
| Forward exchange contracts used for hedging (net) | (3,944)                | (3,944)                       | (2,744)           | (1,198)              | (2)              | -                | -               |
| <b>Total at 30 June 2016</b>                      | <b>(160,942)</b>       | <b>(169,554)</b>              | <b>(40,055)</b>   | <b>(3,572)</b>       | <b>(4,219)</b>   | <b>(121,516)</b> | <b>(192)</b>    |

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section IV. Funding and Risk Management (continued)

#### 18. Financial instruments and financial risk management (continued)

##### (d) Market risk

Market risk is the risk that changes in market prices such as interest rates and foreign exchange rates will affect the consolidated entity's income or value of holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The consolidated entity enters into derivatives in order to manage market risks. All transactions are carried out within the guidelines set by the Finance Risk Committee.

##### (i) Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the consolidated entity's income. The consolidated entity's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates.

The consolidated entity adopts a policy of ensuring that its exposure to changes in interest rates on borrowings is reduced. Interest rate swaps, denominated in Australian dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure.

As at 30 June 2017, the consolidated entity had interest rate swaps in operation with a notional contract amount of \$75,000,000 (2016: \$75,000,000). These swaps have fixed rates ranging from 2.14% to 3.42% (2016: 3.11% to 3.49%) and mature over the next year. The consolidated entity also has replacement interest rate swaps effective in the following financial year with a notional contract amount of \$50,000,000 (2016: \$75,000,000). These swaps have fixed rates ranging from 2.20% to 2.30% and mature over the next two to three years.

The consolidated entity classifies interest rate swaps as cash flow hedges and states them at fair value. The net fair value of swaps as at 30 June 2017 of \$363,000 was recognised as a fair value derivative liability (2016: \$1,705,000).

##### Profile

At balance date the consolidated entity's interest bearing financial instruments were:

| <i>In thousands of AUD</i>                 | <b>2017<br/>Notional<br/>value</b> | <b>2017<br/>Carrying<br/>amount</b> | <b>2016<br/>Notional<br/>value</b> | <b>2016<br/>Carrying<br/>amount</b> |
|--|------------------------------------|-------------------------------------|------------------------------------|-------------------------------------|
| <b>Variable rate financial instruments</b> |                                    |                                     |                                    |                                     |
| Unsecured cash advance facilities          | (112,000)                          | (112,000)                           | (120,000)                          | (120,000)                           |
| Bank balances                              | 12,872                             | 12,872                              | 21,150                             | 21,150                              |
| Call deposits                              | 23,488                             | 23,488                              | 14,546                             | 14,546                              |
|  | <u>(75,640)</u>                    | <u>(75,640)</u>                     | <u>(84,304)</u>                    | <u>(84,304)</u>                     |
| <b>Fixed rate financial instruments</b>    |                                    |                                     |                                    |                                     |
| Interest rate swap derivatives             | 125,000                            | (363)                               | 150,000                            | (1,705)                             |
| <b>Total</b>                               | <u>49,360</u>                      | <u>(76,003)</u>                     | <u>65,696</u>                      | <u>(86,009)</u>                     |

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section IV. Funding and Risk Management (continued)

#### 18. Financial instruments and financial risk management (continued)

##### (d) Market risk (continued)

##### (i) Interest rate risk (continued)

###### **Sensitivity analysis**

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected, after the impact of hedge accounting, with all other variables held constant.

The impact on the consolidated entity's profit is affected through the impact on floating rate borrowings and derivatives. The impact on the consolidated entity's other comprehensive income ('OCI') is due to changes in the fair value of interest rate swap contracts designated as cash flow hedges.

The assumed movement in basis points for the interest rate sensitivity analysis is considered reasonably possible given the market forecasts available at the reporting date and the current economic environment in which the consolidated entity operates.

| <i>In thousands of AUD - Higher/(Lower)</i>                  | <b>2017</b> | <b>2016</b> |
|--|-------------|-------------|
| <b>Increase of 100 basis points (2016: 100 basis points)</b> |             |             |
| Post Tax Profit  | (340)       | (356)       |
| OCI (cash flow hedges, net of tax)                           | 1,035       | 2,219       |
| <b>Decrease of 50 basis points (2016: 100 basis points)</b>  |             |             |
| Post Tax Profit  | 170         | 881         |
| OCI (cash flow hedges, net of tax)                           | (517)       | (2,223)     |

##### (ii) Foreign currency risk

The consolidated entity is exposed to foreign currency risk on sales, purchases and asset and liability holdings that are denominated in a currency other than the respective functional currencies of its subsidiaries. The consolidated entity is also exposed to foreign currency risk on retranslation of the financial statements of foreign subsidiaries. The currencies giving rise to this risk are primarily USD, RMB and NZD.

The consolidated entity hedges its foreign currency exposure in respect of forecasted sales and purchases by entering into forward exchange contracts. The forward exchange contracts have maturities of up to 12 months after the balance date.

As at 30 June 2017, the consolidated entity had forward exchange contracts covering 82% of its expected USD net transaction exposure (2016: 86%), 80% of its expected RMB net transaction exposure (2016: 88%), and 80% of its expected NZD net transaction exposure (2016: 55%) for the 12 month period after the balance date.

The consolidated entity classifies forward exchange contracts as cash flow hedges and states them at fair value. The net fair value of contracts as at 30 June 2017 of \$2,188,000 was recognised as a fair value derivative liability (2016: \$3,944,000).

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section IV. Funding and Risk Management (continued)

#### 18. Financial instruments and financial risk management (continued)

##### (d) Market risk (continued)

##### (ii) Foreign currency risk (continued)

###### **Sensitivity analysis**

The following table demonstrates the impact of reasonably possible exchange rate movements with all other variables held constant. However, the impact of exchange rate movements on profit is subject to other variables including competitor exchange rate positions and movement in market prices.

The impact on the consolidated entity's other comprehensive income ('OCI') is due to changes in the fair value of forward exchange contracts designated as cash flow hedges.

The assumed movement in exchange rates for the sensitivity analysis is considered reasonably possible given the market forecasts available at the reporting date and the current economic environment in which the consolidated entity operates.

The impact on foreign currency translation and monetary assets and liabilities not designated as cash flow hedges are not material.

| <i>In thousands of AUD - Higher/(Lower)</i>                  | <b>2017</b> | <b>2016</b> |
|--|-------------|-------------|
| <b>USD</b>   |             |             |
| 10% increase in USD:AUD – OCI (cash flow hedges, net of tax) | 6,700       | 5,599       |
| 10% decrease in USD:AUD – OCI (cash flow hedges, net of tax) | (5,482)     | (4,581)     |
| <b>RMB</b>   |             |             |
| 10% increase in RMB:AUD – OCI (cash flow hedges, net of tax) | 1,581       | 1,417       |
| 10% decrease in RMB:AUD – OCI (cash flow hedges, net of tax) | (1,293)     | (1,160)     |
| <b>NZD</b>   |             |             |
| 10% increase in NZD:AUD – OCI (cash flow hedges, net of tax) | (1,015)     | (740)       |
| 10% decrease in NZD:AUD – OCI (cash flow hedges, net of tax) | 835         | 605         |

##### (e) Fair values

The fair value of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position is as follows:

| <i>In thousands of AUD</i>           | <b>Carrying amount<br/>2017</b> | <b>Fair value<br/>2017</b> | <b>Carrying amount<br/>2016</b> | <b>Fair value<br/>2016</b> |
|--------------------------------------|---------------------------------|----------------------------|---------------------------------|----------------------------|
| Cash and cash equivalents            | 36,360                          | 36,360                     | 35,696                          | 35,696                     |
| Trade and other receivables          | 65,862                          | 65,862                     | 51,983                          | 51,983                     |
| Interest rate swaps used for hedging | (363)                           | (363)                      | (1,705)                         | (1,705)                    |
| Forward contracts used for hedging   | (2,188)                         | (2,188)                    | (3,944)                         | (3,944)                    |
| Unsecured cash advance facilities    | (112,000)                       | (112,000)                  | (120,000)                       | (120,000)                  |
| Trade and other payables             | (49,059)                        | (49,059)                   | (35,293)                        | (35,293)                   |
|                                      | <b>(61,388)</b>                 | <b>(61,388)</b>            | <b>(73,263)</b>                 | <b>(73,263)</b>            |

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section IV. Funding and Risk Management (continued)

#### 18. Financial instruments and financial risk management (continued)

##### (e) Fair values (continued)

The fair value of financial instruments were estimated using the following methods and assumptions.

##### (i) Derivatives

Forward exchange contracts are marked to market by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps broker quotes are obtained. These quotes are back tested using discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

##### (ii) Loans and borrowings

Interest-bearing loans bear interest at market rates. Accordingly, the notional amount of the interest-bearing loans is deemed to reflect the fair value.

##### (iii) Trade and other receivables / payables

All current receivables / payables are either repayable within twelve months or repayable on demand. Non-current payables relate to a supplier contractual obligation. Accordingly, the notional amount is deemed to reflect the fair value.

##### (iv) Interest rates used for determining fair value

The consolidated entity uses the government yield curve as of 30 June 2017 plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

|                      | <b>2017</b> | <b>2016</b> |
|----------------------|-------------|-------------|
| Derivatives          | 1.7% - 2.2% | 1.8% - 2.0% |
| Loans and borrowings | 3.2% - 3.7% | 3.0% - 3.3% |

##### (v) Fair value hierarchy

The consolidated entity recognises the fair value of its financial instruments using the level 2 valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

*In thousands of AUD*

|                                      | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|--------------------------------------|----------------|----------------|----------------|--------------|
| <b>30 June 2017</b>                  |                |                |                |              |
| Forward contracts used for hedging   | -              | (2,188)        | -              | (2,188)      |
| Interest rate swaps used for hedging | -              | (363)          | -              | (363)        |
|                                      | -              | (2,551)        | -              | (2,551)      |
| <b>30 June 2016</b>                  |                |                |                |              |
| Forward contracts used for hedging   | -              | (3,944)        | -              | (3,944)      |
| Interest rate swaps used for hedging | -              | (1,705)        | -              | (1,705)      |
|                                      | -              | (5,649)        | -              | (5,649)      |

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section V. Other Information

#### 19. Share-based payments

The Long Term Incentive (Equity) Plan was approved by shareholders at the 2008 Annual General Meeting. Under the plan, the Board may offer performance rights to participants which entitle the holder to ordinary shares in the Company (or in limited cases cash payments), subject to meeting certain financial performance hurdles and the holder remaining in employment with the Company until the nominated vesting date.

The performance hurdles in relation to performance rights granted to executives in the 2016/17 year and 2015/16 year are subject to financial performance conditions which measure growth in Return on Funds Employed (ROFE) and Total Shareholder Return (TSR) compared to a peer group of companies. The performance hurdles are challenging but achievable and focus executives on sustained long term growth consistent with shareholder wealth creation.

The Plan runs over a three year performance period and the rights will only vest if the performance hurdles are achieved based on a 50% allocation of each grant to the two performance hurdles. If the vesting conditions and performance hurdles are achieved, ordinary shares will be issued to the participants at no cost. If the performance hurdles are not met, then the rights are cancelled.

For performance rights granted to executives in the 2016/17 year and 2015/16 year, the performance hurdles and vesting proportions for the ROFE performance measure and TSR performance measure are outlined in the tables below.

| <b>GWA Group Limited ROFE over three year performance period</b> | <b>Proportion of Performance Rights to Vest if ROFE hurdle is met</b> |
|--|---|
| ROFE less than 15% per annum                                     | 0%  |
| ROFE equal to 15% per annum                                      | 12.5%   |
| ROFE between 15% and 18% per annum                               | Straight line vesting between 12.5% and 50%                           |
| ROFE equal to 18% or higher per annum                            | 50% (i.e. 50% of total grant)   |

| <b>TSR of GWA Group Limited relative to TSRs of Comparator Companies</b> | <b>Proportion of Performance Rights to Vest if TSR hurdle is met</b> |
|--|--|
| Less than the 50th percentile  | 0%   |
| 50th percentile  | 12.5%  |
| Between the 50th percentile and 75th percentile                          | Straight line vesting between 12.5% and 50%                          |
| 75th percentile or higher  | 50% (i.e. 50% of total grant)  |

#### *Recognition and Measurement*

The grant date fair value of performance rights granted to employees is recognised as a personnel expense, with a corresponding increase in equity, evenly over the specified three year period that the performance rights vest to employees.

The amount recognised as an expense is adjusted to reflect the actual number of performance rights for which the related service and non-market vesting hurdles are met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section V. Other Information (continued)

#### 19. Share-based payments (continued)

##### *Fair Value*

During the year 581,500 performance rights were granted to employees (2016: 850,500) at a weighted average fair value of \$1.28 (TSR) and \$2.11 (ROFE) (2016: \$1.33 (TSR) and \$1.78 (ROFE)).

The fair value of the performance rights granted subject to the ROFE hurdle was determined by using a Black Scholes Model. The fair value of the performance rights granted subject to the TSR hurdle for vesting was determined by using a Monte Carlo simulation. When determining the fair values it was assumed the Company would have a dividend yield of 5.61%, the risk free rate was 1.96% and annualised share price volatility was 35% for the Company and its comparator companies listed for the TSR hurdle.

The amount recognised as personnel expenses (Note 4) in the current financial year was \$1,028,000 (2016: \$99,000).

For further details of the Long Term Incentive (Equity) Plan, refer to the Remuneration Report section of the Directors' Report.

|  | <b>Grant date</b> | <b>Expiry date</b> | <b>Balance at beginning of the year</b> | <b>Granted during the year</b> | <b>Vested during the year</b> | <b>Forfeited during the year</b> | <b>Balance at end of the year</b> |
|--|-------------------|--------------------|---|--------------------------------|-------------------------------|----------------------------------|-----------------------------------|
| <i>In number of performance rights</i> |                   |                    |   |                                |                               |                                  |                                   |
| <b>2017</b>                            |                   |                    |   |                                |                               |                                  |                                   |
|  | 24/02/2014        | 30/06/2016         | 340,000                                 | -                              | (170,000)                     | (170,000)                        | -                                 |
|  | 25/02/2015        | 30/06/2017         | 430,333                                 | -                              | -                             | (7,333)                          | 423,000                           |
|  | 23/03/2016        | 30/06/2018         | 850,500                                 | -                              | -                             | (31,500)                         | 819,000                           |
|  | 24/02/2017        | 30/06/2019         | -                                       | 581,500                        | -                             | -                                | 581,500                           |
|  |                   |                    | <u>1,620,833</u>                        | <u>581,500</u>                 | <u>(170,000)</u>              | <u>(208,833)</u>                 | <u>1,823,500</u>                  |
| <b>2016</b>                            |                   |                    |   |                                |                               |                                  |                                   |
|  | 25/02/2013        | 30/06/2015         | 726,000                                 | -                              | (195,476)                     | (530,524)                        | -                                 |
|  | 24/02/2014        | 30/06/2016         | 340,000                                 | -                              | -                             | -                                | 340,000                           |
|  | 25/02/2015        | 30/06/2017         | 507,000                                 | -                              | -                             | (76,667)                         | 430,333                           |
|  | 23/03/2016        | 30/06/2018         | -                                       | 850,500                        | -                             | -                                | 850,500                           |
|  |                   |                    | <u>1,573,000</u>                        | <u>850,500</u>                 | <u>(195,476)</u>              | <u>(607,191)</u>                 | <u>1,620,833</u>                  |

#### 20. Related parties

##### **Key management personnel compensation**

The key management personnel compensation included in personnel expenses (Note 4) are as follows:

| <i>In AUD</i>                     | <b>2017</b>      | <b>2016</b>      |
|-----------------------------------|------------------|------------------|
| Short-term employee benefits      | 5,694,405        | 5,837,153        |
| Post-employment benefits          | 288,899          | 276,604          |
| Termination benefits              | 100,000          | 780,000          |
| Share-based payments              | 718,960          | 236,017          |
| Other long term employee benefits | 6,320            | (316,697)        |
|                                   | <u>6,808,584</u> | <u>6,813,077</u> |

##### **Individual directors and executives compensation disclosures**

Information regarding individual and executives compensation is provided in the Remuneration Report section of the Directors' Report.

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section V. Other Information (continued)

#### 21. Auditor's remuneration

| <i>In AUD</i>                         | <b>2017</b>    | <b>2016</b>    |
|---------------------------------------|----------------|----------------|
| <b>Audit services</b>                 |                |                |
| Auditor of the Company                |                |                |
| <i>KPMG Australia:</i>                |                |                |
| Audit and review of financial reports | 405,000        | 396,300        |
| Other regulatory services             | -              | 34,186         |
| <i>Overseas KPMG Firms:</i>           |                |                |
| Audit and review of financial reports | 17,000         | 16,000         |
|                                       | <u>422,000</u> | <u>446,486</u> |
| <b>Other services</b>                 |                |                |
| Auditors of the Company               |                |                |
| <i>KPMG Australia:</i>                |                |                |
| Other services                        | 61,592         | -              |
| <i>Overseas KPMG Firms:</i>           |                |                |
| Taxation services                     | 34,576         | 52,112         |
|                                       | <u>96,168</u>  | <u>52,112</u>  |

#### 22. Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

| <i>In thousands of AUD</i> | <b>2017</b>   | <b>2016</b>   |
|----------------------------|---------------|---------------|
| Less than one year         | 14,884        | 14,089        |
| Between one and five years | 34,517        | 18,836        |
| More than 5 years          | 22,728        | 441           |
|                            | <u>72,129</u> | <u>33,366</u> |

The consolidated entity leases various plant and equipment, property and motor vehicles under operating leases. These leases typically run for a period of 2 to 8 years, with an option to renew the lease after that date. None of these leases include contingent rentals.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense and spread over the lease term.

During the financial year ended 30 June 2017, \$15,276,000 (2016: \$16,189,000) was recognised as an expense in profit or loss in respect of operating leases.

#### 23. Capital commitments

Capital expenditure commitments for plant and equipment purchases contracted but not provided for are payable as follows:

| <i>In thousands of AUD</i> | <b>2017</b>  | <b>2016</b>  |
|----------------------------|--------------|--------------|
| Within one year            | 4,522        | 3,954        |
| Between one and five years | -            | 1,688        |
|                            | <u>4,522</u> | <u>5,642</u> |

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section V. Other Information (continued)

#### 24. Consolidated entities

|  | Parties to cross guarantee | Country of incorporation | Ownership interest |      |
|--|----------------------------|--------------------------|--------------------|------|
|  |                            |                          | 2017               | 2016 |
| <b>Parent entity</b>                     |                            |                          |                    |      |
| GWA Group Limited                        | Y                          | Australia                |                    |      |
| <b>Subsidiaries</b>                      |                            |                          |                    |      |
| API Services and Solutions Pty Limited   | Y                          | Australia                | 100%               | 100% |
| Austral Lock Pty Ltd                     | Y                          | Australia                | 100%               | 100% |
| Canereb Pty Ltd                          | N                          | Australia                | 100%               | 100% |
| Caroma Holdings Limited                  | Y                          | Australia                | 100%               | 100% |
| Caroma Industries Limited                | Y                          | Australia                | 100%               | 100% |
| Caroma Industries (NZ) Limited           | N                          | New Zealand              | 100%               | 100% |
| Caroma International Pty Ltd             | Y                          | Australia                | 100%               | 100% |
| Corille Limited                          | Y                          | Australia                | 100%               | 100% |
| Dorf Clark Industries                    | Y                          | Australia                | 100%               | 100% |
| Dorf Industries (NZ) Ltd                 | N                          | New Zealand              | 100%               | 100% |
| G Subs Pty Ltd                           | Y                          | Australia                | 100%               | 100% |
| Gainsborough Hardware Industries Limited | Y                          | Australia                | 100%               | 100% |
| GWA Finance Pty Limited                  | Y                          | Australia                | 100%               | 100% |
| GWA Group Holdings Limited               | Y                          | Australia                | 100%               | 100% |
| GWAIL (NZ) Ltd                           | N                          | New Zealand              | 100%               | 100% |
| GWA Taps Manufacturing Limited           | Y                          | Australia                | 100%               | 100% |
| GWA Trading (Shanghai) Co Ltd            | N                          | China                    | 100%               | 100% |
| Industrial Mowers (Australia) Limited    | Y                          | Australia                | 100%               | 100% |
| McIlwraith Davey Pty Ltd                 | Y                          | Australia                | 100%               | 100% |
| Sebel Furniture Holdings Pty Ltd         | Y                          | Australia                | 100%               | 100% |
| Starion Tapware Pty Ltd                  | Y                          | Australia                | 100%               | 100% |
| Stylus Pty Ltd                           | Y                          | Australia                | 100%               | 100% |

#### 25. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries as listed in Note 24 are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and Directors' reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

A consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2017, is set out in the table below.

GWA Group Limited and its controlled entities  
Notes to the consolidated financial statements

**Section V. Other Information (continued)**

**25. Deed of cross guarantee (continued)**

**Summarised statement of profit or loss and other comprehensive income and retained profits**

| <i>In thousands of AUD</i>  | <b>2017</b>    | <b>2016</b>    |
|---|----------------|----------------|
| Sales revenue   | 425,783        | 420,169        |
| Cost of sales   | (246,185)      | (250,235)      |
| <b>Gross profit</b>   | <b>179,598</b> | <b>169,934</b> |
| Operating expenses  | (101,222)      | (94,218)       |
| Finance income  | 571            | 495            |
| Finance expenses  | (5,913)        | (7,008)        |
| <b>Profit before tax</b>  | <b>73,034</b>  | <b>69,203</b>  |
| Tax expense   | (20,959)       | (19,130)       |
| <b>Profit from continuing operations</b>                          | <b>52,075</b>  | <b>50,073</b>  |
| <b>Profit / (loss) from discontinued operations, net of tax</b>   | <b>-</b>       | <b>1,761</b>   |
| <b>Net profit / (loss)</b>  | <b>52,075</b>  | <b>51,834</b>  |
| <b>Total comprehensive income / (loss), net of tax</b>            | <b>52,075</b>  | <b>51,834</b>  |
| (Accumulated losses) / retained earnings at beginning of the year | (3,161)        | (36,488)       |
| Dividends recognised during the year                              | (43,551)       | (18,718)       |
| Share-based payments, net of tax                                  | (198)          | 211            |
| Retained earnings / (accumulated losses) at end of the year       | <b>5,165</b>   | <b>(3,161)</b> |

**Statement of financial position**

| <i>In thousands of AUD</i>       | <b>2017</b>    | <b>2016</b>    |
|----------------------------------|----------------|----------------|
| <b>Assets</b>                    |                |                |
| Cash and cash equivalents        | 33,437         | 33,225         |
| Trade and other receivables      | 62,900         | 48,400         |
| Inventories                      | 69,238         | 74,116         |
| Other                            | 2,626          | 2,253          |
| <b>Total current assets</b>      | <b>168,201</b> | <b>157,994</b> |
| Investments                      | 11,113         | 11,113         |
| Deferred tax assets              | 15,846         | 18,004         |
| Property, plant and equipment    | 9,993          | 10,763         |
| Intangible assets                | 310,167        | 310,819        |
| Other                            | 286            | 188            |
| <b>Total non-current assets</b>  | <b>347,405</b> | <b>350,887</b> |
| <b>Total assets</b>              | <b>515,606</b> | <b>508,881</b> |
| <b>Liabilities</b>               |                |                |
| Trade and other payables         | 48,997         | 39,300         |
| Employee benefits                | 6,458          | 6,820          |
| Income tax payable               | 7,222          | 1,862          |
| Provisions                       | 10,594         | 22,430         |
| <b>Total current liabilities</b> | <b>73,271</b>  | <b>70,412</b>  |

GWA Group Limited and its controlled entities  
Notes to the consolidated financial statements

**Section V. Other Information (continued)**

**25. Deed of cross guarantee (continued)**

**Statement of financial position (continued)**

| <i>In thousands of AUD</i>               | <b>2017</b>    | <b>2016</b>    |
|--|----------------|----------------|
| Trade and other payables                 | 667            | 432            |
| Intercompany payables                    | 6,431          | 4,603          |
| Loans and borrowings                     | 112,000        | 120,000        |
| Employee benefits                        | 7,308          | 8,442          |
| Provisions                               | 2,267          | 2,602          |
| <b>Total non-current liabilities</b>     | <b>128,673</b> | <b>136,079</b> |
| <b>Total liabilities</b>                 | <b>201,944</b> | <b>206,491</b> |
| <b>Net assets</b>                        | <b>313,662</b> | <b>302,390</b> |
| <b>Equity</b>                            |                |                |
| Issued capital                           | 307,838        | 307,877        |
| Reserves                                 | 659            | (2,326)        |
| Retained earnings / (accumulated losses) | 5,165          | (3,161)        |
| <b>Total equity</b>                      | <b>313,662</b> | <b>302,390</b> |

**26. Parent entity disclosures**

As at, and throughout, the financial year ended 30 June 2017 the parent company of the consolidated entity was GWA Group Limited.

| <i>In thousands of AUD</i>                     | <b>The Company</b> |                |
|--|--------------------|----------------|
|  | <b>2017</b>        | <b>2016</b>    |
| <b>Results of the parent entity</b>            |                    |                |
| Profit for the year                            | 82,292             | 19,038         |
| Other comprehensive income                     | -                  | -              |
| Total comprehensive income for the year        | <b>82,292</b>      | <b>19,038</b>  |
| <b>Financial position of the parent entity</b> |                    |                |
| Current assets                                 | -                  | -              |
| Total assets                                   | 745,407            | 662,268        |
| Current liabilities                            | 137                | 19             |
| Total liabilities                              | 394,675            | 350,836        |
| <b>Equity of the parent entity</b>             |                    |                |
| Share Capital                                  | 307,838            | 307,877        |
| Equity compensation reserve                    | 2,444              | 1,647          |
| Retained earnings                              | 40,450             | 1,908          |
| Total equity                                   | <b>350,732</b>     | <b>311,432</b> |

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section V. Other Information (continued)

#### 26. Parent entity disclosures (continued)

##### Parent entity contingencies

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

##### *Contingent liabilities*

The directors are not aware of any contingent liabilities of the parent entity as at reporting date (2016: \$nil).

##### *Capital expenditure commitments*

The parent entity has not entered into contractual commitments on behalf of wholly-owned subsidiaries for the acquisition of property, plant or equipment as at reporting date (2016: \$nil).

##### *Parent entity guarantees*

The parent entity in the ordinary course of business has guaranteed the performance of certain contractual commitments entered into by its subsidiaries.

The parent entity has entered into a Deed of Cross Guarantee with the effect that the parent entity has guaranteed the repayment of all current and future creditors in the event any of the entities party to the Deed is wound up. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the Deed are disclosed in Notes 24 and 25.

#### 27. Discontinued operations

During the year ended 30 June 2016, the Gliderol business was sold with an effective date of 31 July 2015. The operating activities of the Gliderol business was classified as discontinued in the prior year.

##### (a) Results of discontinued operations

| <b>For the year ended 30 June</b>                            | <b>2016</b>  |
|--|--------------|
| <i>In thousands of AUD</i>                                   |              |
| Revenue  | 4,798        |
| Expenses   | (5,403)      |
| <b>(Loss) / profit from operating activities</b>             | <b>(605)</b> |
| Tax benefit / (expense) on operating activities              | 403          |
| <b>(Loss) / profit from operating activities, net of tax</b> | <b>(202)</b> |
| Product defect issues settlement – Brivis                    | 2,805        |
| Tax expense on product defect issues settlement              | (842)        |
| <b>Profit / (loss) for the year</b>                          | <b>1,761</b> |
| Basic profit/(loss) per share (cents per share)              | 0.64         |
| Diluted profit/(loss) per share (cents per share)            | 0.64         |

# GWA Group Limited and its controlled entities

## Notes to the consolidated financial statements

### Section V. Other Information (continued)

#### 27. Discontinued operations (continued)

##### (b) Cash flows from discontinued operations

| <b>For the year ended 30 June</b>              | <b>2016</b>  |
|--|--------------|
| <i>In thousands of AUD</i>                     |              |
| Net cash (used in) / from operating activities | (682)        |
| Net cash from investing activities             | 4,779        |
| Net cash from discontinued operations          | <u>4,097</u> |

##### (c) Effect of disposal of Gliderol on the financial position of the consolidated entity

| <b>As at 30 June</b>                  | <b>2016</b>    |
|---------------------------------------|----------------|
| <i>In thousands of AUD</i>            |                |
| Trade and other receivables           | (5,685)        |
| Inventories                           | (5,095)        |
| Net deferred tax assets               | (982)          |
| Other liabilities                     | 12             |
| Trade and other payables              | 4,239          |
| Provisions                            | 383            |
| Employee benefits                     | 1,718          |
| Net assets and liabilities            | <u>(5,410)</u> |
| Disposal costs                        | <u>(1,360)</u> |
|                                       | <u>(6,770)</u> |
| Consideration proceeds                | 6,900          |
| Cash and cash equivalents disposed of | (130)          |
| Net cash inflow                       | <u>6,770</u>   |

A discontinued operation is a component of the consolidated entity's business that represents a separate line of business operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale if earlier. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the period.

#### 28. Subsequent events

To the Directors' best knowledge, there are no events that have arisen subsequent to 30 June 2017 that will, or may, significantly affect the operation or results of the consolidated entity.

## GWA Group Limited and its controlled entities Directors' Declaration

In the opinion of the directors of GWA Group Limited (the Company):

1. The consolidated financial statements and notes, and the Remuneration Report in the Directors' Report, are in accordance with the *Corporations Act 2001* including:
  - a) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2017 and of its performance for the year ended on that date; and
  - b) complying with Australian Accounting Standards and the Corporations Regulations 2001;
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
3. There are reasonable grounds to believe that the Company and the group entities identified in Note 25 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418;
4. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Managing Director and the Chief Financial Officer for the financial year ended 30 June 2017; and
5. The directors draw attention to Note 1(a) to the consolidated financial statements which includes a statement of compliance with International Financial Reporting Standards (IFRS).

Dated at Sydney on 21 August 2017.

Signed in accordance with a resolution of the directors:



Darryl D McDonough

Director



Tim R Salt

Director



# Independent Auditor's Report

To the shareholders of GWA Group Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the **Financial Report** of GWA Group 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 June 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:

- Consolidated Statement of financial position as at 30 June 2017;
- Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, and 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

The **Key Audit Matters** we identified are:

- Valuation of Inventory
- Valuation of Brand Names and Goodwill

**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.



| Valuation of inventory \$72m  |   |
|---|---|
| Refer to Note 2 to the Financial Report   |   |
| The key audit matter  | How the matter was addressed in our audit   |
| <p>The valuation of inventory is a key audit matter as inventory is a significant asset in the financial report and the net realisable value is impacted by building industry cycles and changes in consumer preferences. This necessitated an additional focus on excess and discontinued inventory SKU's (stock keeping unit) and judgemental valuation assumptions.</p> <p>We focused on the following elements of the Group's estimation of the valuation of inventory:</p> <ul style="list-style-type: none"><li>• Criteria for categorisation of inventory SKU's by risk, such as discontinued, excess or current range, as they attribute different values;</li><li>• Evaluations of volume of inventory, as this may influence categorisation and therefore attribute different values. This included excess inventory volumes, determined by the Group with reference to inventory volumes greater than the last 12 months sales;</li><li>• Expected selling prices, and judgements associated to the forward-looking estimation. This included assessing the impact of inventory sold in the current year below cost.</li></ul> | <p>Our procedures included:</p> <ul style="list-style-type: none"><li>• We tested the completeness and accuracy of inventory identified as discontinued or excess as follows:<ul style="list-style-type: none"><li>• We obtained sales data for the last 12 months by inventory SKU and compared this to the calculations performed by the Group to determine excess inventory volumes; and</li><li>• We compared inventory SKU's approved to be discontinued to the discontinued inventory categorisation report used in calculating the recoverable value of inventory.</li></ul></li><li>• We independently developed an expected inventory valuation range by considering the following:<ul style="list-style-type: none"><li>• Inventory turnover rate by inventory SKU;</li><li>• Recovery rates achieved historically when selling excess or discontinued inventory. We considered the historical quantum recovered compared to the original cost; and</li><li>• Overall recoveries achieved for sales recorded below original cost.</li></ul></li></ul> <p>We performed a sensitivity analysis by flexing the forecasted expected selling prices applied to each category, and assessed the impact on the valuation of inventory.</p> <p>We compared our estimated inventory valuation range to that recorded by the Group.</p> |



**Valuation of Brand Names and Goodwill \$309m**

Refer to Note 12 to the financial report

| The key audit matter   | How the matter was addressed in our audit  |
|--|--|
| <p>The valuation of Brand Names and Goodwill is a key audit matter due to the complexity in auditing, the inherent uncertainty associated with forecasting and discounting future cash flows (EBIT), especially where recent strategic initiatives have been implemented.</p> <p>The annual assessment of the carrying value of Brand Names and Goodwill requires the Group to apply significant judgements when determining the forecasted cash flows to be applied in the valuation models of each Cash Generating Unit ("CGU"). The judgements made include revenue growth based on forecast dwelling completions and new customer contracts, forecast earnings before interest and tax (EBIT), terminal growth rates, corporate cost allocations and discount rates.</p> | <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>● We evaluated the Group's judgements applied in the valuation models. Our testing focused on the following assumptions:               <ul style="list-style-type: none"> <li>• Revenue growth - we compared this to external industry data, adjusted for specific Group initiatives and new customer contracts;</li> <li>• Forecast EBIT – we assessed this assumption against historical performance and consideration of the recent strategic initiatives (including new customer contracts) and their impact to future performance;</li> <li>• Discount rates – our valuation specialist independently developed an estimated range of each CGU's discount rate based on their industry knowledge, publicly available information for comparable entities and the risk in forecasted cash flows. We then compared this to the discount rate applied in the valuation model;</li> <li>• Corporate costs – we considered the reasonableness of the basis used to allocate corporate costs to each CGU with reference to the nature of the costs, their relevance to the cash flows generated by the CGUs and the criteria in the accounting standards.</li> <li>• Terminal growth rate – we compared the rate applied to external industry reports.</li> </ul> </li> <li>● We considered the financial forecasting accuracy of the Group by comparing previous EBIT and revenue forecasts to actual results achieved. We considered the results of this procedure and the level of risk embedded in the underlying forecast cash flows in our consideration of the discount rate applied.</li> <li>● Performed sensitivity analysis in relation to the following assumptions, forecast EBIT, revenue and terminal growth rates, and the discount rate, and considered the impact of this on the valuation.</li> </ul> |



## Other Information

Other Information is financial and non-financial information in GWA Group'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.

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

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
- assessing the Group'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 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/2.pdf](http://www.auasb.gov.au/auditors_files/2.pdf). This description forms part of our Auditor's Report.



## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of GWA Group Limited for the year ended 30 June 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 Director's report for the year ended 30 June 2017.

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

KPma

KPMG

Julie Cleary

Partner

Sydney

21 August 2017



# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of GWA Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of GWA Group Limited for the financial year ended 30 June 2017 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

A handwritten signature in blue ink that reads 'Julie Cleary'.

Julie Cleary

21 August 2017