GWA
Group Limited

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GPO Box 1411
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19 August 2014

ASX On-Line
Manager Company Announcements
Australian Securities Exchange

Dear Sir

Financial Results for the Year Ended 30 June 2014

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 2014

GWA GROUP LIMITED			
ABN	Half Yearly	Preliminary Final	Year ended ('current period')
15 055 964 380		✔	30 June 2014

Results for announcement to the market *$A'000*

Continuing Operations				
Revenues from ordinary activities	Up	2.2%	to	577,994
Trading earnings before interest and tax[1]	Up	8.3%	to	72,340
Trading profit after tax[1]	Up	11.3%	to	43,776
[1] excludes significant items				
Significant Items				
Net significant items after tax[2]				(25,180)
[2] Refer note 5 of the attached financial report				
Reported Profit After Significant Items				
Net profit for the period attributable to members	**Down**	**42.6%**	**to**	**18,596**

Trading profit before significant items is a non-IFRS measure reported to provide a greater understanding of the underlying business performance of the Group. The disclosures are extracted or derived from the financial report for the year ended 30 June 2014 but have not been subject to review or audit.

Dividends	**Amount Per Security**	**Franked Amount Per Security**
Current period Final - ordinary dividend	5.5¢	5.5¢
Previous corresponding period Final - ordinary dividend	6.0¢	6.0¢
Record date for determining dividend entitlements	17 September 2014	
Date dividend payable	8 October 2014	
	Current Period	**Previous Corresponding Period**
Net tangible asset backing per ordinary security	0.19	0.12

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.

19 August 2014

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Media Release

GWA Set for Growth in Improving Market

- **Revenue up 2% to $578 million with strong growth in Bathrooms & Kitchens (excluding Hot Water)**
- **Trading earnings before interest and tax (EBIT) up 8% on the prior period to $72.3 million**
- **Net profit after tax of $18.6 million impacted by one-off significant items**
- **Strategic review completed with focus on core Bathrooms & Kitchens and Door & Access Systems businesses and divestment of non-core businesses - Dux Hot Water and Brivis Heating & Cooling**
- **Subject to successful divestment of Dux and Brivis, capital return options to shareholders will be reviewed**
- **Dwelling completions rise only 4% on a moving annual total basis year on year to March 2014**
- **Fully franked final dividend of 5.5 cents per share to be paid in October 2014**

GWA Group Limited, Australia's leading supplier of fixtures and fittings to households and commercial premises, today announced a 2% rise in revenue to $578 million in the year to 30 June 2014.

Trading earnings before interest and tax (EBIT) of $72.3 million for the year to 30 June 2014, represented an increase of 8% on the prior period.

Trading profit after tax of $43.8 million was up 11% on the prior period. Net profit after tax of $18.6 million was impacted by the Gliderol impairment charge of $17 million, as announced in December 2013, as well as restructuring costs and one-off significant items.

The Directors have declared a final fully franked dividend of 5.5 cents per share, to be paid in October 2014. This represents a 91% payout ratio of net profit after tax. The Dividend Reinvestment Plan will not be offered to shareholders for the final dividend and remains suspended.

Managing Director Peter Crowley said, "A highlight for the year was the strong growth in the traditional Bathrooms & Kitchens business (excluding Hot Water), which outperformed the market.

"Gainsborough also lifted revenue, however this growth was adversely impacted by transition to a new supplier at the start of the financial year. I am pleased to report the supply disruption is well behind us and we are seeing a steady improvement in the performance of Gainsborough.

"We have invested in inventory for both businesses to ensure that we meet market demand as dwelling completions continue to improve. The impact of the higher inventory levels can be seen in the cash flow performance in FY14, however this will normalise as we move through FY15," added Mr Crowley.

Bathrooms & Kitchens division sales rose 3% to $379.2 million, with trading EBIT up 16% to $75 million. Sales in the Hot Water product category were down 7%, reflecting the challenging market conditions encountered through the year. The Dux Hot Water business did see significant improvement in the last quarter of the financial year driven by stronger volumes and manufacturing efficiencies at the Moss Vale facility.

Door & Access Systems division sales decreased 3% to $136.6 million; this included API Locksmiths, which was acquired in October 2012. Underlying sales (excluding API Locksmiths) were down by 7% and trading EBIT declined by 64% to $3.9 million.

Gainsborough's supply issues impacted significantly on the division's overall sales, while Gliderol continued to underperform. The Gainsborough supply issues have been resolved and the Gliderol business has had a major overhaul in the last eighteen months. Both businesses are now showing improved performance.

Heating & Cooling division sales were up 7% to $62.8 million, with trading EBIT declining by 9% to $5.7 million. Sales were ahead of market growth and investment in new products and information systems resulted in higher expenses which impacted EBIT.

Commenting on the Group's future priorities, Mr Crowley said "We have completed our strategic review and this revised strategy enables us to focus on our core businesses, that will deliver growth and enable higher returns for our shareholders. Our market context is changing and we will be ahead of this change. We are excited by the growth opportunities that we see in front of us and, coupled with an improving market, should bode well for GWA and its shareholders.

"The outlook for FY15 should see continued improvement in our core businesses. The execution of our strategic plans, in conjunction with the forecast growth in dwelling completions activity, should deliver improved sales and profit in the year ahead. We are aligning our organisation to ensure the Group provides our core businesses appropriate support and that efficiencies are gained through leveraging Group expertise coupled with more centrally controlled operations and supply chain," concluded Mr Crowley.

For further information call:

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GWA Group Limited
07 3109 6000

Tim Allerton
City PR
02 9267 4511
0412 715 707

Chairman's Review

Introduction

The GWA Group delivered a mixed performance in FY14 with market conditions showing signs of improvement as the financial year progressed.

The performance of Bathrooms & Kitchens, excluding Hot Water, was the highlight for the year as it delivered improved sales and profitability; however this was offset by the continuing poor performance in the Dux Hot Water and Gliderol businesses and supply issues which impacted Gainsborough during the year.

Improvement initiatives have been implemented in the Gliderol business to address its underperformance and the supply issues impacting Gainsborough have been resolved which should lead to improved contributions from these businesses in FY15.

As announced to the market in July 2014, the Dux Hot Water and Brivis Heating & Cooling businesses have been determined to be non-core and will be divested. The divestment process has commenced and subject to a successful sale process, the Board will review options to return a portion of the capital raised from the divestments to shareholders.

Dwelling completions activity reached cyclical lows during FY13 and the sector has been steadily recovering as a result of the low interest rate environment and rising house prices. At June 2014, the moving annual total for dwelling approvals increased to 193,186 representing a 21% increase on the prior year with significant growth in multi residential approvals and rising house approvals.

The increase in dwelling approvals to near record high levels as at June 2014 will eventually flow through to completions, which is the stage when the GWA Group's products are typically sold; the Managing Director provides further comment on business performance and market activity in his Review of Operations.

A combination of a number of restructuring activities and the implementation of a recently adopted strategy, places the Group in a strong position to take advantage of the increasing levels of market activity expected in FY15 and future periods.

The Board expects an improved sales and trading profit performance by the Group in FY15.

Strategy

Due to the significant changes in GWA's market context over recent years, a major strategic review was completed during FY14 with the assistance of external consultants.

The review led to a redefinition of the GWA Group mission - To be Australia's leading supplier of products and solutions to the residential and commercial building markets. The Group will focus on the core Bathrooms & Kitchens and Door & Access Systems businesses where we see opportunities for future growth and profitability that will flow through to improved shareholder returns. The operations and organisation structure of the Group is being aligned to support the new strategy.

Overview of Financial Results

The Group achieved trading EBIT of $72.3 million in FY14 on sales revenue of $578 million. This represents an increase of 8% and 2% respectively on the prior year reflecting the improving trading conditions in calendar 2014. Trading profit after tax of $43.8 million was up 11% on the prior year. Net profit after tax of $18.6 million was impacted by the Gliderol impairment charge of $17 million as announced in December 2013, restructuring costs and one off significant items.

Cash generated from trading operations of $63.5 million represented 71% of EBITDA and was impacted by higher inventory levels in Bathrooms & Kitchens and Gainsborough; inventory levels will be brought back into line during FY15.

Dividends and Capital Management

As a consequence of the impairment to Gliderol goodwill the Group did not have sufficient retained earnings from which to declare an interim dividend to shareholders. The Board recognises the importance of dividends to shareholders and was significantly disappointed that an interim dividend was unable to be declared; however the Board has declared a final fully franked dividend of 5.5 cents per share to be paid in October 2014 representing a 91% payout ratio of net profit after tax. The Dividend Reinvestment Plan remains suspended as the Group has access to sufficient funding to meet its needs.

The Group's financial metrics remain strong with net debt at the end of June 2014 of $145 million, a reduction of $17 million from June 2013. Debt is well covered by total bank facilities of $275 million and we appreciate the ongoing support of our banks including Commonwealth Bank of Australia, Australia and New Zealand Banking Group, HSBC Bank Australia and Westpac Banking Corporation.

Diversity

The Board understands the significant benefits that arise from a diverse workforce and has approved a Diversity Policy which is available on the Group's website at www.gwagroup.com.au. A number of measurable objectives have been approved by the Board to promote and encourage diversity, particularly the improvement of female representation within the workforce. The appointment of a new Group General Manager – People, Culture and Communications, Ms Kay Veitch, to the senior executive team will assist the Board with progress in achieving the Group's measurable objectives.

The Board supports the recommendations of the ASX Corporate Governance Council on diversity and has provided the required diversity disclosures in its Corporate

Governance Statement. The Group lodged its Workplace Gender Equality Report with the Workplace Gender Equality Agency in May 2014 and the report is available on the Group's website at www.gwagroup.com.au under Gender Equality Reporting.

Executive Remuneration

GWA's remuneration policies continue to be assessed with the independent advice of Guerdon Associates who were engaged by the Board for the FY15 executive remuneration review. We aim to provide remuneration to executives that is fair and sufficient to attract and retain a high quality management team with the experience, knowledge, skills and judgment required for the business. In order to achieve this objective, the key principle is that fixed remuneration varies between the median and third quartiles relative to companies of comparable size and scope.

Following shareholder feedback and advice from Guerdon Associates, the Board has approved changes to the Long Term Incentive Plan which will apply to grants of Performance Rights to executives during FY15.

The changes address concerns raised by shareholders that the performance requirements under the EPS hurdle are not sufficiently challenging for executives compared to market expectations of the Group's future EPS growth, and that a significant proportion of Performance Rights vest at average performance levels. The changes to the plan which are outlined in detail in the 2014 Remuneration Report are designed to address shareholder concerns whilst ensuring the plan continues to achieve its performance objectives.

The Board attempts to balance the need to address market trends whilst positioning GWA to retain and attract a high quality executive team led by our experienced Managing Director, Mr Peter Crowley. The fixed remuneration for Mr Crowley has been frozen since 2011. For other GWA executives, the review by Guerdon Associates concluded that fixed remuneration is in line with market levels. Bathrooms & Kitchens and Brivis achieved their short term incentive trading EBIT financial targets for FY14 reflecting their improved trading result. No other divisional or corporate short term incentive financial targets were achieved in FY14.

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 NGER Scheme and the reports can be accessed on GWA's website at www.gwagroup.com.au under Carbon Reporting.

The FY14 total carbon emissions from GWA's controlled facilities is expected to be in line with the previous financial year and has been impacted by a combination of factors including new facilities, facility closures, increased production at key manufacturing sites, full year reporting for API Locksmiths and the implementation of energy efficiency measures.

Safety

Our business is only as good as our people and we aim to provide a safe and rewarding environment in the workplace. We are pleased with continuing progress in safety performance resulting in a 19% reduction in the total injury frequency rate in FY14. This was an excellent outcome and represents the ninth consecutive year of improvement reflecting the ongoing commitment to creating an injury free work environment.

In closing, I thank management and staff for their efforts in FY14 and their ongoing commitment to GWA. We have the people, businesses and strategies to take advantage of the expected stronger trading conditions in FY15 as the recovery in dwelling activity gathers pace.

Managing Director's Review of Operations

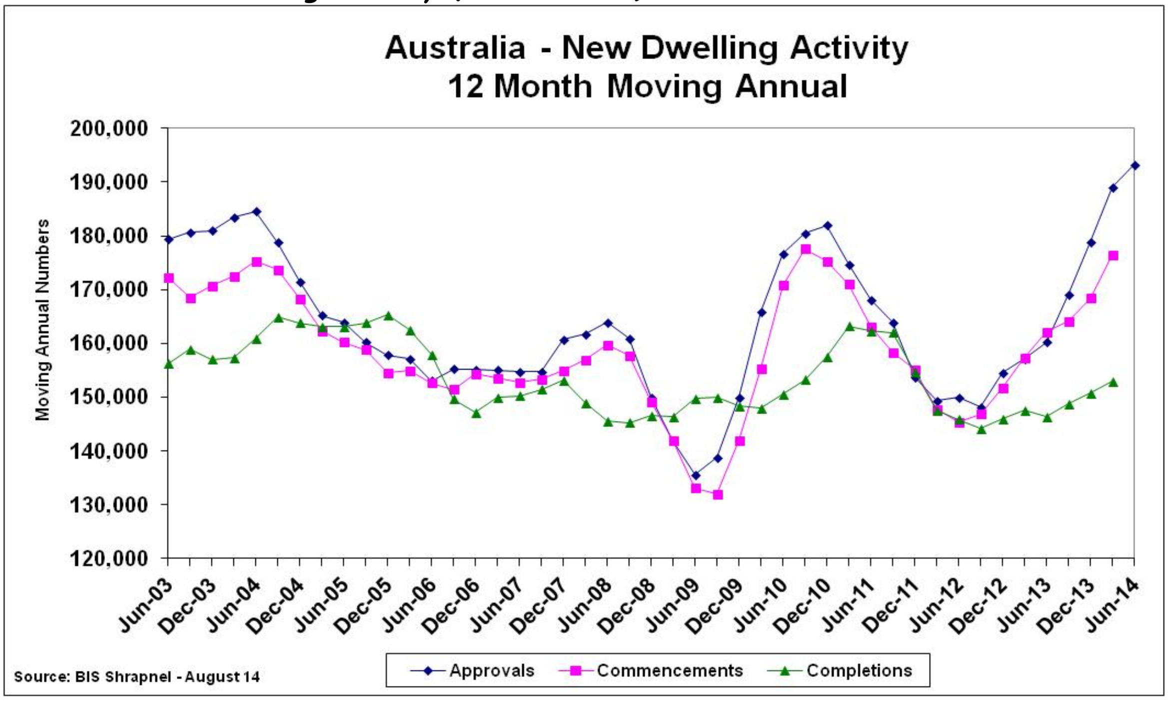
Introduction

Market conditions slowly improved through the second half of FY14 with the Group lifting revenue over the prior year by 2%. After adjusting for API Locksmiths which was acquired in October 2012, revenue grew by 1%. Bathrooms & Kitchens (excluding Hot Water) drove the improvement in sales and profitability for the Group, with growth over the prior year of 7% and 23% respectively. This was offset by declines in Dux Hot Water and Gliderol and a lower performance from the Gainsborough business due to supply issues.

Chart 1 below shows that new dwelling commencements increased by 12% on a moving annual total (MAT) basis at the end of March 2014 compared to the prior year. This growth was mainly driven by medium and high density dwellings rather than detached housing. Completions which typically lag commencements by approximately 6 to 9 months increased by only 4% on a MAT basis at the end of March 2014 compared to the prior year. The strong growth in medium to high density dwellings generally means longer lags between commencements and completions, and in some cases can be up to 2 years. In addition, the skew of activity to medium and high density dwellings compared to detached dwellings generally drives demand for lower end products and therefore a lower dollar margin per unit is generated on the sale of these products.

The longer lags have impacted GWA's financial results for FY14 as typically our products are sold at the completion stage. The demand for our products during the year was not as strong as expected but we are confident that trading conditions will steadily improve as the growth in approvals and commencements flows through to completions during FY15 and future periods. Whilst renovation activity was subdued in FY14, continuing low interest rates and rising house prices should lead to increasing renovation activity further supporting demand for GWA's products.

Chart 1 – New Dwelling Activity (2003 – 2014)



Financial Results for FY14

$ Million	2013/14	2012/13	% Change
Sales Revenue	578.0	565.4	2%
Trading EBIT *	72.3	66.8	8%
EBIT Margin	12.5%	11.8%	
Trading Profit after Tax *	43.8	39.3	11%
Net Profit after Tax	**18.6**	**32.4**	**-43%**
Trading Earnings per Share *	14.3	12.9	11%

* excludes significant items

Against a market growth of 4%, Bathrooms & Kitchens (excluding Hot Water) grew revenues 7% and volumes by 5%. Margins also improved aided by price increases and positive overhead recoveries through increased production at the Wetherill Park facility. The Hot Water product category was extremely challenging with overall market volumes flat and value declining as key competitors discounted prices to improve their market share. To address the underperformance, a series of restructures were undertaken in Dux Hot Water during the year and coupled with the strong sales of the Thermann OEM products, resulted in an improved trading EBIT in the last quarter.

Gainsborough also grew revenues by 2% however volumes were down year on year with the positive revenue growth driven by product mix and price. The supply issues that emerged from April 2013 resulted in lost sales and market share. The estimated impact of this issue on trading EBIT during the year is approximately $5 million representing a combination of lost margin and incremental costs associated with air freight. The supply issues have been resolved and we expect an improved performance from Gainsborough in FY15.

The poor Gliderol performance continued through FY14 culminating in a trading EBIT loss of $4 million. Although significant improvements were made in operations, installation and customer service, sales declined as a result of the loss of market share particularly in New South Wales and Victoria. A number of new customers have been gained, especially in Western Australia, and these should start to have a positive impact on Gliderol's performance as we move into the new financial year. Due to the underperformance of Gliderol the carrying value of goodwill was impaired by $17 million in the half year accounts.

Brivis saw revenues grow 7% year on year with a strong performance in the evaporative cooling product category driven by a range extension and gains in market share. Trading EBIT declined slightly on the prior year however this was a result of investment in new product development and higher information technology charges from corporate.

Corporate costs were $2.6 million lower than the prior period driven by write backs in both short and long term incentives.

Cash generated from trading operations of $63.5 million during FY14 represents 71% of EBITDA. The focus on working capital management resulted in improvements in debtors and creditors however inventories increased year on year by $33 million. Gainsborough accounted for $10 million of the increase. Gainsborough inventory at June 2013 was unsustainably low. This coupled with poor performance by a key vendor resulted in lost sales and the need to build extra stocks as we transitioned the business to new suppliers. The new supply chain has been established with our vendors performing well. The inventory we have built is all high turnover core products and it is expected the stock levels will reduce to sustainable levels through FY15.

The balance of the inventory build is in Bathrooms & Kitchens. Earlier in the year we planned to build inventory to mitigate any risk from impending Enterprise Agreement (EA) negotiations, the Chinese New Year supplier factory closures and in anticipation of improving dwelling activity levels. With EA negotiations now largely behind us and dwelling completion activity continuing to lift we expect that inventory levels will be brought back in line as we move through FY15.

Due to the impairment of the carrying value of goodwill in Gliderol in the half year accounts, the Group did not have sufficient retained earnings to declare an interim dividend in February 2014. However the Board will pay a fully franked final dividend of 5.5 cents per share, representing a 91% payout ratio of net profit after tax. The Dividend Reinvestment Plan will not be offered to shareholders for the final dividend and remains suspended.

Strategy and Growth

GWA completed a major strategic review of its operations with the assistance of Second Road Consulting. The outcome of the work defined the following:-

It is clear that our market context is changing and while GWA remains Australia's leading supplier of building fixtures and fittings, our markets are evolving:

- The relationship with our buyers is becoming more equal and also less predictable, through trends such as channel consolidation and digitisation.
- Shifts in supply chain are required for us to be more efficient and effective.
- Value does not lie solely in the products themselves but also in the systems and experiences that come with them.
- Industry boundaries are not what they used to be – innovations from outside of the traditional building and construction spaces are becoming relevant.

In response to these market context changes, we have developed a strong argument for our portfolio which is outlined in the table below:

Our Mission	**What we will do**
To be Australia's leading supplier of products and solutions to the residential and commercial building markets	• We will be efficient and easy to deal with • We recognise that time is precious to both our external and internal customers and is a source of value and sustainable competitive advantage • We recognise markets are changing and will deliver products and solutions that save time for tradesmen, builders and across commercial projects • We will refocus our business units on their target market segments to ensure they have unmatched understanding of customer needs, able to reach and influence the key decision makers in these segments. • We will free up our business units to focus on their markets by leveraging corporate functions which will enable: o Increased innovation and market insights; o Closer customer engagement and information via group information systems; o Supply chain efficiencies and responsiveness; o A supportive culture and pipeline of appropriately skilled management; and o Unmatchable scale • We will pursue acquisitions which leverage our existing market relationship and scale

Segment Performance

Segment results are summarised below:

Sales Revenue $Million	Bathrooms & Kitchens	Heating & Cooling	Door & Access Systems	Other	Total
2013/14	379.2	62.8	136.6	(0.6)	578.0
2012/13	367.5	58.8	140.9	(1.8)	565.4
% Change	3%	7%	-3%		2%
Trading EBIT $Million	**Bathrooms & Kitchens**	**Heating & Cooling**	**Door & Access Systems**	**Other**	**Total**
2013/14	75.0	5.7	3.9	(12.3)	72.3
2012/13	64.5	6.2	10.9	(14.8)	66.8
% Change	16%	-9%	-64%		8%

Bathrooms & Kitchens Division

Bathrooms & Kitchens (excluding Hot Water) had strong volume and net sales growth across most of its product categories. The table below shows the % change compared to the prior year.

FY14 Bathrooms & Kitchens Volume and Net Sales

% Change	Sanitaryware	Tapware	Kitchens & Laundry	Baths & Spas
Volume	5.6%	1.2%	9.8%	8.3%
Net Sales	9.0%	2.1%	8.2%	2.9%

With dwelling completions growing 4% to the end of March 2014, volume performance across most categories was at or above expectations. The price increases in Bathrooms & Kitchens that became effective during the second half of FY14 contributed to the net sales performance and started to mitigate the impact of the decline in the Australian dollar. The Baths & Spas net sales performance was impacted by mix as products were rationalised and ranges streamlined. The Tapware performance was disappointing as it declined compared to the market and will be a key focus area as we move into FY15. The Hot Water market is extremely challenging however volume through the Moss Vale facility increased as strong sales of Thermann OEM products led to positive trading EBIT in the last quarter.

Door & Access Systems Division

The Door & Access Systems business was heavily impacted by the supply issues in Gainsborough of the standard lever sets and architectural products from a major supplier in China. Although new suppliers and dual sourcing options were put in place to address the supply issues, the result was lost sales and market share. These issues coupled with the costs of airfreight impacted trading EBIT by approximately $5 million in FY14.

The Gliderol business performance was also disappointing reporting a $4 million trading EBIT loss as market share losses (mainly business lost in the previous financial year) became evident. While a variety of improvements have been put in place to lift operational efficiency, installation and customer service, it was only late in the financial year that we commenced recovering business.

Heating and Cooling Division

Heating & Cooling sales grew on the back of strong evaporative cooler sales and as a result of product range extensions and market share gains. The Victorian housing market although weak relative to other States did hold up better than expected during FY14. The business does have momentum especially on the back of investment in new heating and cooling products and should continue to grow in FY15.

Financial Condition and Capital Management

The net debt position of the Group as at the end of June 2014 was $145 million, a reduction of $17 million from June 2013. Although working capital grew due to the increase in inventory during the year, the reduction in net debt was primarily as a result of the non-payment of an interim dividend in April 2014. The gearing ratio (net debt/net debt plus equity) of 26% and the leverage ratio (net debt/EBITDA) of 1.67 times are within our targeted range. Interest cover (EBITDA/net interest) of 8.5 times further highlights GWA's strong financial metrics.

As we commence the implementation of the strategic plans, we remain focussed on maintaining GWA's investment grade metrics. The business has a strong balance sheet ensuring it is well positioned to respond to growth opportunities that arise which are in line with the strategic plans. The Group has a $275 million facility which was put in place in May 2013. This facility comprises a three year tranche of $200 million which expires in July 2016 and a five year tranche of $75 million which expires in July 2018. GWA has sufficient undrawn debt facilities and in-principle support from our banks to increase facilities to fund growth opportunities if required.

A summary of our debt position and existing facilities at the end of June 2014 is provided in the table below:

GWA Group Bank Facilities and Net Debt at 30 June 2014

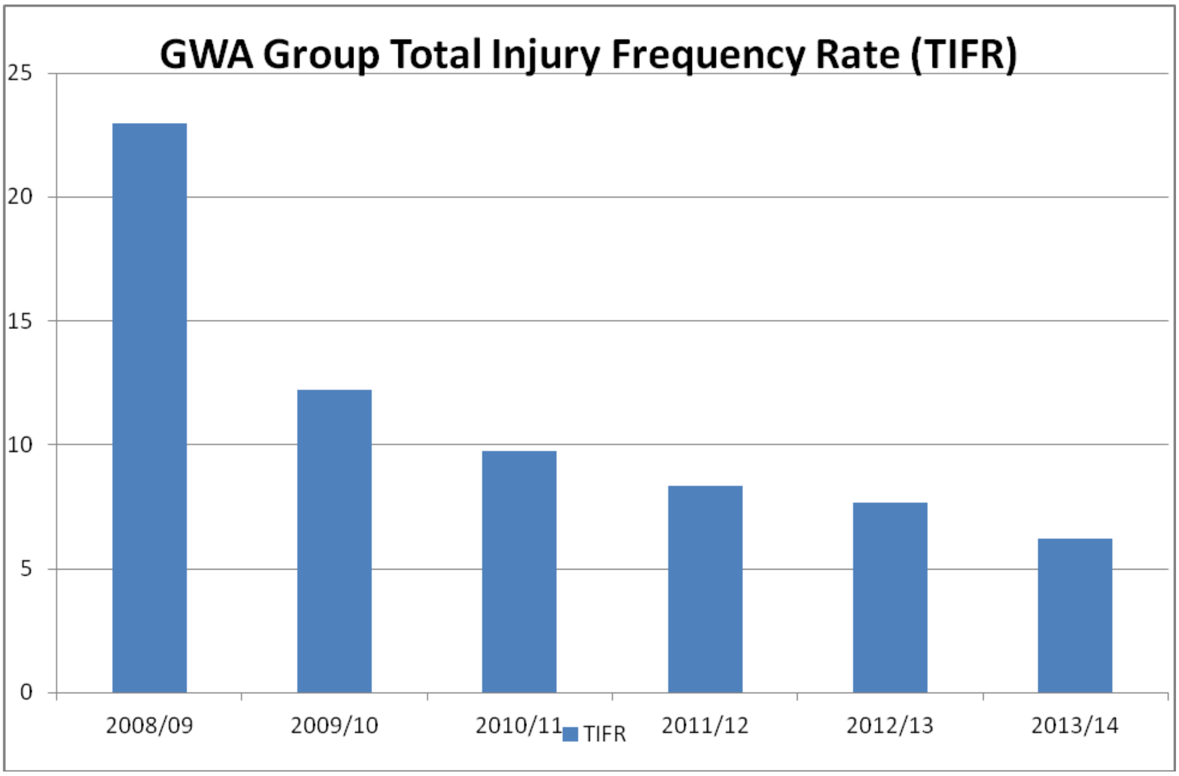
Bank $Million	**Available Facilities**	**Drawn Facilities**	**Maturity Profile**
CBA	85		
ANZ	80		
Westpac	55		
HSBC	55		
Gross debt	**275**	**175.0** **0.0**	**July 2016 - $200 million** **July 2018 - $75 million**
Cash and deposits		(29.9)	
Net debt		**145.1**	

Health and Safety

Management is committed to continuous improvement in GWA'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 9 years has been consolidated with a further 19% decline in the total injury frequency rate (TIFR) in FY14. With our TIFR reducing to 6.2, we have a consistent sense of purpose in creating a safe work environment for our people. Despite these impressive results, we still had 12 employees (two fewer than last year) sustain lost time injuries during the year which we will continue striving to reduce. Good safety is good management and 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 below chart highlights the continued improvement in the TIFR in FY14.



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 Group.

GWA reports greenhouse gas emissions under the National Greenhouse and Energy Reporting Scheme and the reports are available on the Group's website at www.gwagroup.com.au under Carbon Reporting. The FY14 carbon emissions will not be finalised until September 2014 however our direct carbon emissions are estimated to be 9,000 tonnes CO_2e with 20,000 tonnes CO_2e of indirect carbon emissions through the purchase of energy. The total carbon emissions (both direct and indirect) for FY14 are expected to be approximately 29,000 tonnes CO_2e which is in line with the total reported carbon emissions for the Group in FY13.

People

GWA's long term success has been due to the efforts of a committed and talented workforce. We continue to bring new thinking and skills into the business and are committed to developing our people to provide succession opportunities. The Group recognises the benefits that can be achieved from a diverse workforce and has implemented policies aimed at improving workplace diversity. The appointment of a new Group General Manager – People, Culture and Communications, Ms Kay Veitch, to the senior executive team will assist the promotion of diversity and the development of succession plans for key senior management roles.

In support of these objectives, a significant investment has been made during the year with Spencer Stuart assessing our leaders and key senior managers. GWA Group is committed to creating a high performance culture where employees can learn and develop to their full potential. This will ensure the Group has the right capabilities to execute the strategic plans and meet our growth ambitions.

Future Prospects and Risks

The outlook for FY15 is positive with improved house prices and rising dwelling commencements driving higher sales. We will implement the strategic plans and with the focus on growing the core Bathrooms & Kitchens and Door & Access Systems businesses, we will be well positioned to take advantage of the stronger market conditions expected in FY15 and future periods. We have developed clear initiatives aimed at our target market segments in both core divisions and together with an enhanced and centralised corporate structure should see leveraging of Group expertise and improved efficiency.

There are a number of key business risks that may impact on the achievement of the outlook for FY15 and future periods including:

- The expected improvement in dwelling and renovation activity does not eventuate or is delayed.
- The regaining of market share in Gainsborough and Gliderol takes longer than expected leading to continued underperformance and poor profitability.
- Unforeseen disruptions impacting product supply from material offshore suppliers leading to lower sales and loss of market share.

We will be in a better position to update the market on FY15 trading performance at the Annual General Meeting in October 2014 following first quarter trading and updated data on dwelling activity.

Directors' Report as at 30 June 2014

Your directors present their report on the consolidated entity of GWA Group Limited (the Group) and the entities it controlled during the financial year ended 30 June 2014.

Directors

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

D D McDonough, Chairman and Non-Executive Director
J F Mulcahy, Deputy Chairman and Non-Executive Director
P C Crowley, Managing Director
R M Anderson, Non-Executive Director
W J Bartlett, Non-Executive Director
P A Birtles, Non-Executive Director
R J Thornton, Executive Director
G J McGrath, Non-Executive Director (retired 30 October 2013)

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

Details of the directorships of other listed companies held by each director in the three years prior to the end of FY14, and the period for which each directorship has been held, are outlined in the director profiles in the Annual Report.

Company Secretary

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

Directors' Interests

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

Director	Ordinary Shares
D D McDonough	107,905
J F Mulcahy	45,000
P C Crowley*	480,000
R M Anderson	8,118,442
W J Bartlett	33,194
P A Birtles	15,000
R J Thornton*	58,694
Total**	**8,858,235**

* 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 section 5.2.1 of the Remuneration Report.

** Section 5.3.3 of the Remuneration Report sets out the number of shares held directly, indirectly or beneficially by directors or their related entities at balance date as prescribed in Accounting Standard AASB 124, this being 18,800,594 shares (last year 19,129,596 shares).

Directors' Meetings

The number of meetings of directors (including meetings of Committees of directors) held during the financial year ended 30 June 2014 and the number of meetings attended by each director is outlined in the following table:

Director	**Board**		**Audit and Risk Committee**		**Remuneration Committee**		**Nomination Committee**	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**
D D McDonough	10	10	3	3	-	-	1	1
J F Mulcahy	10	10	-	-	3	3	1	1
P C Crowley(1)	10	10	-	-	-	-	-	-
R M Anderson	10	9	-	-	-	-	-	-
W J Bartlett	10	10	4	4	3	3	1	1
P A Birtles	10	10	4	4	-	-	-	-
R J Thornton(2)	10	10	-	-	-	-	-	-
G J McGrath	4	4	1	1	3	3	-	-

Note:
A – Number of meetings held during the time the director held office during the year
B – Number of meetings attended

(1) P C Crowley attends Committee meetings by invitation of the Board
(2) R J Thornton attends Committee meetings as Company Secretary

Principal Activities

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

There have been no significant changes in the nature of the activities of the consolidated entity during the year.

Operating and Financial Review

The Operating and Financial Review for the consolidated entity during the financial year ended 30 June 2014 is provided in the Managing Director's Review of Operations, and forms part of this Directors' Report.

Dividends

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

Declared and paid during FY14

Dividends	Cents per share	Total Amount $'000	Franked	Date of Payment
Final 2012/13 Ordinary	6.0	18,392	Fully Franked	4 October 2013

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

Declared after end of FY14

After the balance sheet 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 2013/14 Ordinary	5.5	16,859	Fully Franked	8 October 2014

The financial effect of the dividend has not been brought to account in the consolidated financial statements for the year ended 30 June 2014 and will be recognised in subsequent financial reports.

The record date for the final dividend is 17 September 2014 and the dividend payment date is 8 October 2014. The Dividend Reinvestment Plan will not be offered to shareholders for the final dividend and remains suspended.

Events Subsequent to Reporting Date

On 28 July 2014, as a result of an extensive strategic review, the directors determined the consolidated entity's focus will be on the target market segments of the Bathrooms & Kitchens and Door & Access Systems businesses, and that the Dux Hot Water and Brivis Heating & Cooling businesses will be divested. The divestment process is expected to take several months to execute and at the date of this report, the consolidated entity has not entered into any agreements for sale of the businesses.

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

Likely Developments

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

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

Environmental Regulation

Environmental Licenses

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

The consolidated entity, in conjunction with external advisers, monitors storage and treatment of hazardous materials within particular operations. Prior to any discharge to sewers, effluent is treated and monitored to ensure strict observance with license conditions. The directors are not aware of any breaches of the consolidated entity's license conditions during the financial year ended 30 June 2014.

Indemnification and Insurance of Directors and Officers

Indemnification

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

Insurance Premiums

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

Premiums were paid in respect of every current (and former) director and officer of the Group and controlled entities, including the directors named in the Directors' Report, the Chief Financial

Officer and all persons concerned or taking part in the management of the Group and its controlled entities.

Non-Audit Services

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

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

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

Details of the amounts paid to the auditor of the consolidated entity, KPMG, and its network firms for audit and non-audit services provided during the year are outlined in Note 7 of the financial statements.

Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration is set out in the Annual Report and forms part of the Directors' Report for the financial year ended 30 June 2014.

Rounding

The Group 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.

Remuneration Report - Audited

Introduction

The report covers the following matters for FY14:

1. Board role in setting remuneration strategy and principles;
2. Relationship between remuneration policy and Group performance;

3. Description of non-executive director remuneration;
4. Description of executive remuneration;
5. Details of director and executive remuneration; and
6. Key terms of employment contracts.

1. Board role in setting remuneration strategy and principles

GWA's remuneration strategy is designed to provide remuneration that is fair and able to attract and retain management and directors with the experience, knowledge, skills and judgment required for 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 operational 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 Board's Nomination Committee is responsible for determining the remuneration arrangements for the non-executive directors, with the annual maximum aggregate amount approved by shareholders. The Board's 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 the approval of the Board or management.

During the reporting period, the Remuneration Committee obtained market data from Guerdon Associates for the FY15 executive remuneration review, and advice in relation to long term performance measures. Guerdon Associates does not provide other services to the Group and is otherwise independent. No remuneration recommendations as defined under Division 1, Part 1.2.98 (1) of the *Corporations Act 2001*, were made by Guerdon Associates.

In response to feedback from shareholders and following receipt of advice from Guerdon Associates, important changes have been implemented to remuneration after FY14 which are consistent with the overall Group remuneration strategy. The changes are outlined in section 1.1.

1.1 Executive remuneration – FY15 changes

The performance requirements under the Group's long term incentive plan (LTI) have been changed for grants of Performance Rights to executives during FY15 year. The key concerns raised by shareholders were that the performance requirements under the EPS hurdle are not sufficiently challenging for executives compared to market expectations of the Group's future EPS growth and that a significant proportion of Performance Rights vest at average performance levels.

The changes that have been made are outlined in section 4.4.3 and apply to grants of Performance Rights to executives in FY15 year. In essence the changes are that:

- EPS growth will be assessed relative to growth in dwelling completions obtained from the Australian Bureau of Statistics as it is believed that growth in dwelling completions is a valid proxy for overall growth of the market for the Group's products. A strong historical correlation exists between the Group's EPS performance and dwelling completions. It is also considered that assessing EPS growth against dwelling completions growth will permit a fairer assessment of the performance of management relative to market opportunity; and

- Return on Funds Employed (ROFE) will replace relative TSR as the second LTI performance measure. As a measure of capital efficiency, the use of ROFE, together with the modified EPS growth hurdle will permit a more complete assessment of management performance.

2. Relationship between remuneration policy and Group performance

Remuneration is linked to performance by:

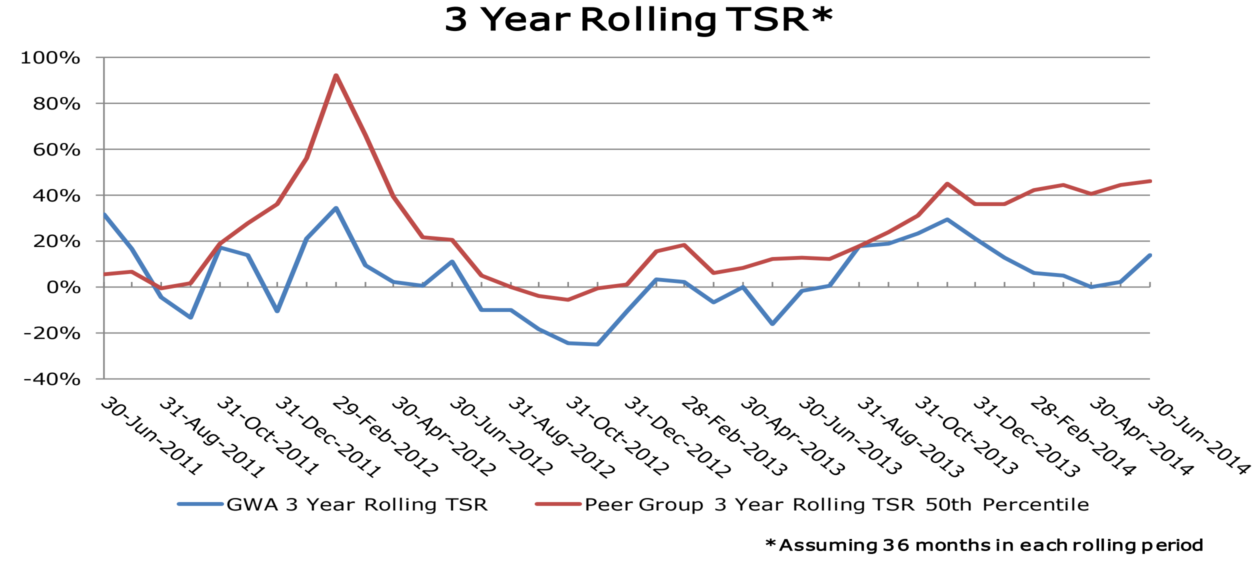
- Applying challenging financial and non-financial measures to assess performance; and
- Ensuring that these measures focus management on operational and strategic business objectives that create shareholder value.

GWA measures performance on the following key corporate measures:

- Earnings per share (EPS) growth;
- Return on funds employed (ROFE);
- Total shareholder return (TSR) relative to companies with similar scope, operations, customers or products;
- Trading earnings before interest and tax (EBIT) targets; and
- Operating cash flow targets.

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

The following graph shows the Group's relative performance over a rolling 3 year period to 30 June 2014 compared to the peer group companies used for the 2014 grant of Performance Rights being 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 statistics for the Group over the last five years:

Financial Year	Trading EBIT* ($m)	Trading EPS* (cents)	Total DPS (cents)	Share Price ($)
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
2012/13	66.8	12.9	12.0	2.40
2013/14	72.3	14.3	5.5	2.63

*excludes significant items
**excludes discontinued operations

The remuneration and incentive framework focuses executives on sustaining short term operating performance coupled with moderate long term strategic growth. This has contributed to the Group generating less volatile shareholder returns and earnings than peers despite low levels of building activity in recent years. This has permitted a total of 71.5 cents in fully franked dividends paid to shareholders over the last five financial years.

The improvement in the Group's trading profitability performance in FY14 was primarily driven by the strong performance of Bathrooms & Kitchens (excluding Hot Water) and the gradual recovery in residential dwelling construction following a number of years of weak market activity.

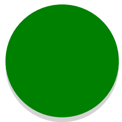
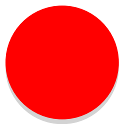
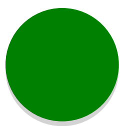
The Group expects to benefit in future periods as the building recovery gathers pace leading to increased demand for its products. The Group will also benefit from the execution of its strategic plans leading to improved profitability and cash flow performance enabling higher returns to shareholders.

The remuneration and incentive framework has allowed the Group to respond to cyclical dwelling construction activity. STI payments related to performance improvement and restructuring during the recent downturn encouraged management to respond quickly and make long term decisions to sustain competitiveness and profitability.

This has placed the Group in a strong position to take advantage of the recovery in dwelling activity that is underway and led to an improved trading EBIT performance that was up 8% in FY14.

2.1 Managing Director's key performance goals and outcomes

An assessment of the Managing Director's key performance goals and financial targets subject to STI incentive payments for FY14 is provided in the following table:

FY14 Goals	Results	Assessment
<u>**Operational goals**</u>		
Achieve leading safety performance to work towards an injury free workplace	The total injury frequency rate (TIFR) of 6.2 in FY14 was a significant improvement on the targeted TIFR of 6.9 and represents a 19% improvement on the prior year. The outcome continues the group's strong safety performance and demonstrates the commitment to an injury free workplace	
Improved working capital management to maximise operating cash flow	The higher inventory levels at Bathrooms & Kitchens and Gainsborough at 30 June 2014 meant that the operating cash flow target was not achieved. The higher stock levels will be addressed in FY15	
Demonstrate improved market service capabilities through technology innovation and measurable service improvements	Salesforce.com has been successfully deployed across the Group to improve market service capabilities. Plumber digital applications and specification tools have been developed in Bathrooms & Kitchens to service key customer segments. Demand planning system has also been implemented in Bathrooms & Kitchens	

Strategy and growth goals		
Develop the group and divisional strategies, the way forward and longer term financial projections	The Group strategy has been developed and has set the immediate future direction of GWA. That development involved the Board, senior management, external research and financial analysis. Divisional strategies have been developed which are aligned to the overall Group strategy resulting in the adoption of major initiatives to focus the Group on the growth of the core Bathrooms & Kitchens and Door & Access Systems divisions and divestment of the non-core Brivis and Dux businesses with the aim of delivering higher shareholder returns	
Progress execution of the strategic initiatives for Bathrooms & Kitchens to improve business performance	Bathrooms & Kitchens delivered a strong financial performance in FY14 following the successful execution of the strategic initiatives approved by the Board in June 2013 and the cost savings in selling, general and administration expenses from the restructuring in December 2012. Further improvement is expected in FY15 as Bathrooms & Kitchens focuses on its target market segments and as the recovery in the building sector gathers pace	
Ensure the turnaround of Gliderol is completed and generating acceptable returns	The financial performance of Gliderol in FY14 was disappointing with a $17 million impairment expense in December 2013. Improvement plans are in place to address the under-performance but progress has been slower than expected	

Supply chain goals		
Progress supply chain transformation to improve demand management processes and customer service capabilities	New demand planning system has been implemented in Bathrooms & Kitchens during FY14 to improve capabilities and tools in their demand management processes. The supply issues in Gainsborough in FY14 resulted in lost sales and lost market share with an estimated impact on trading EBIT of approximately $5 million. The supply issues in Gainsborough have been resolved and risk mitigation plans have been put in place	Yellow
Financial targets		
STI financial performance targets	In FY14 the 'reasonably achievable' trading EBIT financial performance targets for Bathrooms & Kitchens and Brivis were achieved but no other STI financial performance targets were achieved	Yellow

Green = Fully achieved
Yellow = Partially achieved
Red = Not achieved

3. Description of non-executive director remuneration

There has been no change to 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 Group to ensure non-executive directors maintain their independence.

At the 2004 Annual General Meeting, shareholders approved non-executive director fees up to an annual maximum aggregate amount of $1.09 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.

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 Group matters. The benchmarking survey from Guerdon Associates in 2011 sampled the same companies used for executive remuneration benchmarking and found the fees received by most non-executive directors were positioned at about the 60th percentile.

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

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.

The remuneration structure implemented for all executives, including the Managing Director, recognises the short term challenges posed by cyclical factors, ability to sustain competitiveness, deliver value and growth, and maintain cash flows for dividends. However, to ensure sustainability of performance over time, there is 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.

4.1.1 Managing Director remuneration structure

The FY14 incentives structure for the Managing Director is provided in the following table:

Managing Director	Maximum STI as % of fixed remuneration	Maximum LTI % of fixed remuneration (grant date fair value)	Maximum total performance pay as % of fixed remuneration
2013/14	80	40	**120**

The FY14 STI for the Managing Director is provided in the following table:

Managing Director	Reasonably Achievable - Personal Goals as % of fixed remuneration	Reasonably Achievable - Financial Targets as % of fixed remuneration	Total Reasonably Achievable as % of fixed remuneration	Stretch – Financial Targets as % of fixed remuneration	Maximum STI as % of fixed remuneration
2013/14*	40	25	**65**	15	**80**

* The Managing Director's STI structure for FY14 was revised by the Remuneration Committee to ensure the focus on the achievement of the key performance goals outlined in section 2.1. This resulted in a higher personal goal component and a lower financial target component to the STI structure for FY14 than in prior years in order to give greater weight to factors that are consistent with its focus on sustainable performance over time. There was no change to the maximum STI amount for the Managing Director for FY14.

The FY14 total performance pay outcomes for the Managing Director, as reflected in the Remuneration Tables, are provided in the following table:

Managing Director	Achievement of STI and LTI as % of fixed remuneration	Forfeiture of STI and LTI as % of fixed remuneration	Total potential performance pay as % of fixed remuneration
STI	20	60	80
LTI*	30	30	60
Total	**50**	**90**	**140**

* This relates to the LTI plan prior to the changes implemented to the remuneration structure in FY12 as outlined in the 2012 Remuneration Report. Previously, the Managing Director was eligible to receive Performance Rights under the LTI plan to the value of 60% of his fixed remuneration. This was reduced to 40% of his fixed remuneration as part of the FY12 changes, together with graduated vesting scales and higher performance hurdles.

4.1.2 Other Executives remuneration structure

The FY14 incentives structure for other executives is provided in the following table:

Other Executives	Maximum STI % of fixed remuneration	Maximum LTI % of fixed remuneration (grant date fair value)	Maximum total performance pay as % of fixed remuneration
2013/14	50	30	**80**

The FY14 STI for the other executives is provided in the following table:

Other Executives	Reasonably Achievable - Personal Goals as % of fixed remuneration	Reasonably Achievable - Financial Targets as % of fixed remuneration	Total Reasonably Achievable as % of fixed remuneration	Stretch – Financial Targets as % of fixed remuneration	Maximum STI as % of fixed remuneration
2013/14	20	20	**40**	10	**50**

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 of the short term challenges posed by cyclical factors and the focus in recent years on conserving market leadership, cash flow and dividends where opportunities for outperformance and subsequent incentive payments are more limited.

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

Based on an independent survey by Guerdon Associates for the FY15 executive remuneration review, the fixed remuneration for most executive positions at GWA are generally at or above the 50^{th} percentile for companies of comparable operational scope and size to GWA. The 21 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^{th} percentile, fixed remuneration will either be frozen or increases will be below market levels. Consistent with this approach, the Managing Director's fixed remuneration has been frozen since 2011 and remains frozen.

4.2.1 Managing Director's fixed remuneration

The Managing Director's fixed remuneration has been established over the past 11 years of service to shareholders where he has consistently delivered value and positioned the Group for sustainable performance. The Managing Director has been instrumental in the restructuring of the GWA businesses to compete in the cyclical Australian building industry with the high Australian dollar increasing import competition. During that time, the Group has successfully executed its growth strategies with its strong financial position enabling the Group to maximise shareholder returns.

Based on an independent survey by Guerdon Associates for the FY15 executive remuneration review, the fixed remuneration of the Managing Director is at the 73rd percentile for companies of comparable size and operational scope to GWA. The percentile has reduced in recent years following the freeze on the Managing Director's fixed remuneration that was implemented in 2011 and the level is in line with the Group's targeted remuneration strategy. During the 11 years of service, the Managing Director has received only modest incentive payments due to the low levels of building sector activity during that period.

4.3 Short-term incentive (STI)

4.3.1 STI overview

The STI plan provides for an annual payment that varies with performance measured over the Group's financial year to 30 June 2014. The STI is aligned to shareholder interests as executives will only become entitled to the majority of payments if profitability improves (allowing for the building cycle), with maximum incentive payments above the reasonably achievable level linked directly to shareholder wealth creation. As noted in section 4.1, the maximum STI that can be earned is capped to minimise excessive risk taking.

The STI payment is made in cash after finalisation of the annual audited financial statements. As outlined in the Remuneration Tables, 50% of the financial target component of the STI has been deferred for the executives that achieved their STI financial targets for FY14. 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 FY15 audited financial statements. If the Board is satisfied then the deferred component will be paid to the executives together with interest at market rates. However, if the Board is not satisfied then the STI payment will be subject to forfeiture.

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 Group or business unit's strategic position; the goals vary with the individual's role, risks and opportunities.

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

Personal goals include both measurable financial goals and measurable business improvement goals. The measurable financial goals 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 FY14 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 following input from the Board and with the outcomes approved by the Remuneration Committee. The personal goals of the executives for FY15 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 Group or business unit achieves its STI financial performance targets. The Group operates in the cyclical building industry so fluctuations in profitability can occur through the cycle which is out of the control of the executives. The reward for achievement of personal goals provides specific focus on responding to changes in the economic cycle, as well as on continuous performance improvement. Hence the personal goals are a key part of the Group's performance management process.

4.3.2.2 Financial Performance Targets

For FY14, STI financial performance targets are based on specified trading EBIT and Operating Cash Flow targets as determined by the Remuneration Committee. The use of trading EBIT and Operating Cash Flow as the basis of STI financial targets is aimed at ensuring executives are accountable for delivering both profit and working capital improvements.

The Group had previously determined STI financial targets based on Economic Profit but the Board is of the view that a combination of trading EBIT and Operating Cash Flow targets are a more effective basis for STI targets as they are currently key metrics used in the business and are better understood than Economic Profit.

The specified trading EBIT and Operating Cash Flow targets are weighted equally and assessed separately and on an aggregated basis for divisional and corporate executives.

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

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

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

There were no variations from policy during FY14.

For FY14, Bathrooms & Kitchens and Brivis achieved their trading EBIT STI financial targets at the 'reasonably achievable' level. No other divisional or corporate STI financial targets were achieved by the executives. 50% of the STI incentive payment has been deferred for Bathrooms & Kitchens and Brivis executives and will be subject to further testing and potential clawback under the STI plan rules. This is reflected in the STI cash bonus amounts in the Remuneration Tables.

The deferred component of the STI incentive payment for FY13 for Brivis executives was tested by the Board in August 2014 to confirm the integrity of the achievement of the STI financial targets in FY13. Following satisfaction with the testing, the Board approved the payment of the deferred component to Brivis' executives together with interest at market rates.

4.4 Long-term incentive (LTI)

4.4.1 LTI overview

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

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

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

The performance hurdles for the LTI are selected by the 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 Group'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 Group or where the Board grants approval. In considering an application from a participant to dispose of the shares, the Board will consider whether the sale is in the best interests of the Group, relevant policies and regulations 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.

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

For the 2014 LTI grant, the proportion of Performance Rights that can vest will be calculated and the shares will vest in August 2016 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.

The maximum number of outstanding Performance Rights granted to executives must not exceed 5% of the total number of shares on issue by the Group. The total number of outstanding Performance Rights granted to executives at 30 June 2014 was 2,017,000 which represents 0.7% of the Group's total issued shares.

4.4.2 LTI performance requirements

For the FY14 LTI grant, the performance hurdles continue to provide for vesting scales graduated with performance and demanding performance hurdles. The comparator group for the FY14 LTI plan includes selected comparator group companies used by Guerdon Associates for benchmarking executive fixed remuneration levels for the FY14 remuneration review.

4.4.2.1 TSR Hurdle

The performance hurdles and vesting proportions for the TSR performance measure that applied to the 2014 LTI grant is outlined in the following table:

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 50th percentile	0%
50th percentile	25%
Between the 50th percentile and 75th percentile	Straight line vesting between 25% and 50%
75th 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 FY14 LTI grant, EPS growth is measured over the three years from 1 July 2013 to 30 June 2016. The EPS hurdle is calculated as net profit after tax, as set out in the Group's annual audited financial statements, divided by the weighted average number of ordinary shares on issue. The base year EPS for the FY14 LTI grant was 12.7 cents.

The Board exercised its discretion to adjust the base year EPS by excluding the significant items in FY13 year comprising restructuring costs. This adjustment made the performance hurdle more demanding as it increased the base year EPS from 10.6 cents to 12.7 cents to ensure the hurdle was reflective of underlying trading performance.

The performance hurdles and vesting proportions for the EPS performance measure that applied to the 2014 LTI grant is outlined in the following table:

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 LTI performance requirements – FY15 changes

Following shareholder feedback and advice from the Group's independent external remuneration adviser, Guerdon Associates, a number of important changes were made to the LTI in FY14.

The changes will apply to grants of Performance Rights to executives under the LTI in respect of FY15. The changes are as follows:

- EPS growth will be assessed relative to growth in dwelling completions obtained from the Australian Bureau of Statistics. Growth in dwelling completions is a valid proxy for overall growth of the market for the Group's products because a strong historical correlation exists between the Group's EPS performance and dwelling completions. Assessing EPS growth against dwelling completions growth permits a fairer assessment of management performance relative to market opportunity; and
- Return on Funds Employed (ROFE) will replace relative TSR as the second LTI performance measure. As a measure of capital efficiency, the use of ROFE, together with the modified EPS growth hurdle, permits a more complete assessment of management performance.

The Board is satisfied that measuring EPS growth relative to market growth as reflected in dwelling completions provides a more robust benchmark for assessing relative performance than the relative TSR hurdle used in previous LTI grants. EPS growth more directly focuses on factors management can influence, so that results will be less likely to fluctuate with general market sentiment.

4.4.3.1 LTI Performance Hurdles

The performance hurdles and vesting proportions for each measure that will apply to the grant of Performance Rights during FY15 are:

GWA Group Limited EPS compound annual growth rate (CAGR) relative to dwelling completions growth over three year performance period	**Proportion of Performance Rights to Vest if EPS growth hurdle is met**
EPS CAGR less than dwelling completions CAGR	0%
EPS CAGR exceeding dwelling completions CAGR	12.5%
EPS CAGR exceeding dwelling completions CAGR up to 6%	Straight line vesting between 12.5% and 50%
EPS CAGR equal to dwelling completions CAGR plus 6% or higher	50% (i.e. 50% of total grant)

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

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 Group and other key management personnel for the year ended 30 June 2014 are outlined in the Remuneration Tables.

		Short-term			Long-term		Post-employment					
		Salary & Fees $(a)	*STI Cash Bonus $(b)*	*Non-Monetary $(c)*	*Employee Share Plan Interest $(d)*	*Value of Share-Based Awards $(e)*	*Super-annuation Benefits $*	*Termination Benefits $*	*Total $*	*Proportion of remuneration performance based %*	*STI Cash Bonus vested in year %*	*STI Cash Bonus forfeited in year %*
Non-Executive Directors												
D McDonough, Chairman	*2014*	253,947	-	-	-	-	34,999	-	288,946			
(Appointed 30 October 2013)(f)	*2013*	130,353	-	-	-	-	24,999	-	155,352	-	-	-
				-								
J Mulcahy, Deputy Chairman	*2014*	138,225	-	-	-	-	14,089	-	152,314			
(Appointed 30 October 2013)(f)	*2013*	112,861	-	-	-	-	10,157	-	123,018	-	-	-
R Anderson, Non-Executive Director	*2014*	83,563	-	-	-	-	34,509	-	118,072			
	2013	75,415	-	-	-	-	40,387	-	115,802	-	-	-
W Bartlett, Non-Executive Director	*2014*	143,313	-	-	-	-	14,607	-	157,920			
	2013	142,096	-	-	-	-	12,789	-	154,885	-	-	-
P Birtles, Non-Executive Director	*2014*	123,841	-	-	-	-	12,623	-	136,464			
	2013	122,789	-	-	-	-	11,051	-	133,840	-	-	-
G McGrath, Chairman	*2014*	112,148	-	-	-	-	5,924	-	118,072			
(Retired 30 October 2013)(f)	*2013*	318,723	-	-	-	-	28,685	-	347,408	-	-	-
Total - Non-Executive Directors	**2014**	**855,037**	**-**	**-**	**-**	**-**	**116,751**	**-**	**971,788**			
	2013	**902,237**	**-**	**-**	**-**	**-**	**128,068**	**-**	**1,030,305**	-	-	-
Executive Directors												
P Crowley, Managing Director (g)	*2014*	1,424,527	313,420	119,418	-	235,433	50,000	-	2,142,799	25.6	25	75
	2013	1,438,646	171,600	88,648	38,080	160,633	50,000	-	1,947,607	17.1	14	86
R Thornton, Executive Director	*2014*	377,043	79,522	1,364	-	47,542	17,774	-	523,245	24.3	40	60
	2013	367,295	75,600	9,562	10,998	45,142	16,470	-	525,067	23.0	40	60
Total - Directors Remuneration	**2014**	**2,656,607**	**392,942**	**120,782**	**-**	**282,975**	**184,525**	**-**	**3,637,832**			
	2013	**2,708,178**	**247,200**	**98,210**	**49,078**	**205,775**	**194,538**	**-**	**3,502,979**			

		Short-term			Long-term		Post-employment					
		Salary & Fees $(a)	STI Cash Bonus $(b)	Non-Monetary $(c)	Employee Share Plan Interest $(d)	Value of Share-Based Awards $(e)	Super-annuation Benefits $	Termination Benefits $	Total $	Proportion of remuneration performance based %	STI Cash Bonus vested in year %	STI Cash Bonus forfeited in year %
Executives												
I Brannan, Chief Financial Officer	*2014*	522,440	91,677	1,856	-	96,820	24,600	-	737,393	25.6	32	68
(Appointed 30 July 2012)	*2013*	645,063	275,000	8,864	-	62,720	22,550	-	1,014,197	33.3	100	-
L Patterson, Chief Executive - GWA Bathrooms & Kitchens	*2014*	529,986	146,522	2,905	-	65,692	24,999	-	770,104	27.6	54	46
(Appointed 17 October 2012)	*2013*	491,459	104,000	122,103	28,537	53,625	24,999	-	824,723	19.1	40	60
C Camillo, General Manager - Brivis	*2014*	289,631	94,500	13,681	-	52,573	24,999	-	475,384	30.9	60	40
(Appointed 1 December 2012)(h)	*2013*	204,658	145,500	-	1,875	33,973	9,913	-	395,919	45.3	97	3
G Oliver, Chief Executive - GWA Door & Access Systems	*2014*	138,005	-	-	-	(76,375)	35,000	349,195	445,825	-17.1	-	-
(Ceased employment 11 October 2013)(i)(j)	*2013*	430,655	54,960	7,000	-	47,092	25,000	-	564,707	18.1	24	76
Total - Executives Remuneration	**2014**	**1,480,062**	**332,699**	**18,442**	**-**	**138,710**	**109,598**	**349,195**	**2,428,706**			
	2013	**1,771,835**	**579,460**	**137,967**	**30,412**	**197,410**	**82,462**	**-**	**2,799,546**			

Total - Directors and Executives	**2014**	**4,136,669**	**725,641**	**139,224**	**-**	**421,685**	**294,123**	**349,195**	**6,066,538**
Remuneration	**2013**	**4,480,013**	**826,660**	**236,177**	**79,490**	**403,185**	**277,000**	**-**	**6,302,525**

Notes to the Remuneration Tables

(a) Salary and fees represents base salary and includes the movement in annual and long service leave provisions.
(b) The Short Term Incentive (STI) cash bonus is for the performance during the financial year ended 30 June 2014 based on the achievement of personal goals and financial performance targets. Bathrooms & Kitchens and Brivis achieved 50% of their 'reasonably achievable' 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.
(c) The short term non-monetary benefits include the provision of motor vehicles, salary continuance and life insurance and any applicable fringe benefits tax thereon.
(d) As outlined in the 2013 Remuneration Report, the legacy Employee Share Plan was wound down in March 2013 and has been discontinued. There have been no further share issues to employees under the former plan.
(e) The Long Term Incentive (LTI) Plan was approved by shareholders at the 2008 Annual General Meeting. The outstanding Performance Rights at 30 June 2014 were granted to executives in each of the years 30 June 2012, 2013 and 2014 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 2011 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.
(f) Mr Darryl McDonough was appointed Chairman of GWA Group Limited on 30 October 2013 following the retirement of the former Chairman, Mr Geoff McGrath. Mr John Mulcahy was appointed Deputy Chairman of GWA Group Limited on that date.
(g) The Managing Director, Mr Peter Crowley's fixed remuneration has been frozen since 2011 – refer Section 4.2.1 for further details. The STI cash bonus for Mr Crowley for FY14 has been approved by the Remuneration Committee based on the achievement of key performance goals following a formal performance review conducted by the Chairman – refer Section 2.1 for further details including Mr Crowley's key performance goals and outcomes. The STI corporate financial performance targets for FY14 were not achieved and no amount is included in Mr Crowley's remuneration in respect of the achievement of STI financial performance targets.
(h) Mr Celeste Camillo was appointed General Manager – Brivis on 1 December 2012 and is considered Key Management Personnel from that date.
(i) The former Chief Executive – GWA Door & Access Systems, Mr Geoff Oliver, retired on 11 October 2013 after 17 years service to the Group and received a termination benefit representing 9 months salary. As part of Mr Oliver's termination arrangements he is also eligible to participate in the 2012 LTI grant which will be tested in August 2014.
(j) The role of Chief Executive – GWA Door & Access Systems is vacant following Mr Oliver's retirement and the recruitment for this position is progressing. The role is currently being overseen by the Managing Director, Mr Peter Crowley.

5.2 Share based payments

5.2.1 Performance Rights

The following table shows details of the Performance Rights granted to key management personnel during the year ended 30 June 2014 and in prior years that affects compensation in this or future reporting periods.

The testing of Performance Rights granted on 21 February 2011 in respect of the three year performance period of 1 July 2010 to 30 June 2013 occurred on 21 August 2013. The EPS hurdle was not achieved and 50% of the Performance Rights lapsed (in the prior period). The TSR hurdle was achieved and 50% of the Performance Rights vested and were automatically exercised into ordinary shares at no cost to the executives. A total of 290,000 shares were purchased on-market for the executives at an average price of $2.91 following the achievement of the TSR hurdle in respect of the 2011 LTI grant.

		Number of rights granted	*Grant date**	*% vested in year*	*% forfeit in year*	*Fair value of rights at grant date $**	*Issue price used to determine number of rights granted*
Executive Directors							
P Crowley, Managing Director	2014	200,000	24 February 2014	-	-	372,000	3.12
	2013	345,000	25 February 2013	-	-	676,200	1.70
	2012	260,000	17 February 2012	-	50	375,700	2.35
	2011	300,000	21 February 2011	50	-	802,500	3.00
R Thornton, Executive Director	2014	40,000	24 February 2014	-	-	74,400	3.12
	2013	65,000	25 February 2013	-	-	127,400	1.70
	2012	45,000	17 February 2012	-	50	65,025	2.35
	2011	30,000	21 February 2011	50	-	80,250	3.00
Executives							
I Brannan, Chief Financial Officer	2014	55,000	24 February 2014	-	-	102,300	3.12
(Appointed 30 July 2012)	2013	96,000	25 February 2013	-	-	188,160	1.70
	2012	-	-	-	-	-	-
	2011	-	-	-	-	-	-
L Patterson, Chief Executive - GWA Bathrooms & Kitchens	2014	50,000	24 February 2014	-	-	93,000	3.12
(Appointed 17 October 2012)	2013	90,000	25 February 2013	-	-	176,400	1.70
	2012	55,000	17 February 2012	-	50	79,475	2.35
	2011	50,000	21 February 2011	50	-	133,750	3.00
C Camillo, General Manager - Brivis	2014	30,000	24 February 2014	-	-	55,800	3.12
(Appointed 1 December 2012)	2013	52,000	25 February 2013	-	-	101,920	1.70
	2012	-	-	-	-	-	-
	2011	-	-	-	-	-	-

		Number of rights granted	*Grant date**	*% vested in year*	*% forfeit in year*	*Fair value of rights at grant date $**	*Issue price used to determine number of rights granted*
Executives cont…							
G Oliver, Chief Executive GWA Door & Access Systems (Ceased employment 11 October 2013)	2014	-	-	-	-	-	-
	2013	80,000	25 February 2013	-	100	156,800	1.70
	2012	55,000	17 February 2012	-	50	79,475	2.35
	2011	50,000	21 February 2011	50	-	133,750	3.00

* 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 $3.12 being the volume weighted average price of the Group's shares calculated over the 20 trading days after the Group's Annual General Meeting on 30 October 2013. The grant dates and corresponding fair values per right in the table have been determined in accordance with Australian Accounting Standards. Fair values have been calculated using 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 $2.36 per right and the TSR hurdle was $1.36 per right.

All of the rights carry an exercise price of nil. The rights granted on 17 February 2012, 25 February 2013 and 24 February 2014 will vest on the date of the release to the Australian Securities Exchange of the Group's annual audited financial statements for the years 30 June 2014, 2015 and 2016 respectively, subject to the achievement of the performance hurdles. The rights granted to Mr Crowley and Mr Thornton were approved by shareholders at the 2011, 2012 and 2013 Annual General Meetings in accordance with ASX Listing Rule 10.14.

Rights were forfeited where an employee ceased employment with the Group during the year in accordance with the rules of the Long Term Incentive Plan. For the rights granted to key management personnel on 17 February 2012, the Group has not achieved the EPS hurdle for the performance period of 1 July 2011 to 30 June 2014. This has resulted in the forfeiture of 292,500 rights with a value of $538,200. The number of rights outstanding at 30 June 2014 also represents the balance yet to vest.

5.3 Key management personnel transactions

5.3.1 Loans to key management personnel and their related parties

No loans were made to key management personnel or their related parties during the year ended 30 June 2014 (2013: nil).

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

The consolidated entity purchased components and tooling of $67,905 (2013: $109,983) from Great Western Corporation Pty Ltd, a company of which Mr Richard Thornton is a non-executive director. Mr Thornton had no involvement with the purchasing of the components and tooling from Great Western Corporation Pty Ltd and 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 $712,246 (2013: $332,195) from Clayton Utz, a legal firm of which Mr Darryl McDonough is an equity partner. Mr McDonough had no involvement with the provision of the legal services by Clayton Utz and the amounts were billed based on normal market rates for such services and were due and payable under normal payment terms. For further details of the legal services provided by Clayton Utz, please refer to the disclosures in the Group's Corporate Governance Statement under Independence of Directors.

Amounts receivable from and payable to key management personnel or to their related parties at reporting date arising from these transactions were as follows:

In AUD	**2014**	**2013**
Trade creditors	116,391	29,801

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

5.3.3 Movements in shares

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

	Held at 1 July 2013	**Granted as compensation**	**Purchases**	**Sales**	**Held at 30 June 2014**
Directors: non-executive					
D McDonough	107,905	-	-	-	107,905
J Mulcahy	45,000	-	-	-	45,000
R Anderson	18,404,803	-	-	344,002	18,060,801
W Bartlett	33,194	-	-	-	33,194
P Birtles	15,000	-	-	-	15,000
G McGrath (retired 30 October 2013)	150,000	-	-	-	n/a
Executive directors					
P Crowley	330,000	150,000	-	-	480,000
R Thornton	43,694	15,000	-	-	58,694
Executives					
I Brannan	-	-	-	-	-
L Patterson	52,500	25,000			77,500
C Camillo	-	-	-	-	-
G Oliver (ceased employment 11/10/2013)	244,175	25,000	-	-	n/a

	Held at 1 July 2012	Granted as compensation	Purchases	Sales	Held at 30 June 2013
Directors: non-executive					
D McDonough	100,495	-	7,410	-	107,905
J Mulcahy	45,000	-	-	-	45,000
R Anderson	18,404,803	-	-	-	18,404,803
W Bartlett	30,914	-	2,280	-	33,194
P Birtles	15,000	-	-	-	15,000
G McGrath	150,000	-	-	-	150,000
Executive directors					
P Crowley	750,000	152,500	-	(572,500)	330,000
R Thornton	128,694	15,000	-	(100,000)	43,694
Executives					
I Brannan	-	-	-	-	-
L Patterson	227,500	25,000	-	(200,000)	52,500
C Camillo	-	-	-	-	-
G Oliver	202,407	25,000	16,768	-	244,175
W Saxelby (ceased employment 31/10/2012)	350,000	-	-	-	n/a
N Evans (ceased employment 17/10/2012)	-	37,500	-	-	n/a

The relevant interest of each director in the share capital of the Group as notified by the directors to the Australian Securities Exchange in accordance with Section 205G(1) of the *Corporations Act 2001* as at 30 June 2014 is listed in the Directors' Report under Directors' Interests.

During the reporting period, 215,000 shares were granted to key management personnel as compensation (2013: 255,000). The aggregate number of shares held by key management personnel or their related parties at 30 June 2014 was 18,878,094 (2013: 19,426,271).

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 Group or Mr Crowley wishes to terminate employment for any reason, three months notice of termination is required. The Group 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 Group, Mr Crowley will be entitled to receive payment of twelve months salary.

For the other specified executives, the Group is required to give reasonable notice of termination of up to six months. The Group 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 Group, unless the Board determines otherwise.

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

J F Mulcahy
Director

P C Crowley
Director

Brisbane, 19 August 2014

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

Annual financial report
30 June 2014

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

For the year ended 30 June 2014

In thousands of AUD	*Note*	2014	2013
Continuing operations			
Sales revenue	2	577,994	565,365
Cost of sales		(382,820)	(367,956)
Gross profit		195,174	197,409
Other income	3	1,295	6,720
Selling expenses		(76,224)	(84,062)
Administrative expenses		(45,342)	(48,682)
Other expenses	4	(31,080)	(16,046)
Results from operating activities		43,823	55,339
Finance income		683	1,479
Finance expenses		(11,884)	(14,803)
Net financing costs	8	(11,201)	(13,324)
Profit before tax		32,622	42,015
Income tax expense	9	(14,026)	(9,625)
Profit for the period		18,596	32,390
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations, net of income tax		844	669
Effective portion of changes in fair value of cash flow hedges, net of income tax		(1,619)	1,959
Other comprehensive income for the period, net of income tax		(775)	2,628
Total comprehensive income for the period		17,821	35,018
Earnings per share			
Basic earnings per share (cents per share)	10	6.07	10.64
Diluted earnings per share (cents per share)	10	6.04	10.59

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 7 to 48.

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

As at 30 June 2014

In thousands of AUD	*Note*	2014	2013
Current assets			
Cash and cash equivalents	*11*	29,873	32,757
Trade and other receivables	*12*	126,950	111,461
Inventories	*13*	113,053	80,336
Other		2,068	2,223
Total current assets		271,944	226,777
Non-current assets			
Deferred tax assets	*15*	13,906	15,064
Property, plant and equipment	*16*	97,022	107,624
Intangible assets	*17*	368,690	389,094
Other		673	1,118
Total non-current assets		480,291	512,900
Total assets		752,235	739,677
Current liabilities			
Trade and other payables	*18*	105,200	75,371
Employee benefits	*20*	11,748	11,812
Income tax payable	*14*	3,471	919
Provisions	*22*	9,802	10,760
Total current liabilities		130,221	98,862
Non-current liabilities			
Loans and borrowings	*19*	175,000	195,000
Employee benefits	*20*	13,241	12,693
Provisions	*22*	7,784	6,380
Total non-current liabilities		196,025	214,073
Total liabilities		326,246	312,935
Net assets		425,989	426,742
Equity			
Issued capital	*23*	408,100	408,100
Reserves	*23*	(1,241)	(408)
Retained earnings		19,130	19,050
Total equity		425,989	426,742

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 7 to 48.

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

For the year ended 30 June 2014

In thousands of AUD	*Note*	2014	2013
Cash flows from operating activities			
Cash receipts from customers		649,233	628,637
Cash paid to suppliers and employees		(595,099)	(544,999)
Cash generated from operations		54,134	83,638
Interest and facility fees paid		(11,319)	(15,478)
Interest received		683	1,024
Income taxes paid		(9,600)	(5,835)
Net cash from operating activities	*31*	33,898	63,349
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		6,738	2,278
Acquisition of property, plant and equipment		(4,270)	(11,374)
Acquisition of intangibles		(1,300)	(3,329)
Acquisition of subsidiary, net of cash acquired		-	(12,443)
Net cash from investing activities		1,168	(24,868)
Cash flows from financing activities			
Repayment of employee share loans		263	8,284
Share listing fees paid		-	(22)
Repayment of bank bills		(20,000)	(10,000)
Dividends paid, net of dividend reinvestment plan		(18,392)	(34,761)
Net cash from financing activities		(38,129)	(36,499)
Net (decrease)/increase in cash and cash equivalents		(3,063)	1,982
Cash and cash equivalents at 1 July		32,757	30,528
Effect of exchange rate fluctuations on cash held		179	247
Cash and cash equivalents at 30 June	*11*	29,873	32,757

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 7 to 48.

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

For the year ended 30 June 2014

In thousands of AUD	**Share capital**	**Translation reserve**	**Hedging reserve**	**Equity compensation reserve**	**Retained earnings**	**Total**
Balance at 1 July 2012	398,930	(2,654)	(2,248)	2,413	30,543	426,984
Total comprehensive income for the period						
Profit for the period	-	-	-	-	32,390	32,390
Other comprehensive income						
Foreign currency translation differences for foreign operations, net of income tax	-	669	-	-	-	669
Effective portion of changes in fair value of cash flow hedges, net of income tax	-	-	1,959	-	-	1,959
Total other comprehensive income	-	669	1,959	-	-	2,628
Total comprehensive income for the period	-	669	1,959	-	32,390	35,018
Transactions with owners, recorded directly in equity						
Share-based payments, net of income tax	-	-	-	(547)	70	(477)
Dividends to shareholders	-	-	-	-	(43,953)	(43,953)
Issue of ordinary shares	9,170	-	-	-	-	9,170
Total transactions with owners	9,170	-	-	(547)	(43,883)	(35,260)
Balance at 30 June 2013	408,100	(1,985)	(289)	1,866	19,050	426,742

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 48.

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

For the year ended 30 June 2014

In thousands of AUD	**Share capital**	**Translation reserve**	**Hedging reserve**	**Equity compensation reserve**	**Retained earnings**	**Total**
Balance at 1 July 2013	408,100	(1,985)	(289)	1,866	19,050	426,742
Total comprehensive income for the period						
Profit for the period	-	-	-	-	18,596	18,596
Other comprehensive income						
Foreign currency translation differences for foreign operations, net of income tax	-	844	-	-	-	844
Effective portion of changes in fair value of cash flow hedges, net of income tax	-	-	(1,619)	-	-	(1,619)
Total other comprehensive income	-	844	(1,619)	-	-	(775)
Total comprehensive income for the period	-	844	(1,619)	-	18,596	17,821
Transactions with owners, recorded directly in equity						
Share-based payments, net of income tax	-	-	-	(58)	(124)	(182)
Dividends to shareholders	-	-	-	-	(18,392)	(18,392)
Total transactions with owners	-	-	-	(58)	(18,516)	(18,574)
Balance at 30 June 2014	408,100	(1,141)	(1,908)	1,808	19,130	425,989

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 48.

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

1. Significant accounting policies

GWA Group Limited (the 'Company') is a for-profit company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2014 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity'). The principal activities of the consolidated entity during the year 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, New Zealand and selected international markets.

The financial report was authorised for issue by the directors on 19 August 2014.

(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 for the following items that are measured at fair value:

i) derivative financial instruments
ii) trade and other receivables
iii) trade and other payables

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 17 - measurement of the recoverable amounts of intangible assets
- note 21 - fair value of share-based payments
- note 22 and 27 - provisions and contingencies
- note 24 - 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) Business combinations

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

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

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

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 as part of the gain or loss on 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 probably 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

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

(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.

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
- 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 recognised in profit or loss 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.

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:

- software — 4 years
- brand names — nil
- trade names — 10-20 years
- designs — 15 years
- patents — 3-19 years (based on patent term)
- customer relationships — 8 years

(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 consolidated entity on terms that the consolidated entity 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.

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) 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 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

1. **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 benefit is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted to present value.

(iii) Short-term benefits

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

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

1. **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 which is typically when goods are delivered to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

(s) Expenses

(i) Cost of goods sold

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

1. **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 profit or loss and other 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 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the consolidated entity are set out below. The consolidated entity does not plan to early adopt these standards.

AASB 9 Financial Instruments

AASB 9 introduces new requirements for the classification and measurement of financial assets, requiring them to be classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. AASB 9 also introduces changes relating to financial liabilities. There is currently an active project to make limited amendments to the classification and measurement requirements of AASB 9 and add new requirements to address the impairment of financial assets and hedge accounting. AASB 9 is effective for reporting periods commencing on or after 1 January 2017, with early adoption permitted. The extent of the impact on the consolidated financial statements of the consolidated entity on adoption of this standard has not been determined.

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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, basins, plastic cisterns, tapware, baths, spas, kitchen sinks, laundry tubs, bathroom accessories and water heaters.
- Door & Access Systems –This segment includes the sale of garage doors, door locks and levers and supply and maintenance of commercial door systems.
- Heating & Cooling – This segment includes the sale of ducted heating and climate control systems.

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

	Bathrooms & Kitchens		Door & Access Systems		Heating & Cooling		Total	
In thousands of AUD	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
External sales revenue	379,211	367,547	136,327	140,878	62,455	56,935	577,993	565,360
Inter-segment revenue	-	-	260	-	349	1,815	609	1,815
Total sales revenue	379,211	367,547	136,587	140,878	62,804	58,750	578,602	567,175
Segment profit before significant items and income tax	75,013	64,519	3,935	10,859	5,668	6,237	84,616	81,615
Impairment losses on non-financial assets	-	-	(17,000)	-	-	-	(17,000)	-
Significant items	(4,201)	(9,569)	(2,040)	1,749	(1,314)	(1,625)	(7,555)	(9,445)
Segment profit/(loss) before income tax	70,812	54,950	(15,105)	12,608	4,354	4,612	60,061	72,170
Depreciation	9,251	9,643	2,121	2,745	824	926	12,196	13,314
Amortisation	-	3,683	746	1,134	557	1,280	1,303	6,097
Capital expenditure	1,729	6,799	1,997	5,158	814	662	4,540	12,619
Reportable segment assets	490,359	478,726	102,362	121,499	61,379	61,516	654,100	661,741
Reportable segment liabilities	57,314	48,496	19,278	19,466	15,719	15,096	92,311	83,058

GWA Group Limited and its controlled entities
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2. Operating segments (continued)

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

In thousands of AUD	2014	2013
Revenues		
Total revenue for reportable segments	578,602	567,175
Unallocated amounts: corporate revenue	1	5
Elimination of inter-segment revenue	(609)	(1,815)
Consolidated revenue	577,994	565,365
Profit		
Total profit for reportable segments	60,061	72,170
Significant items: corporate	(3,962)	(1,986)
Unallocated amounts: corporate expenses	(12,276)	(14,845)
Profit from operating activities	43,823	55,339
Net financing costs	(11,201)	(13,324)
Consolidated profit before tax	32,622	42,015
Assets		
Total assets for reportable segments	654,100	661,741
Unallocated amounts: corporate assets*	98,135	77,936
Consolidated total assets	752,235	739,677
Liabilities		
Total liabilities for reportable segments	92,311	83,058
Unallocated amounts: corporate liabilities*	233,935	229,877
Consolidated total liabilities	326,246	312,935

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

Reconciliations of other material items

In thousands of AUD	2014	2013
Depreciation		
Total depreciation for reportable segments	12,196	13,314
Unallocated amounts: depreciation on corporate assets	619	429
Consolidated total depreciation	12,815	13,743
Amortisation		
Total amortisation for reportable segments	1,303	6,097
Unallocated amounts: amortisation on corporate assets	3,445	558
Consolidated total amortisation	4,748	6,655
Capital expenditure		
Total capital expenditure for reportable segments	4,540	12,619
Unallocated amounts: corporate capital expenditure	1,030	2,084
Consolidated total capital expenditure	5,570	14,703

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2. Operating segments (continued)

Geographical segments

The business segments are managed on a worldwide basis, but operate mainly in one geographical area being Australia. A sales office is also operated in New Zealand. Sales revenue from geographical areas outside Australia comprised only 4% of the consolidated entity's total sales revenue for the current year (2013: 4%).

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.

	Australia		Unallocated		Consolidated	
In thousands of AUD	2014	2013	2014	2013	2014	2013
External sales revenue	555,172	544,331	22,822	21,034	577,994	565,365
Segment assets	745,152	733,498	7,083	6,179	752,235	739,677
Capital expenditure	5,539	14,597	31	106	5,570	14,703

Major customers

The consolidated entity conducts business with 3 customers where the net revenue generated from each customer exceeds 10% of the consolidated entity's total net revenue. Net revenue from these customers represent $100,355,000 (2013: $83,809,000), $71,924,000 (2013: $71,440,000) and $66,809,000 (2013: $62,592,000) respectively of the consolidated entity's total net revenues for the current year of $577,994,000 (2013: $565,365,000). The revenues from these customers are reported in the Bathrooms & Kitchens, Door & Access Systems and the Heating & Cooling segments.

3. Other income

In thousands of AUD	*Note*	2014	2013
Foreign currency gains - realised		39	11
Foreign currency gains - unrealised		373	29
Significant items – gain on disposal of property	5	-	3,537
Compensation income – lease exit		-	1,993
Other - scrap income, royalties, bad debts recovered		883	1,150
		1,295	6,720

4. Other expenses

In thousands of AUD	*Note*	2014	2013
Foreign currency losses - realised		1,928	37
Net loss on disposal of property, plant and equipment and intangible assets		635	202
Significant items	5	28,517	14,968
Acquisition costs		-	839
		31,080	16,046

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5. Significant items

In thousands of AUD		2014	2013
Restructuring income – gains on disposal of property	*(i)*	-	(3,537)
Restructuring costs	*(i)*	4,348	13,968
Impairment loss	*(ii)*	17,000	-
Supplier exit compensation	*(iii)*	2,941	-
Product liability costs	*(iv)*	1,209	1,000
Corporate transformation costs	*(v)*	3,019	-
Total significant items before income tax		28,517	11,431
Income tax benefit		(3,337)	(4,490)
Net significant items after income tax		25,180	6,941

(i) Restructuring costs

During the current financial year, the consolidated entity incurred costs and redundancies associated with site closures as part of a program to reduce operating costs and improve operational efficiencies. This resulted in costs of $3,130,000 and asset write-downs of $1,218,000.

In the prior financial year, the consolidated entity repositioned its businesses; integrating divisional structures to deliver cost savings and improved efficiency. This resulted in redundancies of $7,130,000, site closure and supply chain costs of $1,913,000 and asset write-downs of $4,925,000. These restructuring costs were partially offset by gains on property disposals of $3,537,000.

(ii) Impairment loss

As reported in the interim financial statements ending 31 December 2013, the Gliderol business had underperformed recording poor trading results. As a consequence, the carrying value of the business exceeded its recoverable amount and an impairment loss of $17,000,000 was recognised.

(iii) Supplier exit compensation

In prior reporting periods the Bathrooms & Kitchens business conducted a supply chain review and determined it would exit arrangements with a number of overseas suppliers and focus on building strategic partnerships with a few core suppliers. As reported in the interim financial statements ending 31 December 2013, a former China sanitaryware supplier threatened legal action for breach of contract. Although the consolidated entity denied liability, management determined a compensation payment to the supplier of $2,941,000 was in the best interests of the consolidated entity to settle the dispute and focus on the strategic supply partnerships.

(iv) Product liability costs

Since the acquisition of the Brivis business, the consolidated entity has continued product recalls by the former owner, Carrier, for evaporative coolers containing defective components. Although the Brivis purchase agreement provides that Carrier is responsible for warranty, recall and product liability costs above specified thresholds, the reimbursement of these costs incurred has not yet occurred. The consolidated entity incurred costs of $1,209,000 in the current financial year (2013: $1,000,000). Refer to note 27 for further details.

(v) Corporate transformation costs

During the current financial year, the Board approved and completed a strategic review of the consolidated entity focus and structure. Opportunity for future growth and shareholder returns were identified in the target market segments of the Bathrooms & Kitchens and Door & Access Systems businesses. The consolidated entity incurred costs of $3,019,000 during the current financial year for this review (2013: nil). Refer to note 33 for further details.

GWA Group Limited and its controlled entities
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6. Personnel expenses

In thousands of AUD	2014	2013
Wages and salaries – including superannuation contributions, annual leave, long service leave and on-costs	144,197	148,892
Equity-settled share-based payment transactions	609	277
	144,806	149,169

7. Auditors' remuneration

In AUD	2014	2013
Audit services		
Auditors of the Company		
KPMG Australia:		
Audit and review of financial reports	455,000	466,000
Other regulatory services	3,500	3,500
Overseas KPMG Firms:		
Audit and review of financial reports	14,000	12,000
	472,500	481,500
Other services		
Auditors of the Company		
KPMG Australia		
Taxation services	7,380	10,860
Overseas KPMG Firms:		
Taxation services	17,815	17,121
	25,195	27,981

8. Net financing costs

In thousands of AUD	2014	2013
Finance income		
Interest income on call deposits	601	880
Unwinding of discount on loans and provisions	-	455
Other	82	144
	683	1,479
Finance expense		
Interest expense on financial liabilities	5,172	7,119
Interest expense on swaps	1,727	1,892
Facility fees on financial liabilities	4,261	4,891
Establishment fee amortisation	720	854
Other	4	47
	11,884	14,803
Net financing costs	11,201	13,324

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

9. Income tax expense

Recognised in the statement of profit or loss and other comprehensive income

In thousands of AUD	2014	2013
Current tax expense		
Current year	12,429	8,569
Adjustments for prior years	(255)	(560)
	12,174	8,009
Deferred tax expense		
Origination and reversal of temporary differences	1,852	1,616
Total income tax expense in statement of profit or loss and other comprehensive income	14,026	9,625

Numerical reconciliation between tax expense and pre-tax net profit

In thousands of AUD	2014	2013
Profit before tax	32,622	42,015
Income tax using the domestic tax rate of 30% (2013: 30%)	9,787	12,605
Increase in income tax expense due to:		
Non-deductible expenses	97	170
Non-deductible impairment loss	5,100	-
Non-deductible acquisition and disposal costs	-	55
Tax losses not recognised	88	25
Decrease in income tax expense due to:		
Effect of tax rate in foreign jurisdictions	(123)	-
Capital gains offset with prior capital losses	-	(1,771)
Deductible share-based payments	(17)	(164)
Building depreciation allowance	(16)	(23)
Rebateable research and development	(635)	(712)
	14,281	10,185
Over provided in prior years	(255)	(560)
Income tax expense on pre-tax net profit	14,026	9,625

Deferred tax recognised directly in equity

In thousands of AUD	2014	2013
Derivatives	(694)	840

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

10. Earnings per share

Basic earnings per share

The calculation of basic earnings per share has been based on the following profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

Profit attributable to ordinary shareholders

In thousands of AUD	**2014**	**2013**
Profit before significant items	43,776	39,331
Net significant items	(25,180)	(6,941)
Profit for the period	18,596	32,390

Weighted average number of ordinary shares

In thousands of shares	**2014**	**2013**
Issued ordinary shares at 1 July	306,534	302,006
Effect of shares issued	-	2,433
Weighted average number of ordinary shares at 30 June	306,534	304,439

Diluted earnings per share

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

Profit attributable to ordinary shareholders (diluted)

In thousands of AUD	**2014**	**2013**
Profit for the period	18,596	32,390

Weighted average number of ordinary shares (diluted)

In thousands of shares	**2014**	**2013**
Weighted average number of ordinary shares (basic)	306,534	304,439
Effect of performance rights on issue	1,584	1,438
Weighted average number of ordinary shares (diluted)	308,118	305,877

Earnings per share

	2014	**2013**
Basic earnings per share	6.07	10.64
Diluted earnings per share	6.04	10.59
Basic earnings per share (excluding significant items)	14.28	12.92
Diluted earnings per share (excluding significant items)	14.21	12.86

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11. Cash and cash equivalents

In thousands of AUD	2014	2013
Bank balances	12,117	15,711
Call deposits	17,756	17,046
Cash and cash equivalents in the statement of cash flows	29,873	32,757

The consolidated entity's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 24.

12. Trade and other receivables

In thousands of AUD	2014	2013
Current		
Net trade receivables	81,347	80,753
Forward exchange contracts used for hedging	43,935	23,988
Employee share loans	-	263
Other	1,668	6,457
	126,950	111,461

The consolidated entity's exposure to credit and currency risk and impairment losses related to trade and other receivables are disclosed in note 24.

13. Inventories

In thousands of AUD	2014	2013
Raw materials and consumables	21,188	20,126
Work in progress	1,210	2,062
Finished goods	90,655	58,148
	113,053	80,336

14. Current tax liabilities

The current tax liability for the consolidated entity of $3,471,000 (2013: $919,000) 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 liability initially recognised by the members in the tax-consolidated group.

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15. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
In thousands of AUD	2014	2013	2014	2013	2014	2013
Property, plant and equipment	268	685	(1,646)	(1,349)	(1,378)	(664)
Intangible assets	1,632	1,063	(5,111)	(5,458)	(3,479)	(4,395)
Inventories	2,214	3,093	-	-	2,214	3,093
Employee benefits	7,495	7,349	-	-	7,495	7,349
Provisions	6,164	6,348	-	-	6,164	6,348
Other items	3,047	3,600	(157)	(267)	2,890	3,333
Tax assets / (liabilities)	20,820	22,138	(6,914)	(7,074)	13,906	15,064
Set off of tax	(6,914)	(7,074)	6,914	7,074	-	-
Net tax assets / (liabilities)	13,906	15,064	-	-	13,906	15,064

Unrecognised deferred tax assets

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

In thousands of AUD	2014	2013
Capital losses	6,541	6,199
Revenue losses from foreign jurisdictions	162	74

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

In thousands of AUD	Balance 1 July 12	Recognised in income	Recognised in equity	Acquired in business combinations	Balance 30 June 13
Property, plant and equipment	(582)	(82)	-	-	(664)
Intangible assets	(4,731)	1,056	-	(720)	(4,395)
Inventories	2,578	251	-	264	3,093
Employee benefits	7,762	(868)	-	455	7,349
Provisions	8,082	(1,734)	-	-	6,348
Other items	4,379	(239)	(840)	33	3,333
	17,488	(1,616)	(840)	32	15,064

In thousands of AUD	Balance 1 July 13	Recognised in income	Recognised in equity	Acquired in business combinations	Balance 30 June 14
Property, plant and equipment	(664)	(714)	-	-	(1,378)
Intangible assets	(4,395)	916	-	-	(3,479)
Inventories	3,093	(879)	-	-	2,214
Employee benefits	7,349	146	-	-	7,495
Provisions	6,348	(184)	-	-	6,164
Other items	3,333	(1,137)	694	-	2,890
	15,064	(1,852)	694	-	13,906

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16. Property, plant and equipment

In thousands of AUD	Land and buildings	Plant and equipment	Motor vehicles	Work in progress	Total
Cost					
Balance at 1 July 2012	58,226	169,209	1,316	8,713	237,464
Acquisitions through business combinations	-	1,303	1,406	-	2,709
Additions	2,285	9,089	-	-	11,374
Disposals	(3,013)	(10,031)	(1,676)	-	(14,720)
Transfers	-	6,950	-	(6,950)	-
Effect of movements in foreign exchange	-	105	5	-	110
Balance at 30 June 2013	57,498	176,625	1,051	1,763	236,937
Balance at 1 July 2013	57,498	176,625	1,051	1,763	236,937
Additions	199	3,464	54	553	4,270
Disposals	(62)	(6,918)	(379)	-	(7,359)
Transfers	-	593	-	(593)	-
Effect of movements in foreign exchange	-	123	3	-	126
Balance at 30 June 2014	57,635	173,887	729	1,723	233,974
Depreciation and impairment losses					
Balance at 1 July 2012	(7,516)	(118,531)	(783)	-	(126,830)
Depreciation charge for the year	(1,084)	(11,536)	(311)	-	(12,931)
Disposals	626	9,421	495	-	10,542
Effect of movements in foreign exchange	-	(89)	(5)	-	(94)
Balance at 30 June 2013	(7,974)	(120,735)	(604)	-	(129,313)
Balance at 1 July 2013	(7,974)	(120,735)	(604)	-	(129,313)
Depreciation charge for the year	(1,158)	(11,411)	(246)	-	(12,815)
Disposals	46	4,958	277	-	5,281
Effect of movements in foreign exchange	-	(102)	(3)	-	(105)
Balance at 30 June 2014	(9,086)	(127,290)	(576)	-	(136,952)
Carrying amounts					
At 1 July 2012	50,710	50,678	533	8,713	110,634
At 30 June 2013	49,524	55,890	447	1,763	107,624
At 1 July 2013	49,524	55,890	447	1,763	107,624
At 30 June 2014	48,549	46,597	153	1,723	97,022

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17. Intangible assets

In thousands of AUD	Software	Brand names	Trade names, designs, patents and customer relationships	Goodwill	Total
Cost					
Balance at 1 July 2012	29,373	308,717	21,547	46,358	405,995
Acquisitions through business combinations	53	-	2,400	4,556	7,009
Additions	3,329	-	-	-	3,329
Disposals	(78)	-	-	-	(78)
Effect of movements in foreign exchange	-	29	-	-	29
Balance at 30 June 2013	32,677	308,746	23,947	50,914	416,284
Balance at 1 July 2013	32,677	308,746	23,947	50,914	416,284
Additions	896	-	404	-	1,300
Effect of movements in foreign exchange	-	42	3	-	45
Balance at 30 June 2014	33,573	308,788	24,354	50,914	417,629
Amortisation					
Balance at 1 July 2012	(16,988)	-	(2,812)	-	(19,800)
Amortisation for the year	(6,113)	-	(1,354)	-	(7,467)
Disposals	77	-	-	-	77
Balance at 30 June 2013	(23,024)	-	(4,166)	-	(27,190)
Balance at 1 July 2013	(23,024)	-	(4,166)	-	(27,190)
Amortisation for the year	(3,445)	-	(1,303)	-	(4,748)
Impairment losses	-	-	-	(17,000)	(17,000)
Effect of movements in foreign exchange	-	-	(1)	-	(1)
Balance at 30 June 2014	(26,469)	-	(5,470)	(17,000)	(48,939)
Carrying amounts					
At 1 July 2012	12,385	308,717	18,735	46,358	386,195
At 30 June 2013	9,653	308,746	19,781	50,914	389,094
At 1 July 2013	9,653	308,746	19,781	50,914	389,094
At 30 June 2014	7,104	308,788	18,884	33,914	368,690

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17. Intangible assets (continued)

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

In thousands of AUD	**2014**	**2013**
CaromaDorf	284,188	284,146
Dux	6,000	6,000
Bathrooms & Kitchens	290,188	290,146
API Locksmiths	4,556	4,556
Gainsborough	20,049	20,049
Gliderol	7,075	24,075
Door & Access Systems	31,680	48,680
Heating & Cooling	20,834	20,834
	342,702	359,660

Impairment testing for brand names and goodwill

The recoverable amounts of all brand names and goodwill were assessed at 30 June 2014 based on internal value in use calculations and no impairment was identified for any cash generating units (2013: nil for all cash generating units).

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% (2013: 2.5%) in calculating terminal values of the units, which does not exceed the long-term average growth rate for the industry.
- Pre-tax discount rates between 14.3% - 14.9% were used (2013: 12.30%).

The key assumptions relate to dwelling completions, economic activity and market share. The values assigned to the key assumptions represent management's assessment of future trends in the Bathrooms & Kitchens, Door & Access Systems and Heating & Cooling industries and are based on both external sources and internal sources (historical data). The recoverable amount of the cash generating units exceeds their carrying values at 30 June 2014.

The recoverable amount of the Gliderol business exceeds its carrying value by $3,300,000, following a $17,000,000 impairment recorded at 31 December 2013. A reduction in forecast dwelling completions that reduce the forecast earnings before interest and tax (EBIT) by 13% would reduce the recoverable amount of the Gliderol business to its carrying value. Management believe no other reasonably probable changes to the key assumptions used in the calculations would cause the carrying amount to exceed the recoverable amount of the cash generating units.

The recoverable amount of the Dux business exceeds its carrying value by $2,800,000. A reduction in forecast dwelling completions that reduce forecast EBIT by 7% would reduce the recoverable amount of the Dux business to its carrying value. Management believe no other reasonably probable changes to the key assumptions used in the calculations would cause the carrying amount to exceed the recoverable amount of the cash generating units.

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18. Trade and other payables

In thousands of AUD	2014	2013
Current		
Trade payables and accrued expenses	57,179	50,176
Forward exchange contracts used for hedging	45,140	22,461
Interest rate swaps used for hedging	1,521	1,939
Non-trade payables and accrued expenses	1,360	795
	105,200	75,371

The consolidated entity's exposure to currency risk and liquidity risk related to trade and other payables are disclosed in note 24.

19. 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 24.

Non-current liabilities

In thousands of AUD	2014	2013
Unsecured cash advance facilities	175,000	195,000

Terms and debt repayment schedule

In thousands of AUD	Currency	Year of maturity	2014 Face value	2014 Carrying amount	2013 Face value	2013 Carrying amount
Unsecured cash advance facilities	AUD	2016	175,000	175,000	195,000	195,000
Unsecured cash advance facilities	AUD	2018	-	-	-	-
			175,000	175,000	195,000	195,000

The unsecured cash advance facilities mature over the next 3 to 5 financial years and have variable rates ranging from 4.50% - 4.85% at 30 June 2014 (2013: 4.68% - 5.03%).

Financing facilities

In thousands of AUD	2014	2013
Bank overdraft	-	1,000
Standby letters of credit	2,000	12,000
Bank guarantees	7,196	9,200
Unsecured cash advance facility	275,000	275,000
	284,196	297,200
Facilities utilised at reporting date		
Bank overdraft	-	-
Standby letters of credit	-	-
Bank guarantees	4,258	2,965
Unsecured cash advance facility	175,000	195,000
	179,258	197,965
Facilities not utilised at reporting date		
Bank overdraft	-	1,000
Standby letters of credit	2,000	12,000
Bank guarantees	2,938	6,235
Unsecured cash advance facility	100,000	80,000
	104,938	99,235

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19. Loans and borrowings (continued)

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.

20. Employee benefits

Current *In thousands of AUD*	**2014**	**2013**
Liability for annual leave	9,374	9,588
Liability for long-service leave	2,374	2,224
	11,748	11,812
Non-current		
Liability for long-service leave	13,241	12,693

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 $9,769,000 for the financial year ended 30 June 2014 (2013: $9,723,000).

21. 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 but 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 2013/14 year, the performance hurdles and vesting proportions for the EPS performance measure is outlined in the table below. The base year EPS for the 2014 Long Term Incentive (Equity) Plan grant was 12.7 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 2013/14 year, the performance hurdles and vesting proportions for the TSR performance measure are 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 50th percentile	0%
50th percentile	25%
Between the 50th percentile and 75th percentile	Straight line vesting between 25% and 50%
75th 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 section of the Directors' Report.

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21. 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
2014								
(i)	21/02/2011	30/06/2013	290,000	-	-	(290,000)	-	-
(ii)	17/02/2012	30/06/2014	585,000	-	-	-	(292,500)	292,500
(iii)	25/02/2013	30/06/2015	972,000	-	(80,000)	-	-	892,000
(iv)	24/02/2014	30/06/2016	-	540,000	-	-	-	540,000
			1,847,000	540,000	(80,000)	(290,000)	(292,500)	1,724,500
2013								
(i)	12/03/2010	30/06/2012	375,000	-	-	(375,000)	-	-
(ii)	21/02/2011	30/06/2013	680,000	-	(100,000)	-	(290,000)	290,000
(iii)	17/02/2012	30/06/2014	780,000	-	(195,000)	-	-	585,000
(iv)	25/02/2013	30/06/2015	-	972,000	-	-	-	972,000
			1,835,000	972,000	(295,000)	(375,000)	(290,000)	1,847,000

No performance rights were vested and exercisable at 30 June 2014.

Fair value

During the current financial year 540,000 performance rights were granted to employees (2013: 972,000) at a weighted average fair value of $1.86 (2013: $1.96). The fair value of the performance rights subject to the EPS hurdle for vesting (50%) was determined as $2.36 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 $1.36 by using a Monte Carlo simulation. When determining the fair values it was assumed the Company would have a dividend yield of 5.23%, the risk free rate was 2.97% and annualised volatility was 32.5% 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 $609,000 (2013: $277,000). Refer to the Remuneration Report section of the Directors' Report for further details.

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22. Provisions

In thousands of AUD	Warranties	Restructuring	Site restoration	Product liability	Other	Total
Balance at 1 July 2013	11,783	1,879	1,994	1,070	414	17,140
Provisions made during the year	7,481	3,688	591	1,035	106	12,901
Provisions used during the year	(6,208)	(4,127)	(969)	(1,011)	(140)	(12,455)
Balance at 30 June 2014	13,056	1,440	1,616	1,094	380	17,586
Current	6,883	1,168	277	1,094	380	9,802
Non-current	6,173	272	1,339	-	-	7,784
	13,056	1,440	1,616	1,094	380	17,586

Warranties
The total provision for warranties at balance date of $13,056,000 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 $6,883,000 of the total provision in the financial year ending 30 June 2015, 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 3.70%.

Restructuring
The restructuring provision relates to the estimated costs of redundancies, site closures and product rationalisation related to business restructuring. During the financial year ended 30 June 2014, restructuring was undertaken across all operating segments with $3,688,000 being provided and $4,127,000 being utilised. At balance date the balance of the restructuring provision was $1,440,000 with the majority to be utilised in the next financial year.

Site restoration
The provision for site restoration at balance date of $1,616,000 relates to site remediation and the removal of plant & fixtures installed in leased premises where there is a liability under the lease for removal on expiry. Payments of $969,000 were made in the current financial year. The balance remaining will be utilised when leased sites are exited.

Product liability
The provision for product liability at balance date of $1,094,000 relates to product recall costs and product liability claims incurred but not reported for Brivis evaporative coolers. Refer to note 27 for further detail.

23. Capital and reserves

Share capital

In thousands	Ordinary shares		AUD	
	2014	2013	2014	2013
On issue at 1 July – fully paid	306,534	302,006	408,100	398,930
Issue of shares under the dividend reinvestment plan	-	4,528	-	9,170
On issue at 30 June – fully paid	306,534	306,534	408,100	408,100

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
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23. 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:

In thousands of AUD	Cents per share	Total amount	Franked	Date of payment
2014				
Interim 2014 ordinary	-	-	100%	-
Final 2013 ordinary	6.0	18,392	100%	4th Oct 2013
Total amount	6.0	18,392		
2013				
Interim 2013 ordinary	6.0	18,283	100%	4th April 2013
Final 2012 ordinary	8.5	25,670	100%	4th Oct 2012
Total amount	14.5	43,953		

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

After balance 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.

In thousands of AUD	Cents per share	Total amount	Franked	Date of payment
Final ordinary	5.5	16,859	100%	8th Oct 2014

The financial effect of these dividends has not been brought to account in the financial statements for the financial year ended 30 June 2014 and will be recognised in subsequent financial reports.

Dividend franking account

In thousands of AUD	The Company 2014	The Company 2013
30 per cent franking credits available to shareholders of GWA Group Limited for subsequent financial years	5,943	4,513

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

(a) franking credits/debits that will arise from the payment/settlement of the current tax liabilities/assets; and

(b) franking debits that will arise from the payment of dividends recognised as a liability at year-end.

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 $7,225,000 (2013: $7,882,000). In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of $5,943,000 (2013: $4,513,000) franking credits.

24. 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 Boards 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 44% of the trade receivables carrying amount at 30 June 2014 (2013: 40%). 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

24. 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:

In thousands of AUD	2014	2013
Cash and cash equivalents	29,873	32,757
Net trade receivables	81,347	80,753
Other receivables	1,668	6,457
Employee share loans	-	263
Forward exchange contracts used for hedging	43,935	23,988
	156,823	144,218

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

In thousands of AUD	2014 Receivable	2014 Impairment	2013 Receivable	2013 Impairment
Not yet due	64,351	(100)	61,663	(70)
Past due 0-30 days	39,510	(86)	33,913	(40)
Past due 31-60 days	2,129	(20)	2,904	(4)
Past due 61-120 days	784	(51)	755	(80)
Past due 120+ days	1,632	(1,066)	2,458	(1,295)
Less accrued rebates and credit claims	(25,736)	-	(19,451)	-
	82,670	(1,323)	82,242	(1,489)

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:

In thousands of AUD	2014	2013
Balance at 1 July	(1,489)	(1,666)
Impairment loss recognised	(268)	(610)
Impairment losses applied	436	949
Acquired through business combinations	-	(162)
Effect of movements in foreign exchange	(2)	-
Balance at 30 June	(1,323)	(1,489)

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24. Financial instruments and financial risk management (continued)

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.

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 *In thousands of AUD*	**Carrying amount**	**Contractual cash flows**	**Less than 6 months**	**6–12 months**	**1–2 years**	**3–5 years**	**5+ years**
2014							
Non-derivative financial liabilities							
Unsecured cash advance facilities	(175,000)	(193,292)	(4,472)	(4,472)	(8,944)	(175,404)	-
Trade and other payables	(58,539)	(58,539)	(58,491)	(48)	-	-	-
Derivative financial liabilities							
Interest rate swaps designated as hedges	(1,521)	(1,899)	(509)	(435)	(646)	(309)	-
Forward exchange contracts designated as hedges – outflow	(45,140)	(45,140)	(45,140)	-	-	-	-
Forward exchange contracts designated as hedges – inflow	43,935	43,935	43,935		-	-	-
Total at 30 June 2014	(236,265)	(254,935)	(64,677)	(4,955)	(9,590)	(175,713)	-
2013							
Non-derivative financial liabilities							
Unsecured cash advance facilities	(195,000)	(226,906)	(5,040)	(5,040)	(10,081)	(206,745)	-
Trade and other payables	(50,176)	(50,176)	(50,176)	-	-	-	-
Derivative financial liabilities							
Interest rate swaps designated as hedges	(1,939)	(2,014)	(770)	(619)	(448)	(177)	-
Forward exchange contracts designated as hedges – outflow	(22,461)	(22,461)	(22,461)	-	-	-	-
Forward exchange contracts designated as hedges – inflow	23,988	23,988	23,988	-	-	-	-
Total at 30 June 2013	(245,588)	(277,569)	(54,459)	(5,659)	(10,529)	(206,922)	-

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
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24. 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 3.37% to 4.98% (2013: 3.37% to 5.20%). At 30 June 2014, the consolidated entity had interest rate swaps in operation with a notional contract amount of $125,000,000 (2013: $125,000,000).

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 2014 was $1,521,000 recognised as a fair value derivative liability. (2013: $1,939,000 fair value derivative liability).

(i) Profile

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

In thousands of AUD	2014 Notional value	2014 Carrying amount	2013 Notional value	2013 Carrying amount
Variable rate financial instruments				
Unsecured cash advance facilities	(175,000)	(175,000)	(195,000)	(195,000)
Bank balances	12,117	12,117	15,711	15,711
Call deposits	17,756	17,756	17,046	17,046
	(145,127)	(145,127)	(162,243)	(162,243)
Fixed rate financial instruments				
Interest rate swap derivatives	125,000	(1,521)	125,000	(1,939)
Total	(20,127)	(146,648)	(37,243)	(164,182)

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

24. 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:

In thousands of AUD	**2014**	**2013**
Increase of 100 basis points		
Hedging reserve (increase)/decrease	(2,484)	(2,135)
Financial assets increase/(decrease)	963	196
Financial liabilities (increase)/decrease	1,521	1,939
	-	-
Decrease of 100 basis points		
Hedging reserve (increase)/decrease	2,334	2,181
Financial assets increase/(decrease)	-	-
Financial liabilities (increase)/decrease	(2,334)	(2,181)
	-	-

(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:

In thousands of AUD	**2014**	**2013**
Increase of 100 basis points		
Unsecured cash advance facilities (AUD)	(2,000)	(2,259)
Bank balances	34	157
Interest rate swap derivatives	1,369	1,388
Call deposits variable rate	227	266
Call deposits fixed rate	-	39
	(370)	(409)
Decrease of 100 basis points		
Unsecured cash advance facilities (AUD)	2,000	2,259
Bank balances	(34)	(157)
Interest rate swap derivatives	(1,369)	(1,388)
Call deposits variable rate	(227)	(266)
Call deposits fixed rate	-	(39)
	370	409

GWA Group Limited and its controlled entities
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24. 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. The consolidated entity is also exposed to foreign currency risk on retranslation of the financial statements of foreign subsidiaries. The currencies giving rise to this risk are primarily USD, NZD, EUR and RMB.

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. The estimated forecast sales and purchases in the tables below are for the six month period after the respective balance dates.

(i) Exposure to currency risk

In thousands of AUD equivalent	USD	NZD	EUR	RMB
Currency transaction risk				
2014				
Trade payables	(2,350)	(1)	(318)	(90)
Cash	5	4	4	1
Net balance sheet exposure	(2,345)	3	(314)	(89)
Estimated forecast sales	-	11,802	-	-
Estimated forecast purchases	(47,219)	(5,491)	(3,212)	(6,123)
Net forecast transaction exposure	(47,219)	6,311	(3,212)	(6,123)
Forward exchange contracts	37,686	(3,485)	-	2,566
Net exposure 30 June 2014	(11,878)	2,829	(3,526)	(3,646)
Foreign exchange rates at balance date	0.9420	1.0761	0.6906	5.8466
2013				
Trade receivables	-	-	-	-
Trade payables	(2,816)	(5)	(331)	(372)
Cash	1,546	51	78	377
Net balance sheet exposure	(1,270)	46	(253)	5
Estimated forecast sales	-	9,351	-	-
Estimated forecast purchases	(39,172)	(5,397)	(3,452)	(4,299)
Net forecast transaction exposure	(39,172)	3,953	(3,452)	(4,294)
Forward exchange contracts	19,623	(3,791)	493	-
Net exposure 30 June 2013	(20,819)	209	(3,211)	(4,294)
Foreign exchange rates at balance date	0.9275	1.1871	0.7095	5.6991
Currency translation risk				
2014				
Net assets	-	2,524	-	(313)
2013				
Net assets	-	2,441	-	45

(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.

GWA Group Limited and its controlled entities
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24. Financial instruments and financial risk management (continued)

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:

In thousands of AUD	Carrying amount 2014	Fair value 2014	Carrying amount 2013	Fair value 2013
Cash and cash equivalents	29,873	29,873	32,757	32,757
Trade and other receivables	83,015	83,015	87,473	87,473
Interest rate swaps:				
Liabilities	(1,521)	(1,521)	(1,939)	(1,939)
Forward exchange contracts:				
Assets	43,935	43,935	23,988	23,988
Liabilities	(45,140)	(45,140)	(22,461)	(22,461)
Unsecured cash advance facilities	(175,000)	(175,000)	(195,000)	(195,000)
Trade and other payables	(58,539)	(58,539)	(50,971)	(50,971)
	(123,377)	(123,377)	(126,153)	(126,153)

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. 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) Interest rates used for determining fair value

The consolidated entity uses the government yield curve as of 30 June 2014 plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	2014	2013
Derivatives	2.64% - 3.28%	2.66% - 3.65%
Loans and borrowings	4.50% - 4.85%	4.68% - 5.03%

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24. Financial instruments and financial risk management (continued)

Estimation of fair values (continued)

(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
30 June 2014				
Forward exchange contracts used for hedging	-	43,935	-	43,935
Interest rate swaps used for hedging	-	-	-	-
	-	43,935	-	43,935
Forward exchange contracts used for hedging	-	(45,140)	-	(45,140)
Interest rate swaps used for hedging	-	(1,521)	-	(1,521)
	-	(46,661)	-	(46,661)
30 June 2013				
Forward exchange contracts used for hedging	-	23,988	-	23,988
Interest rate swaps used for hedging	-	-	-	-
	-	23,988	-	23,988
Forward exchange contracts used for hedging	-	(22,461)	-	(22,461)
Interest rate swaps used for hedging	-	(1,939)	-	(1,939)
	-	(24,400)	-	(24,400)

25. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	2014	2013
Less than one year	13,374	13,017
Between one and five years	23,255	28,678
More than five years	1,029	3,132
	37,658	44,827

The consolidated entity leases warehouse, factory and office facilities and motor vehicles under operating leases. These leases typically run for a period of 2 to 8 years, with an option to renew the lease after that date. None of the leases include contingent rentals.

During the financial year ended 30 June 2014, $15,347,000 (2013: $16,576,000) was recognised as an expense in profit or loss in respect of operating leases.

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26. Capital commitments

In thousands of AUD	2014	2013
Capital expenditure commitments		
Plant and equipment		
Contracted but not provided for and payable:		
Within one year	2,114	2,981

27. Contingencies

Brivis evaporative cooler recalls

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 Brivis purchase agreement provides that Carrier is responsible for product warranty, recall and product liability costs above specified thresholds with an overall cap on Carrier's liability.

A progress claim and warranty breach notice was submitted to Carrier in March 2014 under the Brivis purchase agreement. Following Carrier's rejection of Brivis' payment demands a Dispute Notice was served on Carrier in April 2014 which triggered the dispute resolution process under the Brivis purchase agreement. The parties are currently undertaking the dispute resolution process provided by the Brivis purchase agreement. The consolidated entity has not recognised the progress claim at 30 June 2014.

A further progress claim in the amount of $2,416,000 was submitted to Carrier in June 2014 under the Brivis purchase agreement. No payment has been received from Carrier to date and the matter remains under dispute.

The directors believe the provision at 30 June 2014 of $1,094,000 is adequate to cover any remaining product recall costs and product liability claims incurred but not reported at 30 June 2014 based on historical trends.

28. 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 29 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 profit or loss and other comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2014, is set out in the table on the following page.

GWA Group Limited and its controlled entities
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28. Deed of cross guarantee (continued)

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

In thousands of AUD	2014	2013
Sales revenue	557,629	547,663
Cost of sales	(370,558)	(336,801)
Gross profit	187,071	210,862
Operating expenses	(143,584)	(156,671)
Finance income	681	1,476
Finance expenses	(11,883)	(14,803)
Profit before tax	32,285	40,864
Income tax expense	(12,713)	(8,955)
Profit after tax	19,572	31,909
Total comprehensive income for the period, net of tax	19,572	31,909
Retained earnings at beginning of year	14,292	26,266
Dividends recognised during the year	(18,392)	(43,953)
Share-based payments, net of income tax	(124)	70
Retained earnings at end of the year	15,348	14,292

Statement of financial position

In thousands of AUD	2014	2013
Assets		
Cash and cash equivalents	27,938	30,766
Trade and other receivables	123,629	108,620
Inventories	109,925	77,421
Other	2,054	2,042
Total current assets	263,546	218,849
Intercompany receivables	36,023	36,996
Investments	11,113	11,113
Deferred tax assets	13,776	15,003
Property, plant and equipment	57,939	69,479
Intangible assets	364,625	383,226
Other	673	1,118
Total non-current assets	484,149	516,935
Total assets	747,695	735,784
Liabilities		
Trade and other payables	103,981	74,584
Income tax payable	2,859	657
Employee benefits	11,685	11,728
Provisions	9,802	10,860
Total current liabilities	128,327	97,829
Loans and borrowings	175,000	195,000
Employee benefits	13,236	12,669
Provisions	7,784	6,379
Total non-current liabilities	196,020	214,048
Total liabilities	324,347	311,877
Net assets	423,348	423,907
Equity		
Issued capital	408,100	408,100
Reserves	(100)	1,515
Retained earnings	15,348	14,292
Total equity	423,348	423,907

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

29. Consolidated entities

	Parties to cross guarantee	Country of incorporation	Ownership interest	
			2014	2013
Parent entity				
GWA Group Limited	Y	Australia		
Subsidiaries				
API Services and Solutions Pty Limited	Y	Australia	100%	100%
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%
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%
McIlwraith Davey Pty Ltd	Y	Australia	100%	100%
Sebel Furniture Holdings Pty Ltd	Y	Australia	100%	100%
Starion Tapware Pty Ltd	Y	Australia	100%	100%
Stylus Pty Ltd	Y	Australia	100%	100%
Warapave Pty Ltd	N	Australia	100%	100%

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

30. Parent entity disclosures

As at, and throughout, the financial year ended 30 June 2014 the parent company of the consolidated entity was GWA Group Limited.

	Company	
In thousands of AUD	**2014**	**2013**
Results of the parent entity		
Profit for the period	18,089	30,363
Other comprehensive income	-	-
Total comprehensive income for the period	18,089	30,363
Financial position of the parent entity		
Current assets	-	216
Total assets	627,810	607,001
Current liabilities	2,822	551
Total liabilities	199,294	178,000
Shareholders equity of the parent entity		
Share capital	408,100	408,100
Equity compensation reserve	1,807	1,866
Retained earnings	18,609	19,035
Total shareholders equity	428,516	429,001

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 (2013: nil).

Capital expenditure commitments

The parent entity has not entered into contractual commitments on behalf of wholly-owned subsidiaries for the acquisition of property, plant or equipment as at reporting date (2013: $455,000).

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 (2013: nil). Further details of the Deed of Cross Guarantee and the subsidiaries subject to the Deed are disclosed in Note 28 and 29.

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

31. Reconciliation of cash flows from operating activities

In thousands of AUD	2014	2013
Cash flows from operating activities		
Profit for the period	18,596	32,390
Adjustments for:		
Depreciation	12,815	13,743
Amortisation	4,748	6,655
Share-based payments	(235)	(451)
Employee share loan waivers	-	222
Foreign exchange gains unrealised	(373)	(3)
Net financing costs	11,201	13,324
Impairment loss, net of income tax	17,000	-
Loss on sale of property, plant and equipment and intangible assets	635	202
Gain on sale of property	-	(3,537)
Income tax expense	14,026	9,625
Operating profit before changes in working capital and provisions	78,413	72,170
(Increase)/decrease in trade and other receivables	(1,007)	1,403
(Increase)/decrease in inventories	(32,717)	14,620
Increase in trade and other payables	8,515	3,386
Increase/(decrease) in provisions and employee benefits	930	(7,941)
	54,134	83,638
Net interest paid	(10,636)	(14,454)
Income taxes paid	(9,600)	(5,835)
Net cash from operating activities	33,898	63,349

32. Related parties

Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' (see note 6) are as follows:

In AUD	2014	2013
Short-term employee benefits	5,001,534	6,018,555
Post-employment benefits	294,123	315,583
Other long term benefits	-	95,899
Termination benefits	349,195	450,750
Share-based payments	421,685	233,310
	6,066,537	7,114,097

Individual directors and executives compensation disclosures

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

33. Subsequent events

On 28 July 2014, as a result of an extensive strategic review, the directors' determined the consolidated entity focus will be in the target market segments of the Bathrooms & Kitchens and Door & Access Systems businesses, and that the Dux Hot Water and Brivis Heating & Cooling businesses will be divested. The divestment process is expected to take several months to execute and at the date of this report, the consolidated entity has not entered into any agreements for sale of the businesses.

Other than the matter noted above, to the directors' best knowledge, there are no events that have arisen subsequent to 30 June 2014 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 2014 and of its performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(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 28 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 2014.

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 19 August 2014.

Signed in accordance with a resolution of the directors:

John Mulcahy
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 2014, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 33 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.

KPMG

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 2014 and of its performance for the year ended on that date; and

 (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(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 in pages 5 to 29 of the directors' report for the year ended 30 June 2014. 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 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

G Boydell

Greg Boydell
Partner

Sydney

19 August 2014

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 2014 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Greg Boydell
Partner

Sydney

19 August 2014