



**GWA**  
Group Limited

ABN 15 055 864 380  
t 61 7 3109 6000  
f 61 7 3852 2201  
www.gwagroup.com.au

Level 2, HQ (South Tower)  
520 Wickham Street  
Fortitude Valley  
QLD 4006

GPO Box 1411  
Brisbane QLD 4001

14 August 2012

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

Dear Sir

**Financial Results for the Year Ended 30 June 2012**

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

- Appendix 4E Preliminary Final Report
- Media Release
- Chairman's Review
- Managing Director's Review of Operations
- Directors' Report
- Annual Financial Report

Yours faithfully



**R. J. Thornton**  
Executive Director



**Appendix 4E**  
**Preliminary Final Report**  
**Period ended 30 June 2012**

<b>GWA GROUP LIMITED</b>			
ABN	Half Yearly	Preliminary Final	Year ended ('current period')
15 055 964 380		✓	30 June 2012

Results for announcement to the market

\$A'000

<b><u>Continuing Operations</u></b>		
Revenues from ordinary activities	Down	6.1% to 602,128
Trading earnings before interest and tax*	Down	24.6% to 75,364
Trading profit after tax*	Down	22.8% to 45,552
* excludes net restructuring expenses		
<b><u>Significant Items</u></b>		
Net restructuring income after tax		621
Loss from discontinued operations after tax		(6,518)
<b><u>Reported Profit After Significant Items</u></b>		
Net profit for the period attributable to members	Down	37.4% to 39,655
<b>Final Dividend</b>	<b>Amount Per Security</b>	<b>Franked Amount Per Security</b>
Ordinary dividend	8.5¢	8.5¢
<b>Previous corresponding period:</b>		
Ordinary dividend	8.5¢	8.5¢
Record date for determining dividend entitlements	14 September 2012	
Last date for receipt of election notices for the Dividend Reinvestment Plan	14 September 2012	
Date dividend payable	4 October 2012	
	<b>Current Period</b>	<b>Previous Corresponding Period</b>
Net tangible asset backing per ordinary security	0.15	0.14

**Brief explanation of the figures reported above:**

Refer to the attached Media Release and Managing Director's Review of Operations.

The attached Annual Financial Report has been audited.



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## Media Release

### Lower Annual Result in Line with Guidance Reflecting Difficult Trading Conditions

- **Headline revenue down 6% with underlying revenue down by 12%, after allowing for full year of the Gliderol acquisition**
- **Trading Earnings before Interest and Tax (EBIT) from continuing operations of \$75 million**
- **Strong cash flow reduced net debt to \$174 million**
- **Substantial restructuring funded by sale of non-core properties**
- **Fully franked final dividend of 8.5 cents per share with total fully franked dividend maintained at 18 cents for the year**
- **Dividend policy reviewed to reflect uncertain outlook**

GWA Group Limited, Australia's leading supplier of fixtures and fittings to households and commercial premises, today announced a 25% decrease in Trading Earnings before Interest and Tax (EBIT) for continuing operations from \$99.9 million to \$75.4 million for the year to 30 June 2012.

Net profit after tax from continuing operations fell 22% to \$46.2 million and earnings per share reduced to 15 cents per share. The directors have maintained the final fully franked dividend at 8.5 cents per share to be paid in October 2012, with the total fully franked dividend for the full year maintained at 18 cents per share. The 120% payout ratio reflects strong operating cash flow for the year and availability of franking credits.

Managing Director Peter Crowley said, "Our businesses have performed well in a difficult market with dwelling construction and consumer confidence declining to the low levels experienced during the global financial crisis. The decline in Federal Government stimulus spending and cessation of rebates on environmental water heaters also had a material impact on sales. Despite the decline in earnings, cash flow has been managed well and we have reduced net debt to maintain a strong balance sheet to capitalise on growth opportunities."

Bathrooms & Kitchens division sales were reduced by 10%, with EBIT down 23% from \$78.9 million to \$61 million. Substantial improvements were made in operational efficiency and the successful phase down of Wetherill Park operations improved cash flow. Costs were well managed but margins on lower revenue impacted the EBIT result.

Heating & Cooling division sales were down 15%, with EBIT declining by 23% to \$13.3 million. Sales of environmental water heaters declined significantly with the cessation of Federal Government rebates in February 2012. Commissioning of the Moss Vale water heater factory upgrade also added to costs in the second half of the year. This commissioning was largely complete by the end of June 2012 which will improve the cost base and protect margins.

Door & Access Systems division sales increased 22%, due to the inclusion of Gliderol for the full year. Underlying sales were down by 10%, with EBIT reduced by 18% from \$17.2 million to \$14.1 million. Despite the full year contribution from Gliderol, the division is highly leveraged to new residential construction, which declined by 13% during the year. Closure of the Gainsborough factories at Blackburn and Kyneton were completed and lower cost supply chains established during the year. This restructuring will positively impact results in the 2012/13 year and future periods.

Commenting on the Company's future priorities, Mr Crowley said "During the year we have successfully completed the sale of non-core assets, closed or phased down uncompetitive operations and established low cost efficient supply chains. Our priorities are in the core building fixtures and fittings segment, leveraging growth opportunities and focussed acquisitions in product and market adjacencies. The business is in a good position to take advantage of any future market upturn and acquisition opportunities."

Given the uncertain outlook, the directors have reviewed the dividend policy. Throughout the past three years the policy has been to maintain a floor of 18 cents per share on dividends, but in view of the sustained market downturn and uncertain outlook, the directors have decided to eliminate the floor and increase the payout ratio. The new dividend policy to be applied for the 2012/13 year is for dividends to represent 80% to 95% of net profit after tax. The payout is expected to be at the higher end of this range for 2012/13 and be fully franked.

The directors have also reopened the Dividend Reinvestment Plan for the October 2012 final dividend at a 2.5% discount to ensure funds are available for future acquisition opportunities.

"The outlook for 2012/13 is difficult to assess but improved building approvals in the last quarter of 2011/12 should flow through to higher sales in late 2012. The successful restructuring from last year has positioned the businesses, with lower cost structures, to take maximum advantage of market opportunities. We are not waiting for the market to return to growth and are seeking opportunities to grow from new product launches, new channels and sensible acquisitions," concluded Mr Crowley.

For further information call:

Peter Crowley  
GWA Group Limited  
07 3109 6000

Tim Allerton  
City PR  
02 9267 4511  
0412 715 707

## Chairman's Review

In 2011 I reported that the decline in dwelling approvals in the second half of the year and constrained household discretionary spending would create a challenging economic environment in 2011/12. Whilst we understood this adverse trend, the actual decline in market activity and difficult trading conditions experienced by the Australian building industry in 2011/12 was unexpected and worse than the market forecasts.

New home construction is the weakest sector in the Australian economy. The national accounts released for the March 2012 quarter show that new dwelling investment has fallen for four consecutive quarters, detracting from aggregate GDP growth. This requires a policy coordination at all levels of Government to improve affordability and regulatory impacts which delay new housing development.

GWA is supporting the Housing Industry Association (HIA) in their efforts to advise Governments on policy responses to the current downturn. We welcome the recent announcement by the Federal Government appointing a panel to look at the impact of costs and competitiveness on the industry cost structure. Housing affordability is severely impacted by regulation and Government charges and this is a key issue in demand for housing.

### Strategy

With the successful divestment of our Caroma North American and Sebel Commercial Furniture businesses during 2011/12, our strategy is now focused on the Australian Building Fixtures and Fittings sector with three core business segments of scale comprising Bathrooms & Kitchens, Heating & Cooling and Door & Access Systems. We are committed to providing compelling customer value propositions in the sector through product innovation, efficient supply chains, strong brand management, and installation and service capabilities.

### Overview of Results

The Group achieved a net profit after tax from continuing businesses of \$46.2 million in the 2011/12 year on sales revenue of \$602.1 million. This represents a decline of 22% and 6% respectively. Considerable restructuring activities have been successfully completed during the year to improve competitiveness. This has involved the closure or phasing down of uncompetitive Australian manufacturing and establishing efficient offshore supply chains. This restructuring was funded by the sale of non-core properties resulting in a small net increase to profit after tax of \$0.6 million. The Board is pleased that such large scale restructuring was achieved with no impact on shareholder funds.

New dwelling approvals in the first half of 2012 do not indicate an early improvement in business conditions in 2012/13 but the underlying demand for housing still exists and GWA is in a good position to take advantage of an upturn

when it occurs. The Managing Director will expand on the achievements for 2011/12, the outlook for the year ahead, together with our strategic priorities in his Review of Operations.

## **Dividends and Capital Management**

GWA's dividend policy has been that "absent an unexpected decline in profitability, ordinary dividends will be maintained at 18.0 cents per share until it equals 70% to 80% of earnings at which time the dividend will increase in line with performance."

The Group's strong operating cash flow enabled the directors to declare a final fully franked dividend of 8.5 cents per share to be paid in October which maintained the fully franked dividend for the year at 18.0 cents per share. GWA has maintained a high dividend payout at 120% of trading profit after tax in 2011/12 whilst reducing debt, but this cannot be sustained in the future without an improvement in earnings. The sustained nature of adverse trading conditions has been unexpected and the timing for improved building activity is uncertain meaning a review of our dividend policy is required.

The Board is focussed on maximising returns to shareholders whilst maintaining a capacity to grow the business and has therefore approved a new dividend policy which increases the return to shareholders through the business cycle but limits dividend payouts in the cyclical downturns. The new dividend policy is as follows:

*"The dividend payout through the business cycle will be in the range of 80% to 95% of net profit after tax. We expect the payout to be at the higher end of this range for 2012/13 and be fully franked."*

Net debt at the end of June 2012 was \$174 million, down by \$24 million from June 2011 due to divestments and reduced working capital. Debt is well covered by total bank facilities of \$300 million and we appreciate the ongoing support of our banks including Commonwealth Bank, Australia and New Zealand Banking Group, National Australia Bank, Westpac Banking Corporation and HSBC Bank Australia.

## **The Board**

The Board is working effectively with no changes after the appointments of Mr John Mulcahy and Mr Peter Birtles last financial year. The new directors have made valuable contributions to the Board during the year and we continue to benefit from their skills and expertise. We are aware of the current focus on diversity and will continue to look for opportunities to improve diversity and maintain relevant experience when making future Board appointments. The Board supports the recommendations of the ASX Corporate Governance Council on diversity which are effective from 1 January 2011 and has provided the required diversity disclosures in its Corporate Governance Statement.

## Executive Remuneration

GWA's remuneration policies continue to be assessed with the independent advice of Guerdon Associates. We aim to provide remuneration that is fair and sufficient to attract and retain management and directors with the experience, knowledge, skills and judgment required for the business. The key principle is that remuneration varies between the median and third quartiles (or higher if warranted by superior performance) relative to companies of comparable size and scope to GWA.

The only change in the remuneration policy for 2012/13 is the cessation of the legacy GWA Employee Share Plan. Changing employee attitudes to share ownership has led to lower participation levels in recent years and it is no longer effective as a long term incentive (LTI). A more effective approach will be to expand the use of the LTI Plan approved by shareholders in 2008 to select lower level management that formerly participated in the legacy GWA Employee Share Plan. These changes are proposed to commence from the 2012/13 LTI grant and will be reported in next year's Remuneration Report.

Our Remuneration Report has been improved through ongoing feedback and engagement with stakeholders. The Board endeavours to balance the need to address market trends whilst positioning GWA to retain and attract a high quality management team led by our experienced Managing Director of the past 9 years, Mr Peter Crowley. As outlined last year, Mr Crowley agreed to a freeze on his fixed remuneration for 3 years from 2011 to 2014 and will not receive any increase in fixed remuneration in 2012. For other GWA executives, the review by Guerdon Associates during the year concluded that fixed remuneration for most GWA executives is closer to market levels.

Our executive and management incentive schemes cover approximately 16% of total employees with total short term incentive payments for the year representing less than 4% of trading profit. This is less than last year and in line with the lower trading result. The Board believes this is a reasonable balance of reward for management and shareholders and is necessary to ensure we are competitive to retain our high quality executive and management team.

## Sustainability and Carbon Emissions

The Board is committed to reducing energy, carbon emissions, water and waste across the GWA Group operations. GWA reports its group carbon emissions annually under the Federal Government's National Greenhouse and Emissions Reporting (NGER) Scheme and the reports can be accessed on GWA's website.

An important project undertaken during the year was the upgrade of the Dux water heater factory at Moss Vale which aims to minimise the use of energy, waste and raw materials used in the factory. This project included capital expenditure of \$3.5 million for new tank foaming equipment which uses

pentane as a blowing agent. Pentane is non-ozone depleting and has virtually no greenhouse gas emissions.

### **GWA People**

Our business is only as good as our people and we aim to provide a safe and rewarding environment in the workplace. We are very pleased with continuing progress in safety performance resulting in a 14% reduction in the total injury frequency rate in 2011/12. This is the seventh consecutive year of improvement and reflects the ongoing commitment to creating an injury free work environment.

In closing, I would like to thank management and staff for their efforts in the 2011/12 year and their commitment to GWA. The business environment will continue to be difficult but we have the people, business processes and strategies to build stronger businesses for the future.



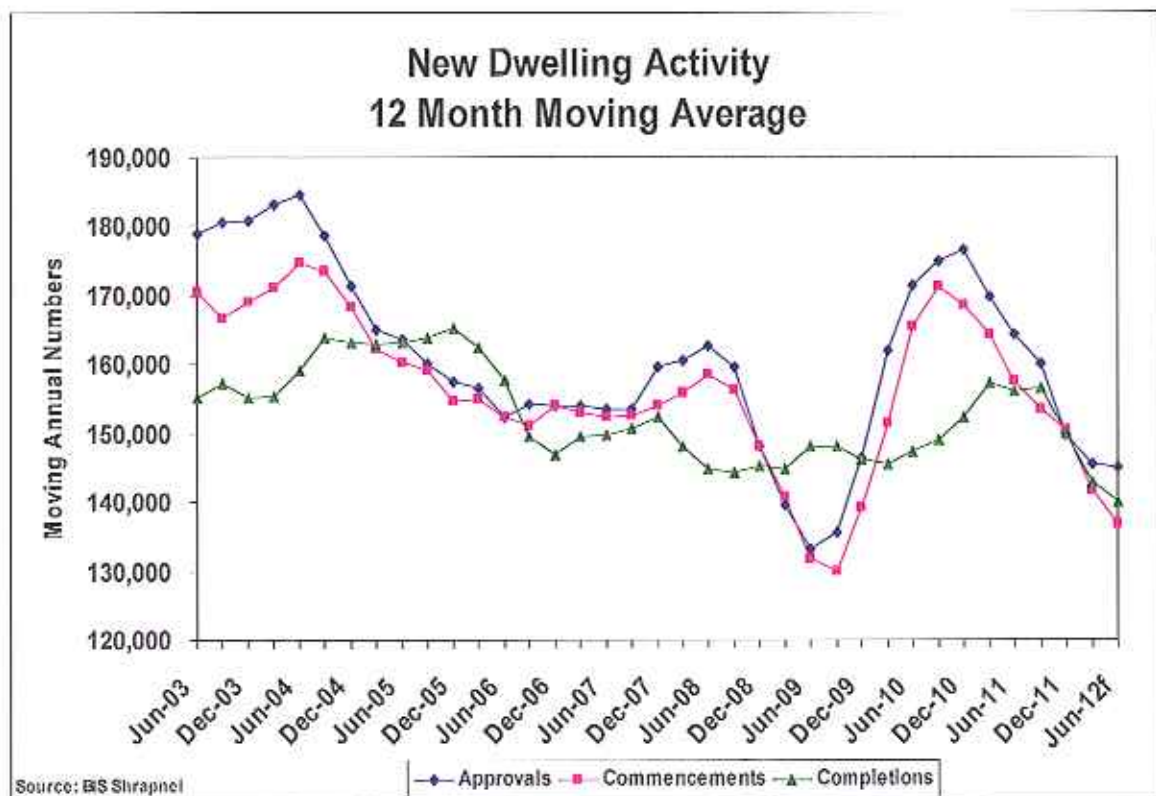
## Managing Director's Review of Operations

The results for 2011/12 are presented in the Financial Statements for GWA's continuing operations and the comparative impact of discontinued operations during the year.

Revenue reduced by 6% but this was favourably impacted by the full year's contribution from Gliderol and like for like underlying sales were down by 12%. This decline is in line with market demand where dwelling commencements for the year reduced by 13% compared to 2010/11. New dwelling commencements for the financial year are approaching levels experienced in the global financial crisis and reflect a 10 year declining trend in building activity. In our view the key issue impacting demand is housing affordability driven by Government charges and regulatory costs. These issues are limiting building activity to levels which do not support underlying demand for housing. GWA's focus is to ensure our businesses are in a good position to benefit from the inevitable upturn when it occurs.

The low building activity is particularly apparent in New South Wales and Queensland and we are starting to see policy initiatives such as stamp duty relief on new dwellings for first home buyers which will assist with affordability. Streamlining regulatory processes to reduce developer costs is still to be addressed and as noted in the Chairman's Review we welcome the formation of a panel by the Federal Government to provide recommendations on costs and competitiveness for the housing industry.

The following chart demonstrates the trend in reduced dwelling construction by showing the twelve month moving annual numbers for dwelling activity since 2003.



## Financial Results for 2011/12

\$ Million	2011/12	2010/11	% Change
Sales Revenue	602.1	641.6	-6%
Trading EBIT	75.4*	99.9	-25%
EBIT Margin	12.5%	15.6%	
Trading Profit after Tax from Continuing Operations	45.6*	59.0	-23%
Profit after Tax from Continuing Operations after Restructuring Costs	46.2	59.0	-22%
Discontinued Operations	-6.5	4.3	
Net Profit after Tax	39.7	63.4	-37%
Trading Earnings per Share -Continuing Operations	15.1	19.6	-23%

\* excludes net restructuring expenses

The twelve months sales from Gliderol which was acquired in January 2011 added 5% to overall revenue in 2011/12, partially offsetting the decline in underlying demand for our products. This decline has been driven by three key factors:

- Cessation of Federal Government stimulus spending and environmental water heater rebates reduced overall sales by 6%
- Decline in new dwelling activity reduced sales by 4%
- Lower building renovation activity reduced sales by 2%

The lower underlying demand was partially offset by market and product development activities. Do-it-Yourself market channels grew during the year compared to the decline in merchant channels and we have grown our installed market offers for selected products.

The decline in trading profit is almost entirely attributed to the decline in revenue. Cost increases and pricing pressure has been largely offset by cost improvement initiatives. This is despite the higher costs incurred during commissioning of the Moss Vale water heater factory upgrade and costs incurred in transitioning from local manufacturing to lower cost offshore suppliers.

Cash generated from continuing operations of \$111 million was similar to last year despite the 25% reduction in trading EBIT. We are pleased with the strong operating cash flow reflecting the benefits of investment in information systems and ongoing improvements in supply chain management to reduce working capital. Proceeds from the sale of Sebel and Caroma North America were used to repay debt which reduced from \$198 million to \$174 million. Restructuring activities which resulted in an 8% reduction in employee numbers were funded by the sale of non-core properties. This strong cash position has underpinned our ability to maintain the dividend payout at 18 cents despite the lower trading result.

## Strategy and Growth

The sale of Sebel Commercial Furniture, non-core properties and Caroma North America during the year completes a 3 year strategy to divest non-core assets and focus on creating a strong competitive position in the Australian Building Fixtures and Fittings sector. Divestments over this period have yielded approximately \$80 million in funds and allowed us to invest some \$100 million in acquisitions of core businesses. At the same time we have maintained the high dividend payout and reduced debt. Given the economic volatility over this period we are satisfied with the effectiveness of this transition and our strong balance sheet which provides scope for further growth.

We now have three core business segments of scale which are managed under separate management structures. The core business segments reported separately in the Financial Statements are as follows:

**Bathrooms & Kitchens** - sale of vitreous china toilet suites, hand basins, plastic cisterns, tapware, baths, spas, kitchen sinks, laundry tubs and bathroom accessories.

**Door & Access Systems** - sale of garage doors, door handles and door access systems.

**Heating & Cooling** - sale of water heating and climate control systems.

In the Australian Building Fixtures and Fittings sector where we believe we can compete, the total sales activity approximates \$5 billion per annum. GWA has a 13% share of the defined market, varying from as high as 50% in some segments to less than 5% in other segments. These are competitive markets but we will look to increase our market share through organic and inorganic growth initiatives. Organic growth involves leveraging what we have by developing new market channels, extending existing relationships with builders and merchants, product innovation or new distributorships. Inorganic growth will be through acquisition of product or market adjacencies. This may involve the acquisition of businesses to facilitate the supply of new products or for expanding our installation and service capabilities.

The nature of GWA's products mean that there is an extensive installation and service offering in a number of our businesses. We see growth opportunities by extending these capabilities to enable a larger range of products to be offered with an installation and service option. An example of this is the recent announcement of our intention to acquire API Locksmiths which is a commercial locksmithing business. If this acquisition proceeds, it will provide GWA with options for installed offers for both mechanical and electronic access systems and give us access to the commercial sector where we are looking to increase sales.

Our core strategies for success in the businesses we operate are unchanged and involve the key value propositions to our markets, including:

- Investment in innovative and sustainable products;
- Leveraging our investment in brands, sales and marketing to ensure our products are specified and widely available;
- Low cost supply chain management to ensure a cost competitive supply position;

- Continuing improvements in operational and business efficiency with the aid of modern information systems;
- Deliver superior customer service levels; and
- Improve our installation and service capabilities.

## Segment Performance

Segment results are summarised below:

Sales Revenue \$Million	Bathrooms & Kitchens	Heating & Cooling	Door & Access Systems	Other	Total
2011/12	297.8	165.8	138.6		602.2
2010/11	332.4	195.1	114.0		641.5
% Change	-10%	-15%	22%		
Trading EBIT \$Million	Bathrooms & Kitchens	Heating & Cooling	Door & Access Systems	Other	Total
2011/12	61.0	13.3	14.1	-13.0	75.4
2010/11	78.9	17.2	17.2	-13.4	99.9
% Change	-23%	-23%	-18%		

Sales from Bathrooms & Kitchens were adversely impacted by reduced Government stimulus spending and lower building activity. The business made substantial progress during the year with improving operational efficiency and market service. At the same time production from the Wetherill Park vitreous china plant was phased down to allow for a greater proportion of product to be sourced offshore.

Heating & Cooling sales were impacted by the cessation of Federal Government rebates on environmental water heaters in February 2012 which caused a substantial reduction in demand for these products. Commissioning of the Moss Vale water heater factory upgrade was largely complete by the end of June 2012 which has established a lower cost base for 2012/13.

Door & Access Systems sales increased due to the inclusion of Gliderol for the full year. This business is exposed to the new build market which reduced by 10% compared to 2010/11. The lower trading profit reflects the impact of the reduced underlying demand.

## Financial Condition and Capital Management

Net debt at June 2012 reduced by \$24 million from \$198 million to \$174 million as a result of the sale of non-core businesses and assets. The gearing ratio (net debt/net debt plus equity) of 29% is within our target range and the leverage ratio (net debt/EBITDA) is a very acceptable 1.9 times. Interest cover (EBITDA/Net Interest) of 6.7 times further highlights the Company's strong financial metrics.

As we review growth options, one of our key financial criteria is to maintain our investment grade metrics. The prolonged market downturn is increasing the likelihood of businesses being available for acquisition and a strong balance sheet means we are in a good position to respond to these opportunities. In order to ensure we maintain this position the Dividend Reinvestment Plan has been reactivated for the October 2012 final dividend at a 2.5% discount. Details will be communicated to shareholders in time to participate in the plan.

We have sufficient undrawn facilities and in-principle support from our banks to increase facilities to fund growth opportunities if required, but additional capital from the Dividend Reinvestment Plan will assist with financial flexibility.

A summary of our debt position and existing facilities is provided below.

Bank \$Million	Available Facilities	Drawn Facilities	Maturity Profile
CBA	100		
ANZ	50		
NAB	50		
Westpac	50		
HSBC	50		
Gross debt	300	200.0 5.0	July 2014 - \$200 million July 2016 - \$100 million
Cash and deposits		(30.5)	
Net debt		174.5	

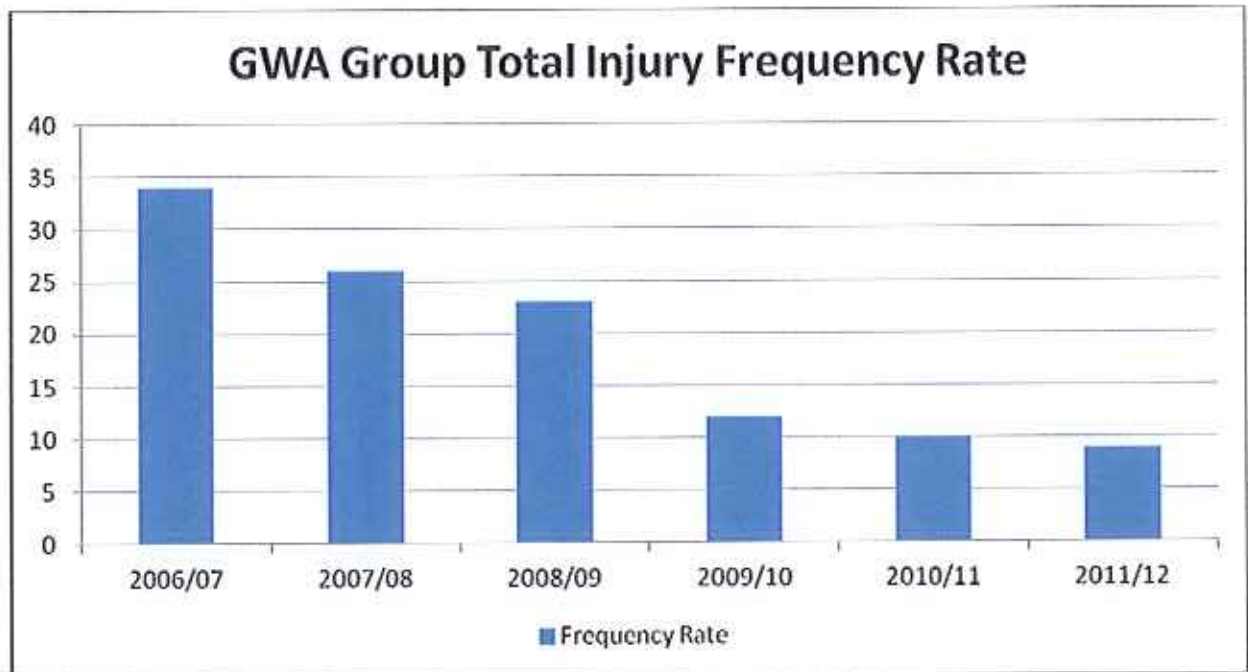
## Health and Safety

Management is committed to continuous improvement in the Company's health and safety performance through better safety systems and processes, extensive communication with our workforce and increased diligence in identifying and removing safety risks across our workplace.

Continuous improvement in safety performance over the past 5 years has been consolidated with a further 14% decline in the total injury frequency rate in 2011/12. With our total injury frequency rate reducing to 8.6 we now have a consistent sense of purpose in creating a safe work environment for our people. Despite these impressive results, we still had 12 employees sustain a lost time injury during the year which we will

strive to reduce. Good safety is good management which reflects both the efforts of management and the diligence of our workforce. We remain committed to continuous safety improvements with the objective of creating an injury free work environment.

The chart below highlights the continued improvement in the total injury frequency rate in the 2011/12 year.



## Sustainability and Carbon Reduction

GWA has an active program to improve our impact on the environment through the reduction of energy, carbon emissions, water and waste. Our environmentally sustainable products are also a major source of competitive advantage for the Company.

GWA reports greenhouse gas emissions under the National Greenhouse and Energy Reporting Scheme (NGER). We are supplementing this with a standalone Sustainability Report which will be placed on the GWA website to allow for transparency in our improvement initiatives.

In 2011/12 the estimate of direct carbon emissions for GWA is 11,000 tonnes plus 27,000 tonnes of indirect carbon emissions through the purchase of energy. This compares with 48,000 tonnes of total reported emissions in 2010/11. The 20% reduction reflects the impact of plant closures and energy efficiency initiatives.

## People

GWA's long term success has been due to the efforts of a committed and talented workforce. We are continuing to bring new thinking and skills into the business while also developing our people to provide succession opportunities. The Company recognises the benefits that can be achieved from a diverse workforce and has implemented policies aimed at improving workplace diversity.

In support of these objectives, a significant investment has been made through the GWA Leadership Program with the aim of underpinning a high performance culture. This involves the development of personnel in core capabilities supported by rigorous goal setting and performance management procedures.

GWA has engaged the Australian Institute of Management to provide an in-house Certificate of Management program constituting 4 modules of advanced learning to better prepare our managers to be effective in their roles. 34 managers and senior staff attended the programme during 2011/12.

## Outlook

After a prolonged period of contraction in building approvals in 2011/12 there was some increase in the last quarter. If this is sustained we expect that the improvement will flow through to higher sales late in 2012. Lower interest rates and State Government initiatives such as the New South Wales stamp duty relief should support higher building activity in the second half of the 2012/13 year and build confidence for the renovation market.

Restructuring activities completed in 2011/12 and the commissioning of the Moss Vale water heater factory upgrade will improve the cost base and protect margins.

We will be in a better position to update the market at the Annual General Meeting in October following first quarter trading and updated statistics on dwelling activity.

## Directors' Report as at 30 June 2012

Your directors present their report on the consolidated entity of GWA Group Limited ("the Company") and the entities it controlled during the financial year ended 30 June 2012.

### Directors

The following persons were directors of the Company during the financial year and up to the date of this report. Directors were in office this entire period unless otherwise stated.

G J McGrath, Chairman and Non-Executive Director  
D D McDonough, Deputy Chairman and Non-Executive Director  
P C Crowley, Managing Director  
R M Anderson, Non-Executive Director  
W J Bartlett, Non-Executive Director  
J F Mulcahy, Non-Executive Director  
P A Birtles, Non-Executive Director  
R J Thornton, Executive Director

Details of the directors' qualifications, experience and special responsibilities are located 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 the 2011/12 financial year, and the period for which each directorship has been held, are listed 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 located in the Annual Report.

### Directors' Interests

The relevant interest of each director in the share capital of the Company 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
G J McGrath	150,000
D D McDonough	100,495
P C Crowley	750,000
R M Anderson	8,418,442
W J Bartlett	30,914
J F Mulcahy	45,000
P A Birtles	15,000
R J Thornton	128,694
<b>Total</b>	<b>9,638,545</b>

The executive directors, Mr P C Crowley 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 the Remuneration Report.



Note 33 to the Financial Statements sets out the number of shares held directly, indirectly or beneficially by directors or their related entities at balance date as prescribed in Accounting Standard AASB 124, this being 19,624,906 shares (last year 19,587,525 shares).

## Corporate Structure

GWA Group Limited is a Company limited by shares that is incorporated and domiciled in Australia. GWA Group Limited has prepared a Consolidated Financial Report incorporating the entities that it controlled during the financial year ended 30 June 2012, which are outlined in Note 30 of the Financial Statements.

## Principal Activities

The principal activities during the year within the consolidated entity were the research, design, manufacture, import and marketing of building fixtures and fittings to households and commercial premises and the distribution of these various products through a range of distribution channels in Australia and overseas.

The Company completed the divestments of the remaining non-core operations through the sale of Sebel Furniture Limited and related entities in September 2011 and the sale of the Caroma North American business in December 2011. There have been no other significant changes in the nature of the activities of the consolidated entity during the year.

## Employees

The consolidated entity employed 1,788 employees as at 30 June 2012 (last year 2,150 employees).

The consolidated entity recognises the productivity benefits to be gained from investing in its employees to improve motivation and individual skills. The consolidated entity remains committed to ensuring that staff are provided access to appropriate training and development programs.

The consolidated entity has implemented employment policies aimed at encouraging diversity in the workforce to attract and retain the best people, including a stronger representation of women. All companies in the consolidated entity are active equal opportunity employers and the consolidated entity is compliant with the Equal Opportunity for Women in the Workplace Act 1999.

## Segment Performance

The segment performance of the Company for the financial year ended 30 June 2012 is as follows:

Business Segment	Segment Sales		Trading EBIT	
	2011/12 \$'000	2010/11 \$'000	2011/12 \$'000	2010/11 \$'000
Bathrooms & Kitchens	297,759	332,379	60,965	78,903
Heating & Cooling	166,156	195,298	13,259	17,195
Door & Access Systems	138,568	114,026	14,057	17,158
Discontinued Operations	12,441	84,796	(7,792)	7,246
<b>Total</b>	<b>614,924</b>	<b>726,499</b>	<b>80,489</b>	<b>120,502</b>

## Earnings Per Share

	2011/12 cents	2010/11 cents
Basic earnings per share	13.2	21.0
Basic earnings per share - continuing operations	15.3	19.6

## Review of Operations

A review of the operations of the consolidated entity and the results of those operations for the financial year ended 30 June 2012 is provided in the Managing Director's Review of Operations.

## State of Affairs

Changes in the state of affairs of the consolidated entity during the financial year resulted from the divestment of the remaining non-core operations. Details of the changes are as follows:

- On 30 September 2011, the consolidated entity sold Sebel Furniture Limited and related entities ("Sebel") to Krueger International, Inc. Sebel is shown as a discontinued operation in the 2011/12 Financial Statements.
- On 31 December 2011, the consolidated entity sold the Caroma North American business to Sustainable Solutions International. Caroma North America is shown as a discontinued operation in the 2011/12 Financial Statements.

In the opinion of the directors, there were no other significant changes in the state of affairs of the consolidated entity during the financial year, other than disclosed in the Directors' Report or referred to in the Financial Statements or notes thereto.

## Dividends

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

### Declared and paid during 2011/12 financial year

Dividends	Cents per share	Total Amount \$'000	Franked	Date of Payment
Final 2010/11 Ordinary	8.5	25,630	Fully Franked	6 October 2011
Interim 2011/12 Ordinary	9.5	28,645	Fully Franked	4 April 2012

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

#### Declared after end of the 2011/12 financial year

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

Dividend	Cents per share	Total Amount \$'000	Franked	Date of Payment
Final 2011/12 Ordinary	8.5	25,670	Fully Franked	4 October 2012

The financial effect of the dividend has not been brought to account in the Financial Statements for the year ended 30 June 2012 and will be recognised in subsequent Financial Reports.

The record date for the final dividend is 14 September 2012 and the dividend payment date is 4 October 2012. The Dividend Reinvestment Plan (DRP) will be offered to shareholders for the final dividend and a discount of 2.5% will apply to shares subscribed for under the DRP. The record date for DRP participation is 14 September 2012.

#### Significant Events after Balance Date

On 14 June 2012, the consolidated entity entered into a scheme implementation agreement (SIA) to acquire all of the shares of Q Technology Group Ltd (QTG). Subsequent to 30 June 2012, the SIA was terminated by the parties due to a condition precedent in the SIA becoming incapable of satisfaction. On 16 July 2012, the consolidated entity signed an indicative non-binding heads of agreement with QTG for the acquisition of API Services and Solutions Pty Ltd (API) for \$14 million on a debt free basis. API is a supplier of safes, locks, alarms and locksmithing services to commercial premises. The consolidated entity is continuing its discussions with QTG on the acquisition of API.

On 14 August 2012, the directors declared a final ordinary dividend of 8.5 cents per share in respect of the financial year ended 30 June 2012. The dividend will be fully franked at the 30% corporate tax rate. The total amount of the dividend is \$25.670 million (last year \$25.630 million). In accordance with Accounting Standards, the dividend has not been provided for in the Financial Statements for the year ended 30 June 2012.

There has not been any other matter or circumstance, other than that referred to in the Financial Statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity.

#### Likely Developments and Expected Results

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

In the next financial year, the consolidated entity will continue to pursue strategies for increasing the profitability and market share of the businesses. There will be further investment in research and new product development to ensure that the consolidated entity generates the best possible returns from the businesses and to create competitive advantage.

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 and Performance**

### **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 the financial year ended 30 June 2012.

### **Environmental Remediation**

In previous financial years, the consolidated entity investigated and reported two environmental contamination issues at factory sites at Revesby NSW and Eagle Farm Queensland. The Revesby site is leased and occupied by McIlwraith-Davey Pty Ltd, a wholly owned subsidiary of the ultimate parent, GWA Group Limited. The Eagle Farm site was previously occupied by Corille Limited (formerly Rover Mowers Limited) and was exited in a prior financial year following the sale of the Rover Mowers business.

During the year, the remediation activities at the Revesby site were conducted in accordance with the Voluntary Remediation Proposal approved by the NSW Office of Environment and Heritage. The remediation activities were substantially completed during the 2011/12 year and a Site Audit Statement declaring the site is suitable for on-going use has been obtained. McIlwraith-Davey Pty Ltd intends to exit the site on lease expiry in April 2013 and on-going monitoring will be required for two years in accordance with the Groundwater Management Plan for the site.

Whilst there was no legal obligation to remediate the Eagle Farm site, the Board approved targeted remediation activities to mitigate potential future environmental liabilities. The remediation activities were completed during the 2011/12 year. It is expected that a Site Audit Statement declaring the site is suitable for on-going use and with no on-going monitoring obligations will be obtained during the 2012/13 year. The consolidated entity no longer occupies the site.

## **Indemnification and Insurance of Directors and Executives**

### **Indemnification**

The Company's constitution provides that, to the extent permitted by the law, every current (and former) director or secretary of the Company shall be indemnified out of the assets of the Company 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 Company, 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 Company or related body corporate.

## Insurance Premiums

The Company has paid premiums in respect of insurance contracts which provide cover against certain liabilities of every current (and former) director and officer of the Company 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 Company 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 Company and its controlled entities.

## Remuneration Report - Audited

The Remuneration Report provides information about the remuneration arrangements for key management personnel ('KMP'), which includes non-executive directors and the most senior group executives, for the year ended 30 June 2012. Reference to 'executives' in this report means KMP executives.

The report covers the following matters:

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

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

*GWA's* strategy is to provide remuneration that is fair and sufficient to attract and retain management and directors with the experience, knowledge, skills and judgment required for the consolidated entity's success.

The key principle is that remuneration varies between the median and third quartiles (or higher if warranted by superior performance) relative to companies of comparable size and scope to *GWA*.

The Board engages with shareholders, management and other stakeholders to continuously refine and improve executive and director remuneration policies and practices. The Nomination Committee is responsible for determining the remuneration arrangements for the non-executive directors, with the annual maximum aggregate amount approved by shareholders. The Remuneration Committee deals with remuneration matters for executives.

Both the Nomination Committee and the Remuneration Committee have the authority to engage external professional advisers without seeking approval of the Board or management.

During the reporting period, the Remuneration Committee obtained advice from Guerdon Associates for the 2012/13 executive remuneration review. Guerdon Associates does not provide services to management and is considered to be independent. In response to feedback from shareholders and advice from Guerdon Associates a number of important changes were implemented last year to the 2011/12 remuneration structure which is consistent with *GWA's* remuneration strategy. These changes are detailed in this report.

## 1.1 Executive remuneration strategy - 2011/12 changes

As a result of shareholder feedback on current practices, GWA's executive remuneration structure was changed with effect from the start of the 2011/12 financial year.

The Remuneration Committee aims to ensure that the mix of fixed and variable remuneration for executives is appropriate for the cyclical, mature, competitive and lower growth industries in which GWA operates, having regard to:

- the need to protect the market leading positions of established products against large global competitors in order to maintain competitiveness; and
- the importance of developing growth opportunities whilst maintaining stability of earnings and a high operating cash flow to fund the fully franked dividend payments to shareholders.

The Committee acknowledges that this strategy has generally resulted in the approval of a higher proportion of fixed remuneration and a lower proportion of variable remuneration for some executives compared to peer companies.

Key concerns raised by shareholders and the changes implemented to GWA's remuneration structure for the 2011/12 financial year are summarised in the table below.

Shareholder Concern	GWA Board Response
Fixed remuneration for Managing Director and some executives is above third quartile measured against peer companies	Managing Director's fixed remuneration will be frozen for three years from 1 July 2011 to 30 June 2014
Long term incentives are too high	Reduce long term incentives with more emphasis on short term incentives with part deferred subject to further testing and potential clawback
Long term incentives are subject to "cliff" vesting with low targets	Remove "cliff" reward vesting that may encourage excessive risk taking as a performance threshold is approached. The Long Term Incentive plan has graduated vesting scales to more closely align reward with performance  Performance targets have been increased for reasonably achievable levels and stretch targets applied for full vesting
Incentives could encourage excessive risk taking	Shift some of the incentive from longer term to shorter term requirements for growth with payment of deferred amounts subject to further testing and potential clawback  A higher proportion of short term incentives has been set to stretch targets requiring sustainable performance

## 1.2 Managing Director's remuneration

The Managing Director's fixed remuneration has been established over the past 9 years of service to shareholders where he has consistently delivered value and positioned the consolidated entity for sustainable performance. The Managing Director has been instrumental in the restructuring of the GWA businesses over recent years to compete in the cyclical Australian building industry with the high Australian dollar increasing import competition in its primary markets.

During that time, the Company has successfully executed its growth strategies through the divestment of its non-core businesses and surplus properties, and through strategic acquisitions to provide options for growth and expand its core Australian building fixtures and fittings business. The strong financial position has enabled the Company to maintain high dividends and fund growth opportunities as they arise.

During the 9 years of service, the Managing Director has received only modest incentive payments due to the low activity levels in the building sector. The Board believes the above changes to the 2011/12 remuneration structure represented an appropriate balance between addressing the issues raised by shareholders and maintaining a competitive compensation package for key executives.

## 2. Relationship between remuneration policy and company performance

Remuneration is linked to performance by:

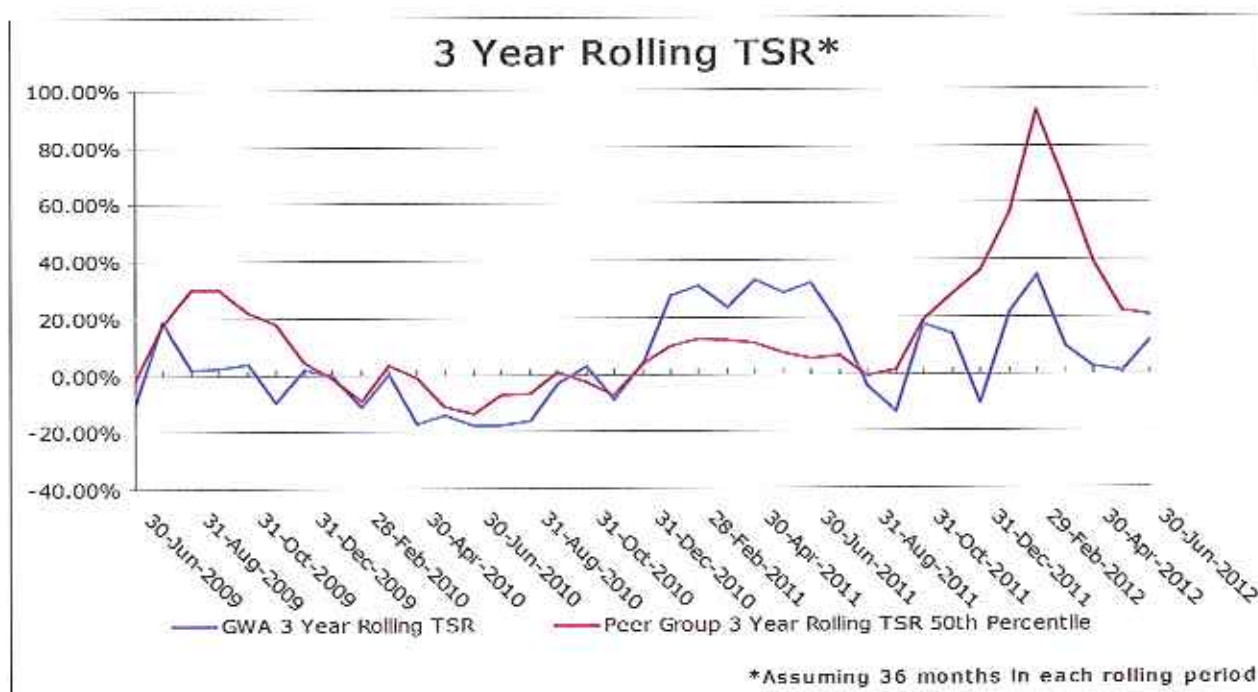
- Applying challenging financial and non-financial measures to assess performance; and
- Ensuring that these measures focus management on operational and strategic business objectives that create shareholder value.

GWA measures performance on the following key corporate measures:

- Earnings per share ('EPS') growth;
- Total shareholder return ('TSR') relative to companies with similar scope, operations, customers or products; and
- Economic Profit, defined as the pre tax profit after deducting the cost of capital for funds used.

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

The following graph shows the Company's relative performance over a rolling 3 year period to 30 June 2012 compared to the peer group companies used for the 2012 grant of Performance Rights. The companies comprise Reece Australia Limited, Brickworks Limited, CSR Limited, Goodman Fielder Limited, Super Retail Group Limited, Premier Investments Limited, Breville Group Limited, GUD Holdings Limited, Hills Industries Limited, Bradken Limited, Dulux Group Limited, Pacific Brands Limited, Adelaide Brighton Limited and Ansell Limited.



Source: Guerdon Associates

The following is a summary of key shareholder wealth statistics for the Company over the last five years:

Financial Year	Trading EBIT* (\$m)	Trading EPS* (cents)	Total DPS (cents)	Share Price (\$)
2007/08	99.4	21.5	19.5	2.50
2008/09	86.4	17.9	18.0	2.30
2009/10**	94.5	18.5	18.0	3.01
2010/11**	99.9	19.6	18.0	2.75
2011/12**	75.4	15.1	18.0	2.10

\*excludes restructuring expenses

\*\*excludes discontinued operations

The remuneration and incentive framework which has been put in place by the Board has ensured that executives are focused on both sustaining short term operating performance with moderate long term strategic growth. This has contributed to the Company generating the above shareholder returns despite lower building activity and the global financial crisis. This includes a total of 91.5 cents in fully franked dividends paid to shareholders in the last five financial years which includes 1.5 cents in special dividends.

The decline in the Company's profitability performance in 2011/12 has been primarily driven by the cyclical decline in domestic dwelling construction and falling house prices impacting renovation activity. Import competition has increased with the high Australian dollar which has led to the need for substantial restructuring in the past year.

The remuneration and incentive framework has allowed the Company to respond to the downturn. STI payments to executives related to Economic Profit targets are lower in 2011/12. LTI rewards to executives related to earnings per share growth have failed to meet targets to date. However, STI payments related to performance improvement and restructuring in the downturn have encouraged management to respond quickly and make long term decisions to maintain competitiveness and profitability.



The Managing Director's key performance goals and outcomes subject to STI incentive payments for 2011/12 is provided in the following table:

2011/12 Goals	Results
Achieve leading safety performance to work towards an injury free workplace	Continuous improvement in safety performance over the past 7 years has been consolidated with a further 14% decline in the total injury frequency rate in 2011/12
Complete divestments of remaining non-core businesses and surplus properties	<p>The non-core Sebel Furniture and Caroma North American businesses were successfully divested during the year to complete the sale of the remaining non-core businesses and enables the group to focus on growing in the core Australian building fixtures and fittings segment</p> <p>The surplus Norwood and Coburg properties were successfully divested during the year with the gains on sale fully offsetting the restructuring costs in the Caroma and Gainsborough businesses</p>
Execute an acquisition to grow the core building fixtures and fittings business	A heads of agreement was signed in July 2012 for the acquisition of API Locksmiths, which will provide strategic opportunities for growth in the commercial access systems market. This followed the termination of the Scheme Implementation Agreement with Q Technology Group Ltd, the owner of API Locksmiths, due to the non-satisfaction of a condition
Execute the restructuring of the Caroma Wetherill Park sanitaryware factory and Gainsborough door hardware business at Blackburn and Kyneton	The restructuring at Caroma and Gainsborough was successfully completed during the year to improve competitiveness which resulted in an 8% reduction in employee numbers and was funded by the sale of the surplus Norwood and Coburg properties. The benefits of the restructuring are expected to flow through in 2012/13 and future periods
Deliver performance improvement	Material cash flow benefits were derived by rationalising unprofitable products, lowering inventory levels, improved delivery performance and reducing credit claims. The strong operating cash flow from continuing operations was similar to last year despite the 25% reduction in trading EBIT
Complete the Dux factory upgrade to budget and plan timetable	The Dux factory upgrade was largely complete at the end of June 2012 but there have been unexpected delays and some cost overruns. The upgrade has established a lower cost base and the benefits are expected to flow through in 2012/13 and future periods

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

There has been no change to the basis of non-executive director fees since the prior reporting period.

Fees for non-executive directors are fixed and are not linked to the financial performance of the consolidated entity. The Board believes this is necessary for non-executive directors to maintain their independence.

At the 2004 Annual General Meeting, shareholders approved non-executive director fees up to an annual maximum aggregate amount of \$1.09 million (including statutory superannuation). The actual fees paid to the non-executive directors are outlined in the Remuneration Tables (see section 5.1).

Non-executive director remuneration consists of base fees and statutory superannuation, plus an additional fee for each Board committee on which a director sits. The payment of committee fees recognises the additional time commitment required by directors who serve on one or more committees. Non-executive directors are not able to participate in the executive incentive schemes or the GWA Employee Share Plan.

The Nomination 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 Company matters. The benchmarking survey from Guerdon Associates in 2011 sampled the same companies used for executive remuneration benchmarking (see section 4.2) and found the fees received by most non-executive directors were positioned at about the 60<sup>th</sup> percentile.

Retirement benefits are not available for non-executive directors of the Company, other than statutory superannuation.

### 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 ensures that total pay varies with performance. The short term incentive ('STI') provides rewards for performance over a 1 year period. The long term incentive ('LTI') provides rewards for performance over a 3 year period.

The maximum total remuneration that can be provided to an executive is capped, with maximum incentive payments expressed as a percentage of total fixed remuneration. Total fixed remuneration for the purposes of the incentives includes superannuation and non-monetary benefits. The STI and LTI maximum percentages are less than most market peers given the emphasis on stability of earnings, cash flow and dividends and the relatively high fixed pay for some executives.

#### 4.1.1 Managing Director remuneration structure

The 2011/12 incentives structure for the Managing Director is provided in the table below:

Managing Director	Maximum short term incentive % of fixed remuneration	LTI % of fixed remuneration (grant date fair value)	Total performance pay as % of fixed remuneration
2011/12	80	40	120

The 2011/12 STI for the Managing Director is provided in the table below:

Managing Director	Personal Goals	Financial Targets	Total Reasonably Achievable	Maximum for achieving stretch goals
2011/12	20	30	50	80

#### 4.1.2 Other Executives remuneration structure

The 2011/12 incentives structure for other executives is provided in the table below:

Other Executives	Maximum short term incentive % of fixed remuneration	LTI % of fixed remuneration (grant date fair value)	Total performance pay as % of fixed remuneration
2011/12	50	30	80

The 2011/12 STI for the other executives is provided in the table below:

Other Executives	Personal Goals	Financial Targets	Total Reasonably Achievable	Maximum for achieving stretch goals
2011/12	20	20	40	50

The 2011/12 changes implemented for all executives, including the Managing Director, resulted in a shift in incentives from longer term to shorter term requirements to focus on responding to the short term challenges posed by cyclical factors, sustain competitiveness, deliver value and growth, and maintain cash flows for dividends. This is supported by a requirement that 50% of the financial component of the STI be deferred and subject to further testing and potential clawback with payment at the discretion of the Board at the time of signing the following year's annual audited Financial Statements. The further testing involves the Board verifying the integrity of the achievement of the STI financial targets. Interest at market rates will be earned by the executives on the deferred component.

The payment of the STI at the reasonably achievable level has a greater likelihood of achievement than not, if management successfully implement improvement plans, and the maximum level has stretch targets with a one in three year likelihood of achievement.

#### 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 with difficult to source experience in manufacturing and global supply chain management;
- to attract external recruits with depth and breadth of expertise usually acquired while working with larger companies; and
- in recognition that the primary focus in recent years has been on conserving market leadership, cash flow and dividends.

Based on an independent survey by Guerdon Associates for the 2012/13 executive remuneration review, the fixed remuneration for most executive positions at GWA remains above the 50<sup>th</sup> percentile for companies of comparable revenues. However, the Guerdon Associates survey concluded that compared to the prior year, fixed remuneration for most GWA executives is closer to market levels.

The 25 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. Judgment was therefore exercised by the Remuneration Committee 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 or expectation 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. In this regard, the Managing Director agreed last year to a freeze on his fixed remuneration for 3 years to 30 June 2014.

### **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 Company's financial year to 30 June 2012. 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. Total incentive payments for 2011/12 to executives and management represent less than 3% of earnings before interest and tax. 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, 50% of the financial target component of the STI has been deferred for the executives that achieved their STI financial targets for 2011/12. The deferred component will be subject to further testing to confirm the integrity of the achievement of the STI financial targets following finalisation of the 2012/13 audited Financial Statements. Interest will be earned by the executives at market rates on the deferred component.

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

##### **4.3.2.1 Personal Goals**

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

The achievement of personal goals reinforces the Company'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 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 Company.

Personal goals include both measurable financial goals and measurable business improvement goals. The measurable financial goals to improve Economic Profit are financial outcomes which the individual aims to achieve through their effort and 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 2011/12 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 approved by the Remuneration Committee. The Managing Director's performance review is conducted semi-annually by the Chairman with the outcomes approved by the Remuneration Committee. The personal goals of the executives for 2012/13 were established at the performance reviews.

The inclusion of personal goals in the remuneration structure ensures that executives can be recognised for good business performance whether or not the Company or business unit achieves its STI financial performance targets. The Company 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 Company's performance management process.

#### 4.3.2.2 Financial Targets

Financial performance targets are based on a combination of improving revenue, margin and/or improved Return on Funds Employed (ROFE). This will be calculated using the principle of Economic Profit which is the pre tax profit after deducting the cost of funds used in generating the profit.

The formula is:

$$\text{Economic Profit} = \text{EBIT} - (\text{Funds Employed} \times \text{pre tax cost of capital})$$

Pre tax cost of capital is 15% per annum

(NB: Where significant restructuring has been undertaken in a division, trading EBIT will be used for the calculation of Economic Profit)

Under the STI framework, a business unit head may receive an STI payment if business unit Economic Profit has grown, although the overall corporate Economic Profit may not have grown, and vice versa.

The 'reasonably achievable' and 'stretch' STI financial targets are determined by the 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) depending on 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. There were no variations from policy during the period.

For the 2011/12 year the Company's lower profitability performance has meant the STI financial targets at both the divisional and corporate level have not been achieved, except for the Bravis business unit which achieved its financial targets at the 'reasonably achievable' level. This is reflected in the STI cash bonus amounts in the Remuneration Tables.

#### 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 Company 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.

The LTI is provided as Performance Rights, with each right entitling the holder to an ordinary share in the Company (or in limited cases to a cash payment), subject to meeting financial performance hurdles and the holder remaining in employment with the Company 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. Performance Rights are cancelled if the performance hurdles are not met.

The performance hurdles for the LTI are selected by the Remuneration Committee. Half of the Performance Rights are based on Total Shareholder Returns (TSR) for GWA compared to a peer group of companies (which is a relative performance requirement) and half of the Performance Rights are based on growth in Earnings Per Share (EPS) (which is an absolute performance requirement). The EPS performance condition is calculated as net profit after tax as set out in the Company's annual audited Financial Statements divided by the weighted average of ordinary shares on issue. The Board has discretion to make reasonable adjustments to base year EPS where it is unduly distorted by significant or abnormal events. Any such adjustments will be disclosed.

A participant may not dispose of the ordinary shares issued under the LTI until the seventh anniversary of the grant date and the shares are subject to a holding lock upon issue. There are limited circumstances where a participant may dispose of the shares before the end of the seven year period, including cessation of employment with the Company 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 Company, relevant policies and regulations and other factors.

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.

The LTI rules do not allow for re-testing of the performance hurdles after the initial performance period.

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

For the 2012 LTI grant, the proportion of Performance Rights that can vest will be calculated and the shares will vest in August 2014 subject to achieving the performance hurdles.

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.

#### 4.4.2 LTI performance requirements

For the 2012 LTI grant, the "cliff" vesting for the performance hurdles in the 2011 grant was replaced by vesting scales graduated with performance and more demanding performance hurdles. The comparator group for the 2012 LTI plan was also expanded to include selected comparator group companies used by Guerdon Associates for benchmarking executive fixed remuneration levels for the 2011/12 remuneration review.

##### 4.4.2.1 TSR Hurdle

The performance hurdles and vesting proportions for the TSR performance measure that applied to the 2012 LTI grant is outlined in the table below.

TSR of GWA Group Limited relative to TSRs of Comparator Companies	Proportion of Performance Rights to Vest if TSR hurdle is met
Less than the 50 <sup>th</sup> percentile	0%
50 <sup>th</sup> percentile	25%
Between the 50 <sup>th</sup> percentile and 75 <sup>th</sup> percentile	Straight line vesting between 25% 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 14 domestic ASX listed companies with comparable market capitalisation or revenues, including: Reece Australia Limited, Adelaide Brighton Limited, Ansell Limited, Brickworks Limited, CSR Limited, Goodman Fielder Limited, Bradken Limited, Dulux Group Limited, Super Retail Group Limited, Premier Investments Limited, Pacific Brands Limited, GUD Holdings Limited, Breville Group Limited and Hills Holdings Limited.

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 EPS Hurdle

For the 2012 LTI grant, EPS growth is measured over the three years from 1 July 2011 to 30 June 2014. The EPS hurdle is calculated as net profit after tax, as set out in the Company's annual audited Financial Statements, divided by the weighted average number of ordinary shares on issue. The base year EPS for the 2012 LTI grant was 21.0 cents. The Board did not exercise its discretion to adjust the EPS figure.

The performance hurdles and vesting proportions for the EPS performance measure that applied to the 2012 LTI grant is outlined in the table below.

Compound annual EPS Growth	Proportion of Performance Rights to Vest if EPS growth hurdle is met
Less than 3% per annum	0%
3% per annum	25%
Between 3% and 8% per annum	Straight line vesting between 25% and 50%
8% or higher per annum	50% (i.e. 50% of total grant)

#### 4.4.3 Changes for 2013

The LTI plan has been part of the remuneration structure for the executives since its approval by shareholders in 2008, with lower level management participating in the legacy GWA Employee Share Plan referred to in section 7 below. The Remuneration Committee proposes to cease using the legacy GWA Employee Share Plan due to its lack of effectiveness as a long term incentive and expand the use of the LTI plan to select lower level management that formerly participated in the legacy GWA Employee Share Plan. These changes are proposed to commence from the 2013 LTI grant and will be reported in next year's Remuneration Report.

### 5. Details of director and executive remuneration

#### 5.1 Remuneration Tables

Details of the nature and amount of each element of remuneration of each director of the Company and other key management personnel for the year ended 30 June 2012 are outlined in the Remuneration Tables below:



		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 \$(a)*	Non- Monetary \$(b)	Employee Share Plan Interest \$(c)	Value of Share- Based Awards \$(d)	Retention Bonus \$(e)	Super- annuation Benefits \$	Termination Benefits \$				
<b>Non-Executive Directors</b>													
<i>G McGrath, Chairman</i>	2012	306,465	-	-	-	-	-	27,581	-	334,046	-	-	-
	2011	294,678	-	-	-	-	-	26,521	-	321,199	-	-	-
<i>D McDonough, Deputy Chairman</i>	2012	69,078	-	-	-	-	-	49,998	-	119,076	-	-	-
	2011	61,082	-	-	-	-	-	46,917	-	107,999	-	-	-
<i>R Anderson, Non-Executive Director</i>	2012	61,054	-	-	-	-	-	50,293	-	111,347	-	-	-
	2011	57,126	-	-	-	-	-	49,940	-	107,066	-	-	-
<i>W Bartlett, Non-Executive Director</i>	2012	136,631	-	-	-	-	-	12,296	-	148,927	-	-	-
	2011	131,376	-	-	-	-	-	11,824	-	143,200	-	-	-
<i>P Birtles, Non-Executive Director (Appointed 24 November 2010)</i>	2012	118,066	-	-	-	-	-	10,626	-	128,692	-	-	-
	2011	61,252	-	-	-	-	-	5,513	-	66,765	-	-	-
<i>J Mulcahy, Non-Executive Director (Appointed 24 November 2010)</i>	2012	108,520	-	2,606	-	-	-	9,766	-	120,892	-	-	-
	2011	60,472	-	-	-	-	-	5,443	-	65,915	-	-	-
<b>Executive Directors</b>													
<i>P Crowley, Managing Director</i>	2012	1,413,522	280,800	103,055	82,420	204,650	-	50,000	-	2,134,447	22.7	23	78
	2011	1,428,814	600,600	98,804	92,393	408,000	-	50,000	-	2,678,611	37.7	64	36
<i>R Thornton, Executive Director</i>	2012	365,207	72,000	8,921	18,466	29,925	-	24,639	-	519,158	19.6	40	60
	2011	282,469	73,636	9,589	16,941	40,542	-	32,583	-	455,760	25.1	75	25

\* Comparative STI cash bonus amounts have been adjusted to reflect the actual amounts paid.

		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 \$(a)*	Non- Monetary \$(b)	Employee Share Plan Interest \$(c)	Value of Share- Based Awards \$(d)	Retention Bonus \$(e)	Super- annuation Benefits \$	Termination Benefits \$				
<b>Executives</b>													
<i>W Saxelby, Chief Financial Officer</i>	2012	613,113	135,100	16,548	54,549	-	-	48,000	-	867,309	15.6	40	60
	2011	603,343	202,650	13,716	50,098	(34,167)	-	48,000	-	883,641	19.1	75	25
<i>N Evans, Chief Executive - GWA Bathrooms and Kitchens</i>	2012	521,156	108,180	13,047	-	56,750	-	50,000	-	749,132	22.0	36	64
	2011	505,766	57,800	40,537	-	131,250	-	50,000	-	785,353	24.1	25	75
<i>G Oliver, Chief Executive - GWA Door and Access Systems (f)</i>	2012	444,203	173,550	29,330	-	40,242	-	49,999	-	737,324	29.0	78	22
<i>(Appointed 1 May 2012)</i>	2011	377,236	119,407	31,229	-	68,708	-	49,091	-	645,671	29.1	82	18
<i>L Patterson, Chief Executive - GWA Heating and Cooling</i>	2012	449,529	57,850	9,162	46,689	40,242	-	57,066	-	660,538	14.9	26	74
	2011	380,150	110,361	7,651	42,257	68,708	400,000	38,145	-	1,047,273	55.3	76	24
<i>Peter Crossley, General Manager - Gainsborough (g)</i>	2012	254,829	32,167	13,565	-	32,952	-	20,833	-	354,345	18.4	20	80
<i>(Appointed 1 April 2010)</i>	2011	348,859	26,128	847	-	64,208	-	36,483	-	476,525	19.0	20	80
<i>G Welsh, General Manager - GWA Commercial Furniture</i>	2012	62,125	-	1,469	-	(60,083)	-	2,725	50,000	56,236	-	-	-
<i>(Ceased employment 30 September 2011)</i>	2011	322,086	113,818	8,928	-	16,375	-	37,129	-	498,335	26.1	100	0

\* Comparative STI cash bonus amounts have been adjusted to reflect the actual amounts paid.

## Notes to the Remuneration Tables

- (a) The Short Term Incentive (STI) cash bonus is for the performance during the financial year ended 30 June 2012 based on the achievement of personal goals and financial performance targets. Brivis was the only business unit to achieve STI financial performance targets during the year and in accordance with the STI plan rules, 50% of the amount has been deferred and will be subject to further testing as outlined in the Remuneration Report. The STI cash bonuses are paid annually following the end of the preceding financial year. The amounts have been determined following individual performance reviews and have been approved by the Remuneration Committee.
- (b) The short term non-monetary benefits include the provision of motor vehicles, medical benefits membership, salary continuance and life insurance and any applicable fringe benefits tax thereon.
- (c) The Employee Share Plan interest includes an amount representing commercial interest that would have been charged during the period on the executives outstanding employee loan balances owed to the Company had these loans not been interest free. The benefit is classified as a long term benefit in the Remuneration Tables which reflects the long term nature of the incentive.
- (d) The Long Term Incentive (LTI) Plan was approved by shareholders at the 2008 Annual General Meeting. The outstanding Performance Rights at 30 June 2012 were granted to executives in each of the years 30 June 2010, 2011 and 2012 and are subject to vesting conditions and the achievement of the EPS and TSR performance hurdles over the three year performance periods. During the year, 50% of the Performance Rights in respect of the 2009 LTI grant vested following the achievement of the TSR hurdle and 50% of the Performance Rights lapsed as the EPS hurdle was not achieved. The fair value of the Performance Rights granted in each of the years were calculated using Binomial option pricing model (EPS hurdle) and Monte Carlo simulation (TSR hurdle) valuation methodologies and allocated to each financial year evenly over the three year performance period. If the EPS and TSR performance hurdles are not achieved, then no benefits will be received by the executives under the LTI plan.
- (e) The Board approved the payment of a retention bonus for Mr L Patterson in 2011 due to the rapidly changing regulatory environment and the increased business complexity facing the Dux business. The retention bonus was subject to the achievement of performance hurdles linked to value creation including market share and EBIT performance.
- (f) Mr Geoff Oliver was appointed Chief Executive - GWA Door & Access Systems on 1 May 2012. He was formerly General Manager - Group Development where he served as Interim General Manager - Brivis from 1 April 2010 to 30 April 2012.
- (g) Mr Peter Crossley was considered Key Management Personnel until the appointment of Mr Geoff Oliver to the position of Chief Executive - GWA Door & Access Systems on 1 May 2012.

## 5.2 Share based payments

### 5.2.1 Performance Rights

The table below shows details of the Performance Rights granted to key management personnel during the year ended 30 June 2012 and in prior years that affects compensation in this or future reporting periods.

The testing of Performance Rights granted on 27 February 2009 in respect of the three year performance period of 1 July 2008 to 30 June 2011 occurred on 16 August 2011. The EPS hurdle was not achieved and 50% of the Performance Rights lapsed (in the prior period). The TSR hurdle was achieved at the 67<sup>th</sup> percentile for the Comparator Companies and 50% of the Performance Rights vested and were automatically exercised into ordinary shares at no cost to the executives. A total of 470,000 shares were purchased on-market for the executives at an average price of \$2.32 following the achievement of the TSR hurdle in respect of the 2009 LTI grant.

		Number of rights granted	Grant date*	% vested in year	% forfeited in year	Fair value of rights at grant date \$*	Issue price used to determine number of rights granted
<b>Executive Directors</b>							
<i>P Crowley, Managing Director</i>	2012	260,000	17 February 2012	-	-	375,700	2.35
	2011	300,000	21 February 2011	-	-	802,500	3.00
	2010	305,000	12 March 2010	-	50	785,375	2.84
	2009	355,000	27 February 2009	50	-	583,975	2.46
<i>R Thornton, Executive Director</i>	2012	45,000	17 February 2012	-	-	65,025	2.35
	2011	30,000	21 February 2011	-	-	80,250	3.00
	2010	30,000	12 March 2010	-	50	77,250	2.84
	2009	35,000	27 February 2009	50	-	57,595	2.46
<b>Executives</b>							
<i>W Saxelby, Chief Financial Officer</i>	2012	-	-	-	-	-	-
	2011	-	-	-	-	-	-
	2010	-	-	-	-	-	-
	2009	100,000	27 February 2009	50	-	164,500	2.46
<i>N Evans, Chief Executive GWA Bathrooms and Kitchens</i>	2012	75,000	17 February 2012	-	-	108,375	2.35
	2011	75,000	21 February 2011	-	-	200,625	3.00
	2010	75,000	12 March 2010	-	50	193,125	2.84
	2009	-	-	-	-	-	-
<i>G Oliver, Chief Executive GWA Door and Access Systems (Appointed 1 May 2012)</i>	2012	55,000	17 February 2012	-	-	79,475	2.35
	2011	50,000	21 February 2011	-	-	133,750	3.00
	2010	50,000	12 March 2010	-	50	128,750	2.84
	2009	55,000	27 February 2009	50	-	90,475	2.46
<i>L Patterson, Chief Executive GWA Heating and Cooling</i>	2012	55,000	17 February 2012	-	-	79,475	2.35
	2011	50,000	21 February 2011	-	-	133,750	3.00
	2010	50,000	12 March 2010	-	50	128,750	2.84
	2009	55,000	27 February 2009	50	-	90,475	2.46

<i>Peter Crowley, General Manager - Gainsborough</i> (Appointed 1 April 2010)	2012	50,000	17 February 2012	-	-	72,250	2.35
	2011	45,000	21 February 2011	-	-	120,375	3.00
	2010	40,000	12 March 2010	-	50	103,000	2.84
	2009	-	-	-	-	-	-
<i>G Welsh, General Manager GWA Commercial Furniture</i> (Ceased employment 30 September 2011)	2012	-	-	-	-	-	-
	2011	-	-	-	-	-	-
	2010	35,000	12 March 2010	-	100	90,125	2.84
	2009	40,000	27 February 2009	50	-	65,800	2.46

\* The issue price used to determine the number of rights offered to all participants during the year, including Mr Crowley and other key management personnel, was \$2.35 being the volume weighted average price of the Company's shares calculated over the 20 trading days after the Company's Annual General Meeting on 25 October 2011. The grant dates and corresponding fair values per right in the above table have been determined in accordance with Australian Accounting Standards. Fair values have been calculated using Binomial option pricing model (EPS hurdle) and Monte Carlo simulation (TSR hurdle) valuation methodologies. The fair value of rights issued during the year under the EPS hurdle was \$1.84 per right and the TSR hurdle was \$1.05 per right.

All of the above rights carry an exercise price of nil. The rights granted on 12 March 2010, 21 February 2011 and 17 February 2012 will vest on the date of the release to the Australian Securities Exchange of the Company's annual audited Financial Statements for the years 30 June 2012, 2013 and 2014 respectively, subject to the achievement of the performance hurdles. The rights granted to Mr Crowley and Mr Thornton were approved by shareholders at the 2009, 2010 and 2011 Annual General Meetings in accordance with ASX Listing Rule 10.14.

Rights were forfeited where an employee ceased employment with the Company during the year in accordance with the rules of the Long Term Incentive Plan. For the rights granted to key management personnel on 12 March 2010, the Company has not achieved the EPS hurdle for the performance period of 1 July 2009 to 30 June 2012. This has resulted in the forfeiture of 415,000 rights with a value of \$1,213,250. The number of rights outstanding at 30 June 2012 also represents the balance yet to vest.

## 6. Key terms of employment contracts

### 6.1 Notice and termination payments

The specified executives in the Directors' Report are on open-ended contracts, except for the Managing Director, Mr Peter Crowley, whose employment contract specifies an initial term of twelve months with subsequent rolling terms of twelve months.

The employment contract for Mr Crowley provides that if either the Company or Mr Crowley wishes to terminate employment for any reason, three months notice of termination is required. The Company retains the right to terminate the employment contract of Mr Crowley immediately, by making payment equal to three months salary in lieu of providing notice. On termination by the Company, Mr Crowley will be entitled to receive payment of twelve months salary.

For the other specified executives, the Company is required to give reasonable notice of termination of up to six months. The Company retains the right to terminate the employment contracts of the executives immediately, by making payment equal to the relevant notice period (of up to six months) 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 Remuneration Committee. Shareholder approval is required for termination payments in excess of twelve months salary.

Performance Rights held by executives under the LTI plan will lapse upon the cessation of employment with the Company.

Any loan to executives, management and senior staff under the legacy GWA Employee Share Plan must be repaid in full upon the cessation of employment with the Company. Details of loans outstanding to key management personnel under this plan are detailed in the notes to the Financial Statements.

## 7. Legacy equity based remuneration plan

The GWA Employee Share Plan is a legacy GWA equity based remuneration plan in which executives and lower level management retained an interest during the reporting period. The plan was formerly available to executives up to 2008 but following the introduction of the LTI plan referred to in section 4.4 above, was restricted to lower level management and select staff that deserved recognition of their performance and to encourage employee share ownership. The Remuneration Committee has approved annual share allocations to lower level management and staff under the plan since 2008 as part of their long term incentive arrangements.

Details of the GWA Employee Share Plan is outlined below:

Plan name	Type of award	Year/s of grant	Performance requirements	Service requirements
GWA employee share plan	Under the plan, employees are provided with a non-interest bearing unsecured loan from the Company to acquire shares in the Company at market value. The loan is repaid through dividends, or in full upon an employee ceasing employment with the Company. The loan is full recourse, meaning the employee bears the risk of company share price movements below the issue price and must repay the Company in the event of a shortfall. To ensure the plan represents an effective long term incentive, the employee is subject to a two year restriction on the sale of the shares which commences from the time the shares are acquired	Annually from 1993 to 2012	The Board may invite employees to participate in the plan to encourage and reward sustained higher performance from management and senior staff who merit recognition of their performance and are integral to the future success of the Company	The service condition requires that the employee remains employed. On termination the loan must be repaid

## Directors' Meetings

The number of meetings of directors (including meetings of Committees of directors) held during the financial year ended 30 June 2012 and the number of meetings attended by each director were as follows:

Director	Board		Audit Committee		Remuneration Committee		Nomination Committee	
	A	B	A	B	A	B	A	B
G J McGrath	10	10	4	4	3	3	1	1
D D McDonough	10	10	-	-	-	-	1	1
P C Crowley <sup>(1)</sup>	10	10	-	-	-	-	-	-
R M Anderson	10	10	-	-	-	-	-	-
W J Bartlett	10	10	4	4	3	3	1	1
J F Mulcahy	10	10	-	-	3	3	-	-
P A Birtles	10	10	4	4	-	-	-	-
R J Thornton <sup>(2)</sup>	10	10	-	-	-	-	-	-

### Note:

A - Number of meetings held during the time the director held office during the year B - Number of meetings attended

<sup>(1)</sup> P C Crowley attends Committee meetings by invitation of the Board

<sup>(2)</sup> R J Thornton attends Committee meetings as Company Secretary

As at the date of this report, the Company had an Audit Committee, Remuneration Committee and Nomination Committee of the Board of Directors. The charter for each Committee outlines its role and responsibilities, a summary of which is provided in the Corporate Governance Statement in the Annual Report.

The members of the Audit Committee are:

- Mr W Bartlett (Chairman)
- Mr P Birtles
- Mr G McGrath

The members of the Remuneration Committee are:

- Mr W Bartlett (Chairman)
- Mr J Mulcahy
- Mr G McGrath

The members of the Nomination Committee are:

- Mr G McGrath (Chairman)
- Mr D McDonough
- Mr W Bartlett

Details of the Committee members qualifications and experience are located in the Annual Report.

## Non-Audit Services

Details of the non-audit services provided by the External Auditor, KPMG, during the financial year ended 30 June 2012 are outlined in Note 8 of the Financial Statements. Based on advice from the Audit Committee, the directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

## 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 the financial year ended 30 June 2012.

## Rounding

The Company is of a kind referred to in Class Order 98/100 issued by the Australian Securities Investment Commission relating to the rounding of amounts in the Directors' Report.

Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors.



G McGrath  
Chairman



P C Crowley  
Managing Director

Brisbane, 14 August 2012



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

Annual financial report  
30 June 2012

## GWA Group Limited and its controlled entities Consolidated statement of comprehensive income

For the year ended 30 June 2012

In thousands of AUD

	Note	2012	2011 Restated*
<b>Continuing operations</b>			
Sales revenue	2	602,128	641,574
Cost of sales		(384,978)	(405,344)
<b>Gross profit</b>		217,150	236,230
Other income	4	12,847	473
Selling expenses		(93,788)	(85,470)
Administrative expenses		(50,719)	(48,718)
Other expenses	5	(13,452)	(2,605)
<b>Results from operating activities</b>		72,038	99,910
Finance income		1,979	2,243
Finance expenses		(16,226)	(17,418)
<b>Net financing costs</b>	9	(14,247)	(15,175)
<b>Profit before tax</b>		57,791	84,735
Income tax expense	10	(11,618)	(25,705)
<b>Profit from continuing operations</b>		46,173	59,030
<b>Discontinued operations</b>			
(Loss)/income from discontinued operations, net of income tax	3	(6,518)	4,329
<b>Profit for the period</b>		39,655	63,359
<b>Other comprehensive income</b>			
Foreign currency translation differences for foreign operations, net of income tax		(199)	(776)
Translation differences for disposed business transferred to profit or loss, net of income tax		2,975	-
Effective portion of changes in fair value of cash flow hedges, net of income tax		(1,600)	(1,706)
<b>Other comprehensive income for the period, net of income tax</b>		1,176	(2,482)
<b>Total comprehensive income for the period</b>		40,831	60,877
<b>Earnings per share</b>			
Basic earnings per share (cents per share)	11	13.15	21.03
Diluted earnings per share (cents per share)	11	13.08	20.87
<b>Continuing operations</b>			
Basic earnings per share (cents per share)		15.31	19.59
Diluted earnings per share (cents per share)		15.23	19.44

\* Refer to discontinued operations – note 3.

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 7 to 53.

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

As at 30 June 2012

*In thousands of AUD*

	<i>Note</i>	<b>2012</b>	<b>2011</b>
<b>Current assets</b>			
Cash and cash equivalents	12	30,528	36,573
Trade and other receivables	13	99,187	126,408
Inventories	14	91,766	104,160
Income tax receivable	15	1,564	493
Other		2,691	3,276
<b>Total current assets</b>		<b>225,736</b>	<b>270,910</b>
<b>Non-current assets</b>			
Receivables	13	4,747	4,659
Deferred tax assets	16	17,488	17,085
Property, plant and equipment	17	113,292	118,680
Intangible assets	18	383,537	398,278
Other		3,521	4,171
<b>Total non-current assets</b>		<b>522,585</b>	<b>542,853</b>
<b>Total assets</b>		<b>748,321</b>	<b>813,763</b>
<b>Current liabilities</b>			
Trade and other payables	19	68,099	76,422
Employee benefits	21	13,536	15,828
Income tax payable	15	169	10,632
Provisions	23	13,857	13,865
<b>Total current liabilities</b>		<b>95,661</b>	<b>116,747</b>
<b>Non-current liabilities</b>			
Loans and borrowings	20	205,000	234,656
Deferred tax liabilities	16	-	27
Employee benefits	21	12,346	14,146
Provisions	23	8,330	8,192
<b>Total non-current liabilities</b>		<b>225,676</b>	<b>257,021</b>
<b>Total liabilities</b>		<b>321,337</b>	<b>373,768</b>
<b>Net assets</b>		<b>426,984</b>	<b>439,995</b>
<b>Equity</b>			
Issued capital		398,930	397,844
Reserves		(2,489)	(3,276)
Retained earnings		30,543	45,427
<b>Total equity</b>		<b>426,984</b>	<b>439,995</b>

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 7 to 53.

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

For the year ended 30 June 2012

*In thousands of AUD*

	<i>Note</i>	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>			
Cash receipts from customers		703,744	813,586
Cash paid to suppliers and employees		(604,859)	(687,507)
Cash generated from operations		98,885	126,079
Interest paid and facility fees		(17,284)	(18,197)
Interest received		1,305	1,646
Income taxes paid		(22,407)	(20,970)
<b>Net cash from operating activities</b>	<b>32</b>	<b>60,499</b>	<b>88,558</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		18,361	130
Acquisition of property, plant and equipment		(21,339)	(21,239)
Acquisition of intangibles		(4,459)	(3,488)
Acquisition of subsidiary, net of cash acquired		-	(36,756)
Disposal of subsidiaries, net of cash disposed	<b>3</b>	<b>23,743</b>	<b>2,276</b>
<b>Net cash from investing activities</b>		<b>16,308</b>	<b>(59,077)</b>
<b>Cash flows from financing activities</b>			
Repayment of employee share loans		1,235	1,882
Share listing fees paid		(5)	(5)
(Repayment)/drawdown of bank bills		(29,874)	5,000
Dividends paid		(54,275)	(54,198)
<b>Net cash from financing activities</b>		<b>(82,919)</b>	<b>(47,321)</b>
Net decrease in cash and cash equivalents		(6,114)	(17,840)
Cash and cash equivalents at 1 July		36,573	54,914
Effect of exchange rate fluctuations on cash hold		69	(501)
<b>Cash and cash equivalents at 30 June</b>	<b>12</b>	<b>30,528</b>	<b>36,573</b>

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 7 to 53.

## GWA Group Limited and its controlled entities Consolidated statement of changes in equity

For the year ended 30 June 2012

*In thousands of AUD*

	Share capital	Translation reserve	Hedging reserve	Equity compensation reserve	Retained earnings	Total
Balance at 1 July 2010	396,539	(4,654)	1,058	1,880	36,266	431,089
<b>Total comprehensive income for the period</b>						
Profit for the period	-	-	-	-	63,359	63,359
<i>Other comprehensive income</i>						
Foreign currency translation differences for foreign operations, net of income tax	-	(776)	-	-	-	(776)
Effective portion of changes in fair value of cash flow hedges, net of income tax	-	-	(1,706)	-	-	(1,706)
Total other comprehensive income	-	(776)	(1,706)	-	-	(2,482)
Total comprehensive income for the period	-	(776)	(1,706)	-	63,359	60,877
<b>Transactions with owners, recorded directly in equity</b>						
Share-based payments, net of income tax	-	-	-	922	-	922
Dividends to shareholders	-	-	-	-	(54,198)	(54,198)
Issue of ordinary shares	1,305	-	-	-	-	1,305
Total transactions with owners	1,305	-	-	922	(54,198)	(51,971)
Balance at 30 June 2011	397,844	(5,430)	(648)	2,802	45,427	439,995

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 7 to 53.

GWA Group Limited and its controlled entities  
Consolidated statement of changes in equity (continued)

For the year ended 30 June 2012

*In thousands of AUD*

	Share capital	Translation reserve	Hedging reserve	Equity compensation reserve	Retained earnings	Total
Balance at 1 July 2011	397,844	(5,430)	(648)	2,802	45,427	439,995
<b>Total comprehensive income for the period</b>						
Profit for the period	-	-	-	-	39,655	39,655
<i>Other comprehensive income</i>						
Foreign currency translation differences for foreign operations, net of income tax	-	(199)	-	-	-	(199)
Translation differences for disposed business transferred to profit or loss, net of income tax	-	2,975	-	-	-	2,975
Effective portion of changes in fair value of cash flow hedges, net of income tax	-	-	(1,600)	-	-	(1,600)
Total other comprehensive income	-	2,776	(1,600)	-	-	1,176
Total comprehensive income for the period	-	2,776	(1,600)	-	39,655	40,831
<b>Transactions with owners, recorded directly in equity</b>						
Share-based payments, net of income tax	-	-	-	(389)	(264)	(653)
Dividends to shareholders	-	-	-	-	(54,275)	(54,275)
Issue of ordinary shares	1,086	-	-	-	-	1,086
Total transactions with owners	1,086	-	-	(389)	(54,539)	(53,842)
Balance at 30 June 2012	398,930	(2,654)	(2,248)	2,413	30,543	426,984

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 7 to 53.

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

#### 1. Significant accounting policies

GWA Group Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2012 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity').

The financial report was authorised for issue by the directors on 14 August 2012.

#### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') 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 ('IFRSs') 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 entity has elected not to early adopt any accounting standards or amendments.

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

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, 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 18 - measurement of the recoverable amounts of intangible assets
- note 22 - fair value of share-based payments
- note 23 and 28 - provisions and contingencies
- note 25 - valuation of financial instruments

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report. The accounting policies have been applied consistently by all entities in the consolidated entity.

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

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

##### (c) Basis of consolidation

##### (i) Subsidiaries

Subsidiaries are entities controlled by the consolidated entity. Control exists when the consolidated entity has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

##### (ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

##### (iii) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the consolidated entity.

For every business combination, the consolidated entity identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the consolidated entity takes into consideration potential voting rights that currently are exercisable.

##### *Measuring goodwill*

The consolidated entity measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the consolidated entity to the previous owners of the acquiree, and equity interests issued by the consolidated entity.

##### *Transaction costs*

Transaction costs the consolidated entity incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.



## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

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

##### (d) 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.

##### (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 to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation 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 or 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 upon disposal.

##### (e) 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 remeasurement 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 (see accounting policy (f)).

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

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

##### (f) 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 hedged 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 variations 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.

##### (i) Cash flow hedges

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 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.

##### *Separable embedded derivatives*

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

##### *Other non-trading derivatives*

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.

##### (ii) Hedge of monetary assets and liabilities

When 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.

##### (iii) Hedge of net investment in foreign operation

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. The ineffective portion is recognised immediately in profit or loss.

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

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

##### (g) Property, plant and equipment

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.

Where 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.

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.

##### (i) Subsequent costs

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.

##### (ii) Depreciation

With the exception of freehold land, 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. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

• buildings	40 years
• plant and equipment	3-15 years
• fixtures and fittings	5-10 years
• motor vehicles	4-8 years

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

##### (h) Intangible assets

##### (i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss 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. Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses.

##### (ii) Brand names

Acquired brand names are stated at cost. Expenditure incurred in developing, maintaining or enhancing brand names is written off against profit from ordinary activities in the year in which it is incurred. The brand names are not amortised as the directors believe that the brand names have an indefinite useful life. The carrying values of brand names are tested each year to ensure that no impairment exists.

##### (iii) Goodwill

Goodwill acquired in business combinations of the consolidated entity is measured at cost less accumulated impairment losses. Goodwill represents the excess of the cost of the acquisition over the consolidated entity's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired business.

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

### 1. Significant accounting policies (continued)

#### (h) Intangible assets (continued)

#### (iv) Other intangible assets

Other intangible assets that are acquired by the consolidated entity are measured at cost less accumulated amortisation and impairment losses.

#### (v) Subsequent expenditure

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

#### (vi) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance date. Other 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:

- designs 15 years
- patents 3-19 years (based on patent term)
- trade names 10-20 years
- capitalised software development costs 4 years
- brand names nil

#### (i) Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently at their amortised cost less impairment losses.

#### (j) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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.

#### (k) Cash and cash equivalents

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.

### (l) Impairment

#### (i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

1. Significant accounting policies (continued)
- (l) Impairment (continued)
- (i) Non-derivative financial assets (continued)

#### ***Financial assets measured at amortised cost***

The consolidated entity considers evidence of impairment for financial assets measured at amortised cost (loans and receivables and held-to-maturity investment securities) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the consolidated entity uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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.

#### ***Available-for-sale financial assets***

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

- (ii) Non-financial assets

The carrying amounts of the consolidated entity's non-financial assets, other than biological assets, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite life intangible assets are tested annually for impairment. 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 unit is the greater of its 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. 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 or CGUs. Subject to an operating segment ceiling test, CGUs 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 CGUs that are expected to benefit from the synergies of the combination.

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

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

##### (l) Impairment (continued)

##### (ii) Non-financial assets (continued)

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (or group of CGUs) 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.

##### (m) Share capital

##### (i) Ordinary shares

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

##### (ii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

##### (iii) Transaction costs

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

##### (n) Interest-bearing borrowings

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.

##### (o) Employee benefits

##### (i) 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.

##### (ii) Other 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 obligation 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.

##### (iii) Short-term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

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

##### (o) Employee benefits (continued)

##### (iv) Share-based payment transactions

The grant date fair value of performance rights granted to employees is recognised as a personnel expense, with a corresponding increase in equity, over the specified 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 do not 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.

##### (p) Provisions

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.

##### (i) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

##### (ii) 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.

##### (iii) 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.

##### (q) Trade and other payables

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

##### (r) Revenue

##### Goods sold

Revenue from the sale of goods 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, 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.

##### (s) Expenses

##### (i) Cost of goods sold

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

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

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

##### (s) Expenses (continued)

##### (ii) Operating lease payments

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.

##### (iii) 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.

##### (t) Income tax

Tax expense comprises current and deferred tax. Current and deferred tax 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.



## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

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

##### (t) Income tax (continued)

Additional income tax expenses that arise from the distribution of cash dividends are recognised at the same time that the liability to pay the related dividend is recognised. The consolidated entity does not distribute non-cash assets as dividends to its shareholders.

The Company and its wholly-owned 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.

##### (u) 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.

##### (v) Earnings per share

The consolidated entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic 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.

##### (w) Discontinued operations

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 comprehensive income is re-presented as if the operation had been discontinued from the start of the period.

##### (x) Segment reporting

Segment results that are reported to the CEO 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.

##### (y) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2012, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the consolidated entity, except for *AASB 9 Financial Instruments*, which becomes mandatory for the consolidated entity's 2016 consolidated financial statements and could change the classification and measurement of financial assets. The consolidated entity does not plan to adopt this standard early and the extent of the impact has not been determined.

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

#### 2. Operating segments

The consolidated entity has three 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, hand basins, plastic cisterns, tapware, baths, spas, kitchen sinks, laundry tubs and bathroom accessories.
- Door & Access Systems – This segment includes the sale of garage doors, door handles and door access systems.
- Heating & Cooling – This segment includes the sale of water heating and climate control systems.
- Discontinued operations – This segment includes the sale of education, hospitality and aged care furniture and stadia seating. It also includes the sale of sanitaryware in the North American market.

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.

	Bathrooms & Kitchens		Door & Access Systems		Heating & Cooling		Discontinued operations		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
<i>In thousands of AUD</i>										
External sales revenue	297,722	332,223	138,568	114,026	165,764	195,129	12,438	84,793	614,492	726,171
Inter-segment revenue	37	156	-	-	392	169	3	3	432	328
Total sales revenue	297,759	332,379	138,568	114,026	166,156	195,298	12,441	84,796	614,924	726,499
Segment result before restructuring	60,965	78,903	14,057	17,158	13,259	17,195	(7,792)	7,246	80,489	120,502
Restructuring income/(expense)	3,477	-	(6,104)	-	-	-	-	-	(2,627)	-
Segment profit/(loss) before income tax	64,442	78,903	7,953	17,158	13,259	17,195	(7,792)	7,246	77,862	120,502
Depreciation	6,749	6,739	2,455	1,930	3,138	2,927	267	1,049	12,609	12,645
Amortisation	4,354	4,250	681	452	1,220	740	-	-	6,255	5,442
Capital expenditure	7,679	5,373	3,893	1,006	11,495	16,830	195	747	23,262	23,956
Reportable segment assets	434,493	457,735	106,100	109,578	126,251	126,197	-	33,946	666,844	727,456
Reportable segment liabilities	33,798	32,244	18,935	19,400	32,233	36,085	-	8,430	84,966	96,159

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

### 2. Operating segments (continued)

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

*In thousands of AUD*

	2012	2011
<b>Revenues</b>		
Total revenue for reportable segments	614,924	726,499
Unallocated amounts: corporate revenue	74	196
Elimination of inter-segment revenue	(432)	(328)
Elimination of discontinued operations	(12,438)	(84,793)
Consolidated revenue from continuing operations	602,128	641,574
<b>Profit</b>		
Total profit for reportable segments	77,862	120,502
Elimination of discontinued operations	7,792	(7,248)
Restructuring expenses: corporate	(699)	-
Unallocated amounts: corporate expenses	(12,917)	(13,346)
Profit from operating activities	72,038	99,910
Net financing costs	(14,247)	(15,175)
Consolidated profit before tax from continuing operations	57,791	84,735
<b>Assets</b>		
Total assets for reportable segments	666,844	727,456
Unallocated amounts: corporate assets*	81,477	86,307
Consolidated total assets	748,321	813,763
<b>Liabilities</b>		
Total liabilities for reportable segments	84,966	96,159
Unallocated amounts: corporate liabilities*	236,371	277,609
Consolidated total liabilities	321,337	373,768

\* Corporate assets include cash and cash equivalents, tax assets, employee share loans and treasury financial instruments at fair value. Corporate liabilities include loans and borrowings, tax liabilities and treasury financial instruments at fair value.

#### Reconciliations of other material items

*In thousands of AUD*

	2012	2011
<b>Depreciation</b>		
Total depreciation for reportable segments	12,609	12,645
Unallocated amounts: depreciation on corporate assets	242	193
Consolidated total depreciation	12,851	12,838
<b>Amortisation</b>		
Total amortisation for reportable segments	6,255	5,442
Unallocated amounts: amortisation on corporate assets	114	173
Consolidated total amortisation	6,369	5,615
<b>Capital expenditure</b>		
Total capital expenditure for reportable segments	23,262	23,956
Unallocated amounts: corporate capital expenditure	2,536	771
Consolidated total capital expenditure	25,798	24,727

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

#### 2. Operating segments (continued)

##### Geographical segments

The business segments are managed on a worldwide basis, but operate mainly in one geographical area being Australia. Sales offices are operated in New Zealand and Asia. Sales revenue from geographical areas outside Australia comprised only 5% of the consolidated entity's total sales revenue for the current year (2011: 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		Unallocated		Consolidated	
	2012	2011	2012	2011	2012	2011
External sales revenue	584,531	684,364	30,035	42,003	614,566	726,367
Segment assets	743,303	802,367	5,018	11,396	748,321	813,763
Capital expenditure	25,693	24,618	105	109	25,798	24,727

##### Major customers

The consolidated entity conducts business with 3 customers where the gross revenue generated from each customer exceeds 10% of the consolidated entity's total gross revenue. Gross revenue from these customers represent approximately \$97,000,000 (2011: \$111,000,000), \$84,000,000 (2011: \$97,000,000) and approximately \$71,000,000 (2011: \$65,000,000) respectively of the consolidated entity's total gross revenues for the current year of approximately \$674,000,000 (2011: \$725,000,000). The difference between gross revenue and reported sales revenue is due to industry rebates. The revenues from these customers are reported in the Bathrooms & Kitchens, Door & Access Systems and the Heating & Cooling segments.

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

#### 3. Discontinued operations

During the period ended 30 June 2012, the commercial furniture business was sold with an effective date of 30 September 2011. The North American sanitaryware business was also sold, with an effective date of 31 December 2011. The operating activities of both businesses were not discontinuing operations or classified as held for sale as at 30 June 2011. The comparative statement of comprehensive income has been re-presented to show the discontinued operations separately from continuing operations.

In the prior reporting period, the final payment of \$2,276,000 for the sale of the Rover business was also received.

*In thousands of AUD*

	2012	2011
<b>Results of discontinued operations</b>		
Revenue	12,441	84,796
Expenses	(15,002)	(77,128)
<b>Results from operating activities</b>	(2,561)	7,668
Income tax	362	(2,917)
<b>Results from operating activities, net of income tax</b>	(2,199)	4,751
Loss on sale of the discontinued operations	(5,231)	(422)
Income tax benefit on loss on sale of discontinued operations	912	-
<b>(Loss)/profit for the period</b>	<b>(6,518)</b>	<b>4,329</b>
Basic loss per share (cents per share)	(2.16)	1.44
Diluted loss per share (cents per share)	(2.15)	1.43

*In thousands of AUD*

	2012	2011
<b>Cash flows from discontinued operations</b>		
Net cash (used in)/from operating activities	(1,975)	16,557
Net cash from investing activities	23,559	1,546
<b>Net cash from discontinued operations</b>	<b>21,584</b>	<b>18,103</b>

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

#### 3. Discontinued operations (continued)

*In thousands of AUD*

##### Effect of disposals on the financial position of the consolidated entity

	2012	2011
Trade and other receivables	(4,140)	-
Inventories	(8,560)	-
Property, plant and equipment	(4,262)	-
Cash and cash equivalents	(354)	-
Other current assets	(635)	-
Trade and other payables	3,681	-
Income tax receivable	(26)	-
Provisions	354	-
Employee benefits	2,689	-
Income tax payable	136	-
Deferred tax assets	(1,027)	-
Intangible assets	(12,400)	-
Net assets and liabilities	(24,544)	-
Disposal costs	(1,809)	(422)
Foreign currency translation reserve	(2,975)	-
	<b>(29,328)</b>	<b>(422)</b>
Consideration proceeds	24,097	2,276
Cash and cash equivalents disposed of	(354)	-
Net cash inflow	<b>23,743</b>	<b>2,276</b>

#### 4. Other income

*In thousands of AUD*

	2012	2011
Foreign currency gains - realised	233	22
Foreign currency gains - unrealised	1,204	31
Net gain on disposal of property, plant and equipment and intangible assets	9,632	-
Other	1,778	420
	<b>12,847</b>	<b>473</b>

#### 5. Other expenses

*In thousands of AUD*

	2012	2011
Foreign currency losses - realised	86	1,277
Foreign currency losses - unrealised	53	205
Net loss on disposal of property, plant and equipment and intangible assets	-	178
Restructuring expenses	13,180	-
Acquisition costs	133	900
Disposal costs	-	45
	<b>13,452</b>	<b>2,605</b>

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

#### 6. Restructuring expenses

*In thousands of AUD*

	2012	2011
Restructuring income – gains on disposal of property	9,854	-
Restructuring expenses	(13,180)	-
Tax benefit	3,947	-
Net restructuring income after tax	621	-

#### 7. Personnel expenses

*In thousands of AUD*

	2012	2011
Wages and salaries – including superannuation contributions, annual leave, long service leave and on-costs	148,211	145,676
Equity-settled share-based payment transactions	321	922
	148,532	146,598

#### 8. Auditors' remuneration

*In AUD*

	2012	2011
<b>Audit services</b>		
Auditors of the Company		
<i>KPMG Australia:</i>		
Audit and review of financial reports	455,000	472,000
Other regulatory services	3,500	3,000
<i>Overseas KPMG Firms:</i>		
Audit and review of financial reports	12,000	15,000
	470,500	490,000
<b>Other services</b>		
Auditors of the Company		
<i>KPMG Australia</i>		
Taxation services	28,682	40,806
Other services	45,660	-
<i>Overseas KPMG Firms:</i>		
Other assurance services	-	27,655
Taxation services	31,132	62,915
	105,474	131,376

#### 9. Net financing costs

*In thousands of AUD*

	2012	2011
<b>Finance income</b>		
Interest income on call deposits	1,226	1,569
Unwinding of discount on loans and provisions	674	596
Other	79	78
	1,979	2,243
<b>Finance expense</b>		
Interest expense on financial liabilities	10,061	10,842
Interest expense on swaps	674	392
Facility fees on financial liabilities	4,897	5,423
Establishment fee amortisation	521	549
Other	73	212
	16,226	17,418
Net financing costs	14,247	15,175

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

#### 10. Income tax expense Recognised in the income statement

<i>In thousands of AUD</i>	2012	2011
<b>Current tax expense</b>		
Current year	14,818	24,583
Adjustments for prior years	(2,374)	(465)
	<u>12,444</u>	<u>24,118</u>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(826)	1,587
<b>Income tax expense from continuing operations</b>	<u>11,618</u>	<u>25,705</u>
Income tax (benefit)/expense from discontinued operations (excluding loss on sale)	(362)	2,917
Income tax benefit on loss on sale of discontinued operations	(912)	-
<b>Total income tax expense in income statement</b>	<u>10,344</u>	<u>28,622</u>

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

<i>In thousands of AUD</i>	2012	2011
Profit before tax	49,999	91,981
Income tax using the domestic tax rate of 30% (2010: 30%)	15,000	27,594
Increase in income tax expense due to:		
Non-deductible expenses	241	453
Non-deductible acquisition and disposal costs	-	396
Non-deductible share-based payments	-	277
Tax losses not recognised	437	726
Decrease in income tax expense due to:		
Effect of tax rate in foreign jurisdictions	(10)	(85)
Capital gains offset with prior capital losses	(2,477)	-
Deductible share-based payments	(116)	-
Rebateable investment allowance	-	(27)
Rebateable research and development	(357)	(247)
	<u>12,718</u>	<u>29,087</u>
(Over)/under provided in prior years	(2,374)	(465)
<b>Income tax expense on pre-tax net profit</b>	<u>10,344</u>	<u>28,622</u>

#### Deferred tax recognised directly in equity

<i>In thousands of AUD</i>	2012	2011
Derivatives	(631)	(729)



## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

#### 11. Earnings per share

##### Basic earnings per share

Calculation of basic earnings per share at 30 June 2012 was based on the profit attributable to ordinary shareholders of \$39,655,000 (2011: \$63,359,000) and a weighted average number of ordinary shares of 301,662,000 (2011: 301,221,000) calculated as follows:

	2012	2011
Cents per share	13.15	21.03

##### Profit attributable to ordinary shareholders

*In thousands of AUD*

	2012	2011
Continuing operations	46,173	59,030
Discontinued operations	(6,518)	4,329
Profit for the year	39,655	63,359

##### Weighted average number of ordinary shares

*In thousands of shares*

	2012	2011
Issued ordinary shares at 1 July	301,525	301,103
Effect of shares issued	137	118
Weighted average number of ordinary shares at 30 June	301,662	301,221

##### Diluted earnings per share

Calculation of diluted earnings per share at 30 June 2012 was based on the profit attributable to ordinary shareholders of \$39,655,000 (2011: \$63,359,000) and a weighted average number of ordinary shares of 303,232,000 (2011: 303,571,000) calculated as follows:

	2012	2011
Cents per share	13.08	20.87

##### Profit attributable to ordinary shareholders (diluted)

*In thousands of AUD*

	2012	2011
Continuing operations	46,173	59,030
Discontinued operations	(6,518)	4,329
Profit for the year	39,655	63,359

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

*In thousands of shares*

	2012	2011
Weighted average number of ordinary shares (basic)	301,662	301,221
Effect of performance rights on issue	1,570	2,350
Weighted average number of ordinary shares (diluted)	303,232	303,571

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

#### 12. Cash and cash equivalents

<i>In thousands of AUD</i>	2012	2011
Bank balances	12,998	14,216
Call deposits	17,530	22,357
Cash and cash equivalents in the statement of cash flows	<u>30,528</u>	<u>36,573</u>

The consolidated entity's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 25.

#### 13. Trade and other receivables

<i>In thousands of AUD</i>	2012	2011
<b>Current</b>		
Trade receivables	80,549	103,609
Provision for impairment	(1,666)	(2,200)
Derivatives used for hedging	18,495	20,373
Employee share loans	660	637
Other	1,149	3,989
	<u>99,187</u>	<u>126,408</u>
<b>Non-current</b>		
Employee share loans	<u>4,747</u>	<u>4,659</u>

The consolidated entity's exposure to credit and currency risk and impairment losses related to trade and other receivables are disclosed in note 25.

#### 14. Inventories

<i>In thousands of AUD</i>	2012	2011
Raw materials and consumables	21,310	20,524
Work in progress	2,571	5,676
Finished goods	67,885	77,960
	<u>91,766</u>	<u>104,160</u>

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

#### 15. Current tax assets and liabilities

The current tax asset for the consolidated entity of \$1,564,000 (2011: \$493,000) represents the amount of income taxes recoverable in respect of current and prior periods. The current tax liability for the consolidated entity of \$169,000 (2011: \$10,632,000) represents the amount of income taxes payable in respect of the current period. In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax-consolidated group has assumed the current tax asset / (liability) initially recognised by the members in the tax-consolidated group.

#### 16. 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	
	2012	2011	2012	2011	2012	2011
Property, plant and equipment	582	823	(1,144)	(951)	(582)	(128)
Intangible assets	509	349	(5,240)	(5,826)	(4,731)	(5,477)
Inventories	2,578	2,545	-	-	2,578	2,545
Employee benefits	7,762	8,963	-	-	7,762	8,963
Provisions	8,082	8,838	-	-	8,082	8,838
Other items	4,462	2,687	(83)	(370)	4,379	2,317
Tax assets / (liabilities)	23,955	24,205	(6,467)	(7,147)	17,488	17,058
Set off of tax	(6,467)	(7,120)	6,467	7,120	-	-
Net tax assets / (liabilities)	17,488	17,085	-	(27)	17,488	17,058

##### Unrecognised deferred tax assets

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

<i>In thousands of AUD</i>	2012	2011
Capital losses	7,779	4,246
Revenue losses	1,463	773

The deductible tax losses accumulated at balance date do not expire under current tax legislation.

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which to offset the tax benefit of these losses.

#### Movement in temporary differences during the year

<i>In thousands of AUD</i>	Balance 1 July 10	Recognised in income	Recognised in equity	Acquired in business combinations	Disposals	Balance 30 June 11
Property, plant and equipment	388	(516)	-	-	-	(128)
Intangible assets	(3,426)	112	-	(2,163)	-	(5,477)
Inventories	2,311	39	-	195	-	2,545
Employee benefits	7,990	278	-	695	-	8,963
Provisions	11,229	(1,902)	-	411	-	9,738
Other items	286	402	729	-	-	1,417
	18,778	(1,587)	729	(862)	-	17,058

<i>In thousands of AUD</i>	Balance 1 July 11	Recognised in income	Recognised in equity	Acquired in business combinations	Disposals	Balance 30 June 12
Property, plant and equipment	(128)	(691)	-	-	237	(582)
Intangible assets	(5,477)	823	-	-	(77)	(4,731)
Inventories	2,545	33	-	-	-	2,578
Employee benefits	8,963	(399)	-	-	(802)	7,762
Provisions	9,738	(1,336)	-	-	(320)	8,082
Other items	1,417	2,396	631	-	(65)	4,379
	17,058	826	631	-	(1,027)	17,488

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

17. Property, plant and equipment

	Land and buildings	Plant and equipment	Motor vehicles	Work in progress	Total
<i>In thousands of AUD</i>					
<b>Cost</b>					
Balance at 1 July 2010	58,532	176,572	1,131	7,946	244,181
Acquisitions through business combinations	-	5,366	971	6	6,343
Additions	1,090	10,360	-	9,789	21,239
Disposals	-	(5,459)	(387)	-	(5,846)
Effect of movements in foreign exchange	-	(215)	(33)	-	(248)
Balance at 30 June 2011	59,622	186,624	1,682	17,741	265,669
Balance at 1 July 2011	59,622	186,624	1,682	17,741	265,669
Additions	364	16,076	30	4,869	21,339
Disposals	(11,294)	(34,333)	(400)	(342)	(46,369)
Transfers	9,534	4,021	-	(13,555)	-
Effect of movements in foreign exchange	-	70	4	-	74
Balance at 30 June 2012	58,226	172,458	1,316	8,713	240,713
<b>Depreciation and impairment losses</b>					
Balance at 1 July 2010	(8,246)	(130,746)	(858)	-	(139,850)
Depreciation charge for the year	(1,003)	(11,630)	(205)	-	(12,838)
Disposals	-	5,203	329	-	5,532
Effect of movements in foreign exchange	-	131	16	-	147
Balance at 30 June 2011	(9,249)	(137,042)	(718)	-	(147,009)
Balance at 1 July 2011	(9,249)	(137,042)	(718)	-	(147,009)
Depreciation charge for the year	(1,061)	(11,548)	(242)	-	(12,851)
Disposals	2,794	29,514	179	-	32,487
Effect of movements in foreign exchange	-	(46)	(2)	-	(48)
Balance at 30 June 2012	(7,516)	(119,122)	(783)	-	(127,421)
<b>Carrying amounts</b>					
At 1 July 2010	50,286	45,826	273	7,946	104,331
At 30 June 2011	50,373	49,582	964	17,741	118,660
At 1 July 2011	50,373	49,582	964	17,741	118,660
At 30 June 2012	50,710	53,336	533	8,713	113,292

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

18. Intangible assets

*In thousands of AUD*

	Software	Brand names	Trade names, designs and patents	Goodwill	Total
<b>Cost</b>					
Balance at 1 July 2010	18,663	321,131	14,230	22,283	376,307
Acquisitions through business combinations	-	-	7,317	24,075	31,392
Additions	3,488	-	-	-	3,488
Effect of movements in foreign exchange	-	(20)	-	-	(20)
Balance at 30 June 2011	22,151	321,111	21,547	46,358	411,167
Balance at 1 July 2011	22,151	321,111	21,547	46,358	411,167
Additions	4,459	-	-	-	3,542
Disposals	(486)	(12,400)	-	-	(12,886)
Effect of movements in foreign exchange	-	6	-	-	6
Balance at 30 June 2012	26,124	308,717	21,547	46,358	402,746
<b>Amortisation</b>					
Balance at 1 July 2010	(6,687)	-	(587)	-	(7,274)
Amortisation for the year	(4,610)	-	(1,005)	-	(5,615)
Disposals	-	-	-	-	-
Balance at 30 June 2011	(11,297)	-	(1,592)	-	(12,889)
Balance at 1 July 2011	(11,297)	-	(1,592)	-	(12,889)
Amortisation for the year	(5,149)	-	(1,220)	-	(6,369)
Disposals	49	-	-	-	49
Balance at 30 June 2012	(16,397)	-	(2,812)	-	(19,209)
<b>Carrying amounts</b>					
At 1 July 2010	11,976	321,131	13,643	22,283	369,033
At 30 June 2011	10,854	321,111	19,955	46,358	398,278
At 1 July 2011	10,854	321,111	19,955	46,358	398,278
At 30 June 2012	9,727	308,717	18,735	46,358	383,537

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

### 18. Intangible assets (continued)

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

<i>In thousands of AUD</i>	2012	2011
Bathrooms & Kitchens	284,117	284,111
Door & Access Systems	44,124	44,124
Heating & Cooling	26,834	26,834
Commercial Furniture	-	12,400
	<u>355,075</u>	<u>367,469</u>

#### Impairment testing for brand names and goodwill

The recoverable amounts of all brand names and goodwill were assessed at 30 June 2012 based on internal value in use calculations and no impairment was identified for any segment (2011: nil for all segments).

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 2.5% (2011: 2.5%) in calculating terminal values of the units, which does not exceed the long-term average growth rate for the industry.
- A pre-tax discount rate of 12.26% was used (2011: 14.08%).

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

### 19. Trade and other payables

<i>In thousands of AUD</i>	2012	2011
<b>Current</b>		
Trade payables and accrued expenses	45,069	50,111
Derivatives used for hedging	21,706	21,296
Non-trade payables and accrued expenses	1,324	5,015
	<u>68,099</u>	<u>76,422</u>

The consolidated entity's exposure to currency risk and liquidity risk related to trade and other payables are disclosed in note 25.

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

#### 20. 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 25.

#### Non-current liabilities

*In thousands of AUD*

Unsecured cash advance facilities

2012	2011
205,000	234,656

#### Terms and debt repayment schedule

<i>In thousands of AUD</i>	Currency	Year of maturity	Consolidated			
			2012 Face value	2012 Carrying amount	2011 Face value	2011 Carrying amount
Unsecured cash advance facilities	AUD	2014	200,000	200,000	200,000	200,000
Unsecured cash advance facilities	AUD	2016	5,000	5,000	30,000	30,000
Unsecured cash advance facilities	USD	-	-	-	4,656	4,656
			205,000	205,000	234,656	234,656

The unsecured cash advance facilities mature over the next 2 to 4 financial years and have variable rates ranging from 5.36% - 5.66% at 30 June 2012 (2011: 2.37% - 7.18%).

#### Financing facilities

*In thousands of AUD*

	2012	2011
Bank overdraft	1,000	1,000
Standby letters of credit	12,000	12,000
Bank guarantees	4,200	4,200
Unsecured cash advance facility	300,000	300,000
	317,200	317,200

#### Facilities utilised at reporting date

Bank overdraft	-	-
Standby letters of credit	135	-
Bank guarantees	1,445	624
Unsecured cash advance facility	205,000	234,656
	206,580	235,280

#### Facilities not utilised at reporting date

Bank overdraft	1,000	1,000
Standby letters of credit	11,865	12,000
Bank guarantees	2,755	3,576
Unsecured cash advance facility	95,000	65,344
	110,620	81,920

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

#### 20. Loans and borrowings (continued)

##### Bank overdraft

The bank overdraft facility available to the consolidated entity is unsecured. Interest on the bank overdraft facility is charged at prevailing market rates. No drawdowns against this facility had been made as at 30 June 2012.

##### Unsecured cash advance facility

Bank loans are provided to GWA Finance Pty Limited under the Multi-currency Revolving Facility Agreement. The bank loans at reporting date are denominated in Australian dollars. The bank loans are unsecured with a negative pledge in favour of the banks, and are split between three year and five year terms.

The loans bear interest at market rates and interest is typically payable every 30 to 90 days. The consolidated entity 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 agreements.

##### 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.

#### 21. Employee benefits

##### Current

*In thousands of AUD*

	2012	2011
Liability for annual leave	11,195	13,029
Liability for long-service leave	2,341	2,799
	<u>13,536</u>	<u>15,828</u>
<b>Non-current</b>		
Liability for long-service leave	<u>12,346</u>	<u>14,146</u>

##### Defined contribution superannuation funds

The consolidated entity makes contributions to a defined contribution superannuation fund. Contributions are charged against income as they are made based on various percentages of each employee's gross salaries. The amount recognised as expense was \$10,440,000 for the financial year ended 30 June 2012 (2011: \$11,031,000).

##### Employee share plan

The employee share plan ('the Plan') was established to assist in the retention and motivation of employees. All permanent employees of the Company, who are invited to participate, may participate in the plan. The maximum number of shares subject to the Plan at any time may not exceed 5% of the nominal amount of all Ordinary Shares on issue. The Plan does not provide for the issue of options and no options have been issued by the Company at balance date. The loans must be repaid in full by the employee.

Under the Plan, shares can either be issued to employees or purchased on market, and in both cases the employee will pay market price for the shares. During 2012, 480,500 ordinary shares were issued to employees at the market price of \$2.27, being total market value of \$1,090,000 with \$5,000 expenditure incurred by the consolidated entity for listing fees. In the prior year, 422,500 ordinary shares were issued to employees at the market price of \$3.10, being total market value of \$1,310,000 with listing fees of \$5,000.

As at 30 June 2012, loans are issued for 4,051,750 (2011: 3,813,750) shares and the remaining balances of these loans is \$8,769,000 (2011: \$8,914,000) or \$5,407,000 (2011: \$5,296,000) at net present value. During 2012, dividends of \$660,000 (2011: \$664,000) were paid against the loans and a further \$575,000 (2011: \$1,218,000) was paid by employees against these loans.



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

### 22. 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 made), subject to meeting certain financial performance hurdles and the holder remaining in employment with the Company until the nominated vesting date.

The performance hurdles are subject to financial performance conditions which measure Total Shareholder Returns (TSR) compared to a peer group of companies, and growth in Earnings Per Share (EPS). The performance hurdles are challenging and achievable and focus senior 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 after three years.

For performance rights granted to executives in the 2011/12 year, the performance hurdles and vesting proportions for the EPS performance measure is outlined in the table below. The base year EPS for the 2012 Long Term Incentive (Equity) Plan grant was 21.0 cents.

Compound annual EPS Growth	Proportion of Performance Rights to Vest if EPS growth hurdle is met
Less than 3% per annum	0%
3% per annum	25%
Between 3% and 8% per annum	Straight line vesting between 25% and 50%
8% or higher per annum	50% (i.e. 50% of total grant)

For performance rights granted to executives in the 2011/12 year, the performance hurdles and vesting proportions for the TSR performance measure is outlined in the table below.

TSR of GWA Group Limited relative to TSRs of Comparator Companies	Proportion of Performance Rights to Vest if TSR hurdle is met
Less than the 50 <sup>th</sup> percentile	0%
50 <sup>th</sup> percentile	25%
Between the 50 <sup>th</sup> percentile and 75 <sup>th</sup> percentile	Straight line vesting between 25% and 50%
75 <sup>th</sup> percentile or higher	50% (i.e. 50% of total grant)

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

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

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

Tranche	Grant date	Expiry date	Balance at beginning of the year	Granted during the year	Cancelled during the year	Vested during the year	Forfeited during the year	Balance at end of the year
			Number	Number	Number	Number	Number	Number
<b>2012</b>								
(i)	27/02/2009	30/06/2011	470,000	-	-	(470,000)	-	-
(ii)	12/03/2010	30/06/2012	845,000	-	(95,000)	-	(375,000)	375,000
(iii)	21/02/2011	30/06/2013	720,000	-	(40,000)	-	-	680,000
(iv)	17/02/2012	30/06/2014	-	780,000	-	-	-	780,000
			<u>2,035,000</u>	<u>780,000</u>	<u>(135,000)</u>	<u>(470,000)</u>	<u>(375,000)</u>	<u>1,835,000</u>
<b>2011</b>								
(i)	27/02/2009	30/06/2011	1,010,000	-	(70,000)	-	(470,000)	470,000
(ii)	12/03/2010	30/06/2012	900,000	-	(55,000)	-	-	845,000
(iii)	21/02/2011	30/06/2013	-	745,000	(25,000)	-	-	720,000
			<u>1,910,000</u>	<u>745,000</u>	<u>(150,000)</u>	<u>-</u>	<u>(470,000)</u>	<u>2,035,000</u>

No performance rights were vested and exercisable at 30 June 2012.

#### Fair value

During the current financial year 780,000 performance rights were granted to employees (2011: 745,000) at a weighted average fair value of \$1.44 (2011: \$2.68). The fair value of the performance rights subject to the EPS hurdle for vesting (50%) was determined as \$1.84 by using a Binomial option pricing model. The fair value of the performance rights granted subject to the TSR hurdle for vesting (50%) was determined as \$1.05 by using a Monte Carlo simulation. When determining the fair values it was assumed the Company would have a dividend yield of 8.04%, the risk free rate was 3.63% and volatility ranged between 35-45% for the Company and its comparator companies listed for the TSR hurdle.

The fair value of the performance rights granted will be allocated to each financial year evenly over the specified three year service period. The amount recognised as personnel expenses in the current financial year was \$321,000 (2011: \$922,000). Refer to the Remuneration Report for further details.

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

### 23. Provisions

<i>In thousands of AUD</i>	Warranties	Restructuring	Site restoration	Other	Total
Balance at 1 July 2011	16,483	36	2,741	2,817	22,057
Provisions made during the year	5,124	10,740	2,840	6,584	25,288
Provisions used during the year	(7,820)	(8,293)	(2,068)	(6,827)	(24,808)
Disposals	(273)	-	-	(81)	(354)
Effect of movements in foreign exchange	4	-	-	-	4
Balance at 30 June 2012	<u>13,698</u>	<u>2,483</u>	<u>3,513</u>	<u>2,493</u>	<u>22,187</u>
Current	7,242	2,483	2,123	2,009	13,857
Non-current	6,456	-	1,390	484	8,330
	<u>13,698</u>	<u>2,483</u>	<u>3,513</u>	<u>2,493</u>	<u>22,187</u>

#### Warranties

The total provision for warranties at balance date of \$13,698,000 relates to future warranty expense on products sold during the current and previous financial years. The major warranty expense relates to water heating products. The provision is based on estimates made from historical warranty data associated with similar products and services. The consolidated entity expects to expend \$7,242,000 of the total provision in the financial year ending 30 June 2013, and the majority of the balance of the liability over the following four years. The net present value of the provision has been calculated using a discount rate of 3.00 per cent.

#### Restructuring

The restructuring provision relates to the estimated costs of redundancies and related costs with respect to the closure of manufacturing operations and other business restructuring. During the financial year ended 30 June 2012, restructuring was undertaken in our Bathrooms & Kitchens and Door & Access Systems operating segments with \$10,740,000 being provided and \$8,293,000 being utilised. At balance date the balance of the restructuring provision was \$2,483,000 with the majority to be utilised in the next financial year.

#### Site restoration

The provision for site restoration at balance date of \$3,513,000 relates to the removal of plant installed in leased premises where there is a liability under the lease for the plant to be removed on expiry and the leased premises made good, and for site remediation required. As part of the restructuring in our Bathrooms & Kitchens and Door & Access Systems operating segments, a further \$2,840,000 was provided. Payments of \$2,068,000 were made in the current financial year. The majority of the activity is expected to be completed by June 2013. The remaining balance classified as non-current will be utilised when leased sites are exited.

### 24. Capital and reserves

#### Share capital

<i>In thousands</i>	Ordinary shares		AUD	
	2012	2011	2012	2011
On issue at 1 July – fully paid	301,525	301,103	397,844	396,539
Issue of shares under the employee share plan	481	422	1,086	1,305
On issue at 30 June – fully paid	<u>302,006</u>	<u>301,525</u>	<u>398,930</u>	<u>397,844</u>

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.

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

### 24. Capital and reserves (continued)

#### 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 the performance rights.

#### Dividends

Dividends recognised in the current year are:

<i>In thousands of AUD</i>	Cents per share	Total amount	Franked	Date of payment
<b>2012</b>				
Interim 2012 ordinary	9.5	28,645	100%	4 <sup>th</sup> April 2012
Final 2011 ordinary	8.5	25,630	100%	6 <sup>th</sup> Oct 2011
Total amount	18.0	54,275		
<b>2011</b>				
Interim 2011 ordinary	9.5	28,604	100%	5 <sup>th</sup> April 2011
Final 2010 ordinary	8.5	25,594	100%	6 <sup>th</sup> Oct 2010
Total amount	18.0	54,198		

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

After the balance sheet date the following dividends were approved by the directors. The dividends have not been provided for. The declaration and subsequent payment of dividends has no income tax consequences.

<i>In thousands of AUD</i>	Cents per share	Total amount	Franked	Date of payment
Final ordinary	8.5	25,670	100%	4 <sup>th</sup> Oct 2012

The financial effect of these dividends has not been brought to account in the financial statements for the financial year ended 30 June 2012 and will be recognised in subsequent financial reports.

#### Dividend franking account

*In thousands of AUD*

30 per cent franking credits available to shareholders of GWA Group Limited for subsequent financial years

The Company	
2012	2011
14,722	27,513

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

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

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after balance date, but not recognised as a liability, is to reduce it by \$11,001,000 (2011: \$10,984,000). In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of \$14,722,000 (2011: \$27,513,000) franking credits.

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

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

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 Executive Risk Committee, which is responsible for developing and monitoring risk management policies. The Committee is required to report regularly to the Board on its activities.

Risk management policies are established to identify and analyse the risks 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 Board Audit 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 Board Audit Committee is assisted in its oversight role by the Internal Audit team. The Internal Audit team conducts both regular and ad hoc reviews of risk management controls and procedures. The results of the reviews are reported to the Board Audit 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.

##### **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 for major concentrations of trade debts. 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 high credit ratings, management does not expect any counterparty to fail to meet its obligations.

The consolidated entity has three major customers which comprise 50% of the trade receivables carrying amount at 30 June 2012 (2011: 47%). At balance date there were no material uninsured concentrations of credit risk.

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

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

#### Credit risk (continued)

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>	2012	2011
Cash and cash equivalents	30,528	36,573
Trade receivables	80,549	103,609
Employee share loans	5,407	5,296
Commodity contracts used for hedging	-	788
Forward exchange contracts used for hedging	18,495	19,585
	<u>134,979</u>	<u>165,851</u>

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

<i>In thousands of AUD</i>	2012 Receivable	2012 Impairment	2011 Receivable	2011 Impairment
Not yet due	65,154	(70)	87,130	(238)
Past due 0-30 days	28,528	(61)	32,575	(104)
Past due 31-60 days	1,255	(35)	2,770	(64)
Past due 61-120 days	1,043	(312)	1,432	(206)
Past due 120+ days	2,568	(1,188)	3,703	(1,588)
Less accrued rebates and credit claims	(17,999)	-	(24,001)	-
	<u>80,549</u>	<u>(1,666)</u>	<u>103,609</u>	<u>(2,200)</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>	2012	2011
Balance at 1 July	(2,200)	(4,751)
Impairment loss (recognised)/reversal	(231)	177
Impairment losses applied	646	2,641
Acquired through business combinations	-	(277)
Disposals	122	-
Effect of movements in foreign exchange	(3)	10
Balance at 30 June	<u>(1,666)</u>	<u>(2,200)</u>

#### 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 and overdraft 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.

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

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

##### Liquidity risk (continued)

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

##### Maturity analysis

<i>In thousands of AUD</i>	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	3-5 years	5+ years
<b>2012</b>							
<b>Non-derivative financial liabilities</b>							
Unsecured cash advance facilities	(205,000)	(279,454)	(12,515)	(12,515)	(25,030)	(224,394)	(5,000)
Trade and other payables	(45,069)	(45,069)	(45,021)	(48)	-	-	-
<b>Derivative financial liabilities</b>							
Interest rate swaps designated as hedges	(3,096)	(2,026)	(806)	(599)	(559)	(62)	-
Commodity contracts designated as hedges – outflow	-	-	-	-	-	-	-
Commodity contracts designated as hedges – inflow	-	-	-	-	-	-	-
Forward exchange contracts designated as hedges – outflow	(18,610)	(18,610)	(18,610)	-	-	-	-
Forward exchange contracts designated as hedges – inflow	18,495	18,495	18,495	-	-	-	-
<b>Total at 30 June 2012</b>	<b>(253,280)</b>	<b>(326,664)</b>	<b>(58,457)</b>	<b>(13,162)</b>	<b>(25,589)</b>	<b>(224,456)</b>	<b>(5,000)</b>
<b>2011</b>							
<b>Non-derivative financial liabilities</b>							
Unsecured cash advance facilities	(234,656)	(297,532)	(8,307)	(8,307)	(16,615)	(229,647)	(34,656)
Trade and other payables	(50,111)	(50,111)	(49,771)	(311)	(29)	-	-
<b>Derivative financial liabilities</b>							
Interest rate swaps designated as hedges	(450)	(452)	(122)	(111)	(177)	(42)	-
Commodity contracts designated as hedges – outflow	(605)	(605)	(605)	-	-	-	-
Commodity contracts designated as hedges – inflow	788	788	788	-	-	-	-
Forward exchange contracts designated as hedges – outflow	(20,241)	(20,241)	(20,241)	-	-	-	-
Forward exchange contracts designated as hedges – inflow	19,585	19,585	19,585	-	-	-	-
<b>Total at 30 June 2011</b>	<b>(285,690)</b>	<b>(348,568)</b>	<b>(58,673)</b>	<b>(8,729)</b>	<b>(16,821)</b>	<b>(229,689)</b>	<b>(34,656)</b>

The unsecured cash advance facilities are split between three year and five year terms. The periods in which the cash flows associated with derivatives arise match the periods of profit and loss impact.

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

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

#### 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 Executive Risk Committee.

#### a) 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. The swaps mature over the next 3 years and have fixed swap rates ranging from 3.86% to 5.42% (2011: 5.05% - 5.42%). At 30 June 2012, the consolidated entity had interest rate swaps in operation with a notional contract amount of \$125,000,000 (2011: \$125,000,000). An additional \$25,000,000 swap will commence in the next financial year which will replace an existing maturing swap.

The consolidated entity classifies interest rate swaps as cash flow hedges and states them at fair value.

The net fair value of swaps at 30 June 2012 was \$3,096,000 recognised as a fair value derivative liability. (2011: \$450,000 fair value derivative liability).

#### (i) Profile

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

<i>In thousands of AUD</i>	2012 Notional value	2012 Carrying amount	2011 Notional value	2011 Carrying amount
<b>Variable rate financial instruments</b>				
Unsecured cash advance facilities	(205,000)	(205,000)	(234,656)	(234,656)
Bank balances	12,998	12,998	14,216	14,216
Call deposits	17,530	17,530	22,357	22,357
	<u>(174,472)</u>	<u>(174,472)</u>	<u>(198,083)</u>	<u>(198,083)</u>
<b>Fixed rate financial instruments</b>				
Interest rate swap derivatives	125,000	(3,096)	125,000	(450)
<b>Total</b>	<u>(49,472)</u>	<u>(177,568)</u>	<u>(73,083)</u>	<u>(198,533)</u>



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

25. Financial instruments and financial risk management (continued)

**Market risk (continued)**

**a) Interest rate risk (continued)**

**(ii) Fair value sensitivity analysis for fixed rate instruments**

The consolidated entity does not account for fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

A change of 100 basis points in interest rates at balance date would have affected the consolidated entity's equity and financial assets and liabilities as follows:

<i>In thousands of AUD</i>	2012	2011
<b>Increase of 100 basis points</b>		
Hedging reserve (increase)/decrease	(2,622)	(1,152)
Financial assets increase/(decrease)	-	702
Financial liabilities (increase)/decrease	2,622	450
	-	-
<b>Decrease of 100 basis points</b>		
Hedging reserve (increase)/decrease	2,690	1,170
Financial assets increase/(decrease)	-	-
Financial liabilities (increase)/decrease	(2,690)	(1,170)
	-	-

**(iii) Cash flow sensitivity analysis for fixed and variable rate instruments**

A change of 100 basis points in interest rates during the period would have affected the consolidated entity's profit or loss as follows:

<i>In thousands of AUD</i>	2012	2011
<b>Increase of 100 basis points</b>		
Unsecured cash advance facilities (AUD)	(2,519)	(2,442)
Unsecured cash advance facilities (USD)	(25)	(57)
Bank balances	130	142
Interest rate swap derivatives	1,141	1,168
Call deposits variable rate	269	290
Call deposits fixed rate	8	46
	(996)	(853)
<b>Decrease of 100 basis points</b>		
Unsecured cash advance facilities (AUD)	2,519	2,442
Unsecured cash advance facilities (USD)	9	52
Bank balances	(130)	(142)
Interest rate swap derivatives	(1,141)	(1,168)
Call deposits variable rate	(267)	(290)
Call deposits fixed rate	(8)	(46)
	982	848

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

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

##### Market risk (continued)

##### b) 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 and retranslation of the financial statements of foreign subsidiaries. The currencies giving rise to this risk are primarily USD 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 less than six months after the balance date. The consolidated entity classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value.

##### (i) Exposure to currency risk

*In thousands of AUD equivalent*

	USD	NZD	EUR
<b>Currency transaction risk</b>			
<b>2012</b>			
Trade receivables	285	-	-
Trade payables	(1,120)	(49)	(839)
Cash	2,030	1,669	553
Net balance sheet exposure	1,195	1,620	(286)
Estimated forecast sales	-	8,983	-
Estimated forecast purchases	(32,795)	(4,422)	(5,943)
Net forecast transaction exposure	(32,795)	4,561	(5,943)
Forward exchange contracts	15,602	(1,762)	1,050
Net exposure 30 June 2012	(15,998)	4,419	(5,179)
Foreign exchange rates at balance date	1.0191	1.2771	0.8092
<b>2011</b>			
Trade receivables	485	-	101
Trade payables	(1,265)	(3)	(1,274)
Cash	458	323	517
Net balance sheet exposure	(322)	320	(656)
Estimated forecast sales	4,829	9,551	142
Estimated forecast purchases	(39,288)	(5,489)	(8,139)
Net forecast transaction exposure	(34,459)	4,062	(7,997)
Forward exchange contracts	14,946	(1,312)	3,241
Net exposure 30 June 2011	(19,835)	3,070	(5,412)
Foreign exchange rates at balance date	1.0739	1.2953	0.7405
<b>Currency translation risk</b>			
<b>2012</b>			
Net assets	-	1,708	-
<b>2011</b>			
Net assets	1,485	2,623	-

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

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

#### Market risk (continued)

#### b) Foreign currency risk (continued)

#### (ii) Sensitivity analysis

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 of exchange rate movements on equity is not material.

#### Fair values

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

	Carrying amount	Fair value	Carrying amount	Fair value
	2012	2012	2011	2011
<i>In thousands of AUD</i>				
Cash and cash equivalents	30,528	30,528	36,573	36,573
Trade and other receivables	85,439	85,439	110,694	110,694
Interest rate swaps:				
Liabilities	(3,096)	(3,096)	(450)	(450)
Commodity contracts:				
Assets	-	-	788	788
Liabilities	-	-	(605)	(605)
Forward exchange contracts:				
Assets	18,495	18,495	19,585	19,585
Liabilities	(18,610)	(18,610)	(20,241)	(20,241)
Unsecured cash advance facilities	(205,000)	(205,000)	(234,656)	(234,656)
Trade payables and accrued expenses	(46,393)	(46,393)	(55,126)	(55,126)
	<b>(138,637)</b>	<b>(138,637)</b>	<b>(143,438)</b>	<b>(143,438)</b>

#### Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

#### (i) Derivatives

Forward exchange contracts are marked to market by discounting the contractual forward price and deducting the current spot rate. Commodity contracts are marked to market by discounting the contractual forward price and deducting the current commodity spot price. 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

The notional amount of the interest-bearing loans is deemed to reflect the fair value. The interest-bearing loans are split between three year and five year terms.

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

All receivables / payables are either repayable within twelve months or repayable on demand. Accordingly, the notional amount is deemed to reflect the fair value.

#### (iv) Employee share loans and other employee loans

Employee share loans and other employee loans are carried at fair value using discounted cash flow techniques.

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

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

#### Estimation of fair values (continued)

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

The consolidated entity uses the government yield curve as of 30 June 2012 plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	2012	2011
Derivatives	3.14% - 3.58%	4.88% - 5.07%
Employee share loans and other loans	7.40% - 7.80%	6.65% - 7.80%
Loans and borrowings	5.36% - 5.66%	2.37% - 7.18%

##### (vi) 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*

	Level 1	Level 2	Level 3	Total
<b>30 June 2012</b>				
Commodity contracts used for hedging	-	-	-	-
Forward exchange contracts used for hedging	-	18,495	-	18,495
Interest rate swaps used for hedging	-	-	-	-
	-	18,495	-	18,495
Commodity contracts used for hedging	-	-	-	-
Forward exchange contracts used for hedging	-	(18,610)	-	(18,610)
Interest rate swaps used for hedging	-	(3,096)	-	(3,096)
	-	(21,706)	-	(21,706)
<b>30 June 2011</b>				
Commodity contracts used for hedging	788	-	-	788
Forward exchange contracts used for hedging	-	19,585	-	19,585
Interest rate swaps used for hedging	-	-	-	-
	788	19,585	-	20,373
Commodity contracts used for hedging	(605)	-	-	(605)
Forward exchange contracts used for hedging	-	(20,241)	-	(20,241)
Interest rate swaps used for hedging	-	(450)	-	(450)
	(605)	(20,691)	-	(21,296)

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

#### 26. Operating leases

##### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of AUD</i>	2012	2011
Less than one year	12,401	12,872
Between one and five years	28,411	20,013
More than five years	5,431	2,878
	<u>46,243</u>	<u>35,763</u>

The consolidated entity leases warehouse, factory and office facilities and motor vehicles under operating leases. The warehouse, factory and office facility leases typically run for a period of 3 to 8 years, with an option to renew the lease after that date. None of the leases include contingent rentals.

During the financial year ended 30 June 2012, \$14,111,000 (2011: \$13,308,000) was recognised as an expense in profit or loss in respect of operating leases.

#### 27. Capital commitments

*In thousands of AUD*

##### Capital expenditure commitments

##### Plant and equipment

*Contracted but not provided for and payable:*

Within one year

	2012	2011
	<u>4,111</u>	<u>13,514</u>

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

#### 28. Contingencies

##### **Environmental remediation**

In previous financial years, the consolidated entity investigated and reported two environmental contamination issues at factory sites at Revesby NSW and Eagle Farm Queensland. The Revesby site is leased and occupied by Mollwraith-Davey Pty Ltd, a wholly owned subsidiary of the ultimate parent, GWA Group Limited. The Eagle Farm site was previously occupied by Corille Limited (formerly Rover Mowers Limited) and was exited in a prior financial year following the sale of the Rover Mowers business.

The remediation activities at the Revesby site were substantially completed during the 2012 financial year and on-going monitoring will be required. The remediation activities at the Eagle Farm site were completed during the 2012 financial year. The remediation provision at 30 June 2012 is \$1,092,000 which the directors consider adequate.

##### **Brivis evaporative cooler recall**

Since the acquisition of Brivis in April 2010, the consolidated entity has continued product recalls commenced by the former owner, Carrier, for Brivis evaporative coolers manufactured between August 2000 and November 2003 due to defective components. The total cost of the product recall cannot be reliably estimated at this stage. The Brivis purchase agreement provides that Carrier is responsible for product liability and recall costs above a specified threshold with an overall cap on Carrier's liability. The directors believe the provision at 30 June 2012 of \$1,064,000 in respect of potential product liability and product recall costs is adequate.

#### 29. 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 30 are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and directors' report.

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 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 2012, is set out below.

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

### 29. Deed of cross guarantee (continued)

#### Summarised statement of comprehensive income and retained profits

*In thousands of AUD*

	2012	2011
Profit before tax	48,211	93,081
Income tax expense	(9,597)	(27,435)
Profit after tax	38,614	65,646
Retained profits at beginning of year	42,191	30,743
Dividends recognised during the year	(54,275)	(54,198)
Share-based payments, net of income tax	(264)	-
Retained profits at end of the year	26,266	42,191

#### Statement of financial position

*In thousands of AUD*

##### Assets

	2012	2011
Cash and cash equivalents	29,085	34,070
Trade and other receivables	96,936	121,359
Inventories	89,428	100,228
Income tax receivable	1,537	-
Other	2,496	2,974

##### Total current assets

Receivables	4,747	4,659
Intercompany receivables	35,213	31,430
Investments	11,435	11,948
Deferred tax assets	17,418	16,929
Property, plant and equipment	74,579	88,715
Intangible assets	379,543	394,290
Other	3,521	4,171

##### Total non-current assets

	526,456	552,142
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##### Total assets

	745,938	810,773
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##### Liabilities

Trade and other payables	67,486	75,079
Income tax payable	-	10,281
Employee benefits	13,433	15,615
Provisions	13,857	13,782

##### Total current liabilities

	94,776	114,757
Loans and borrowings	205,000	234,656
Employee benefits	12,337	14,131
Provisions	8,330	8,193

##### Total non-current liabilities

	225,867	256,980
--	---------	---------

##### Total liabilities

	320,443	371,737
--	---------	---------

##### Net assets

	425,495	439,036
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##### Equity

Issued capital	398,930	397,844
Reserves	299	(999)
Retained earnings	26,266	42,191
<b>Total equity</b>	<b>425,495</b>	<b>439,036</b>

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

30. Consolidated entities

	Parties to cross guarantee	Country of incorporation	Ownership interest	
			2012	2011
<b>Parent entity</b>				
GWA Group Limited	Y	Australia		
<b>Subsidiaries</b>				
Austral Lock Pty Ltd	Y	Australia	100%	100%
Brivis Climate Systems 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%
Caroma USA Inc	N	USA	100%	100%
Corille Limited	Y	Australia	100%	100%
Dorf Clark Industries Ltd	Y	Australia	100%	100%
Dorf Industries (NZ) Ltd	N	New Zealand	100%	100%
Dux Manufacturing Limited	Y	Australia	100%	100%
G Subs Pty Ltd	Y	Australia	100%	100%
Gainsborough Hardware Industries Limited	Y	Australia	100%	100%
Gliderol International Pty 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%
Mainrule Limited	N	New Zealand	100%	100%
Mcllwraith Davey Pty Ltd	Y	Australia	100%	100%
Sebel Furniture (Hong Kong) Ltd	N	Hong Kong	-	100%
Sebel Furniture Limited	Y	Australia	-	100%
Sebel Furniture Limited (NZ)	N	New Zealand	-	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%
Warapave Pty Ltd	N	Australia	100%	100%



## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

#### 31. Parent entity disclosures

As at, and throughout, the financial year ended 30 June 2012 the parent company of the consolidated entity was GWA Group Limited.

<i>In thousands of AUD</i>	Company	
	2012	2011
<b>Results of the parent entity</b>		
Profit for the period	81,676	29,002
Other comprehensive income	-	-
Total comprehensive income for the period	81,676	29,002
<b>Financial position of the parent entity</b>		
Current assets	2,775	1,138
Total assets	585,340	511,888
Current liabilities	-	8,970
Total liabilities	151,442	106,037
<b>Shareholders equity of the parent entity</b>		
Share capital	398,930	397,844
Equity compensation reserve	2,413	2,802
Retained earnings	32,555	5,205
Total shareholders equity	433,898	405,851

#### 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 (2011: nil).

#### Capital expenditure commitments

The parent entity has not entered into any contractual commitments for the acquisition of property, plant or equipment as at reporting date (2011: nil).

#### Parent entity guarantees in respect of debts of 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. No deficiency in net assets exists in these companies at reporting date (2011: nil). Further details of the Deed of Cross Guarantee and the subsidiaries subject to the Deed are disclosed in Note 29.

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

### 32. Reconciliation of cash flows from operating activities

<i>In thousands of AUD</i>	2012	2011
<b>Cash flows from operating activities</b>		
Profit for the period	39,655	63,359
<i>Adjustments for:</i>		
Depreciation	12,851	12,838
Amortisation	6,369	5,615
Share-based payments	(771)	922
Foreign exchange (gains)/losses	(1,298)	1,580
Net financing costs	14,247	15,175
Loss on disposal of discontinued operations, net of income tax	4,319	422
(Gain)/loss on sale of property, plant and equipment and intangible assets	(9,632)	184
Income tax expense	11,256	28,622
<b>Operating profit before changes in working capital and provisions</b>	76,996	128,717
Decrease in trade and other receivables	21,941	13,764
Decrease in inventories	3,835	7,679
Decrease in trade and other payables	(2,967)	(22,310)
Decrease in provisions and employee benefits	(920)	(1,771)
	98,885	126,079
Net interest paid	(15,979)	(16,551)
Income taxes paid	(22,407)	(20,970)
<b>Net cash from operating activities</b>	<b>60,499</b>	<b>88,558</b>

### 33. Related parties

#### Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' (see note 7) are as follows:

<i>In AUD</i>	2012	2011
Short-term employee benefits	5,980,847	6,478,529
Post-employment benefits	463,822	490,658
Other long term benefits	202,124	601,689
Termination benefits	50,000	-
Share-based payments	344,678	763,624
	<b>7,041,471</b>	<b>8,334,500</b>

#### Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation is provided in the Remuneration Report section of the director's report.

Apart from the details disclosed in this note, no director has entered into a material contract with the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

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

### 33. Related parties (continued)

#### Loans to key management personnel and their related parties (consolidated)

Details regarding loans outstanding at the reporting date to key management personnel and their related parties, where the individual's aggregate loan balance exceeded \$100,000 at any time in the reporting period, are as follows:

<i>In AUD</i>	Balance 1 July 2011	Balance 30 June 2012	Interest not charged in the reporting period	Highest balance in period
<b>Directors</b>				
P Crowley	1,320,000	798,008	82,420	1,320,000
R Thornton	245,496	227,496	18,466	245,496
<b>Executives</b>				
L Patterson	616,073	580,073	46,689	616,073
W Saxelby	725,600	671,600	54,549	725,600

No loans were made to key management personnel or their related parties during the year (2011: nil).

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the consolidated entity to key management personnel and their related parties, and the number of individuals in each group, are as follows:

<i>In AUD</i>	Opening balance	Closing balance	Interest not charged in the reporting period	Number in group at 30 June
Total for key management personnel 2012	2,907,169	2,277,177	202,124	4
Total for key management personnel 2011	3,153,632	2,907,169	201,689	4

The Employee Share Plan loans are interest free and repayable over 15 years or earlier in certain circumstances. Dividends paid on the shares acquired under the Plan are applied against the balance of the loan outstanding.

#### Other key management personnel transactions with the Company or its controlled entities

The consolidated entity purchased components and tooling of \$78,769 (2011: \$122,118) from Great Western Corporation Pty Ltd, a company of which Mr R Thornton is a director. Amounts were billed based on normal market rates for such supplies and were due and payable under normal payment terms. The consolidated entity incurred legal fees of \$296,413 (2011: \$193,554) from Clayton Utz Lawyers, a legal firm of which Mr D McDonough is an equity partner. Amounts were billed based on normal market rates for such supplies and were due and payable under normal payment terms. Amounts receivable from and payable to key management personnel or to their related parties at reporting date arising from these transactions were as follows:

<i>In AUD</i>	2012	2011
Trade creditors	38,060	26,723

From time to time, key management personnel of the Company 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.

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

### 33. Related parties (continued)

#### 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 2011	Granted as compensation	Purchases	Sales	Held at 30 June 2012
<b>Directors: non-executive</b>					
R Anderson	18,399,803	-	5,000	-	18,404,803
G McGrath	150,000	-	-	-	150,000
W Bartlett	30,914	-	-	-	30,914
D McDonough	100,495	-	-	-	100,495
P Birtles	15,000	-	-	-	15,000
J Mulcahy	25,000	-	20,000	-	45,000
<b>Executive directors</b>					
P Crowley	750,000	177,500	-	(177,500)	750,000
R Thornton	116,313	17,500	-	(5,119)	128,694
<b>Executives</b>					
G Oliver	174,907	27,500	-	-	202,407
W Saxelby	320,000	50,000	-	(20,000)	350,000
L Patterson	200,000	27,500	-	-	227,500
P Crossley	-	15,000	-	-	n/a
G Welsh	-	20,000	-	-	n/a

The relevant interest of each director in the share capital of the Company 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 2012 is listed in the Directors' Report.

	Held at 1 July 2010	Granted as compensation	Purchases	Sales	Held at 30 June 2011
<b>Directors: non-executive</b>					
D Barry ( <i>Retired 28 October 2010</i> )	12,877,399	-	-	-	n/a
R Anderson	18,399,803	-	-	-	18,399,803
G McGrath	150,000	-	-	-	150,000
W Bartlett	15,914	-	15,000	-	30,914
D McDonough	60,495	-	40,000	-	100,495
P Birtles ( <i>Appointed 24 November 2010</i> )	n/a	-	-	-	15,000
J Mulcahy ( <i>Appointed 24 November 2010</i> )	n/a	-	-	-	25,000
<b>Executive directors</b>					
P Crowley	750,000	-	-	-	750,000
R Thornton	112,313	-	4,000	-	116,313
<b>Executives</b>					
G Oliver	174,907	-	-	-	174,907
W Saxelby	300,000	-	20,000	-	320,000
L Patterson	240,739	-	-	(40,739)	200,000
N Evans	14,338	-	-	(14,338)	-

No shares were granted to key management personnel during the reporting period as compensation. The aggregate number of shares held by key management personnel or their related parties at 30 June 2012 was 20,404,813 (2011: 20,282,432).

## GWA Group Limited and its controlled entities

### Notes to the consolidated financial statements

#### 34. Subsequent events

On 14 June 2012, the consolidated entity entered into a scheme implementation agreement (SIA) to acquire all of the shares of Q Technology Group Ltd (QTG). Subsequent to 30 June 2012, the SIA was terminated by the parties due to a condition precedent in the SIA becoming incapable of satisfaction. On 16 July 2012, the consolidated entity signed an indicative non-binding heads of agreement with QTG for the acquisition of API Services and Solutions Pty Ltd (API) for \$14 million on a debt free basis. API is a supplier of safes, locks, alarms and locksmithing services to commercial premises. The consolidated entity is continuing its discussions with QTG on the acquisition of API.

Other than the matter noted above, to the Director's best knowledge, there are no events that have arisen subsequent to 30 June 2012 that will, or may, significantly affect the operation or results of the consolidated entity.

## Directors' declaration

- 1 In the opinion of the directors of GWA Group Limited ('the Company'):
  - (a) the consolidated financial statements and notes, and the Remuneration Report in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the group's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 There are reasonable grounds to believe that the Company and the group entities identified in Note 29 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.
- 3 The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Managing Director and Chief Financial Officer for the financial year ended 30 June 2012.
- 4 The directors draw attention to Note 1(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Brisbane on 14 August 2012.

Signed in accordance with a resolution of the directors:

  
Geoff McGrath  
Director

  
Peter Crowley  
Director



## Independent auditor's report to the members of GWA Group Limited

### Report on the financial report

We have audited the accompanying financial report of GWA Group Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2012, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 34 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In Note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## Independent auditor's report to the members of GWA Group Limited *(continued)*

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

### Report on the remuneration report

We have audited the Remuneration Report included on pages 6 to 22 of the directors' report for the year ended 30 June 2012. 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 responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

### Auditor's opinion

In our opinion, the remuneration report of GWA Group Limited for the year ended 30 June 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Greg Boydell  
*Partner*

Sydney

14 August 2012





**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 for the financial year ended 30 June 2012 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.

KYG

KPMG

Greg Boydell  
*Partner*

14 August 2012