



**GWA**  
Group Limited



2014  
ANNUAL REPORT

# FY14 PERFORMANCE HIGHLIGHTS

## REVENUE

↑ \$578 million

Revenue up 2% to \$578 million with strong growth in Bathrooms & Kitchens (excluding Hot Water)

## NET PROFIT

\$18.6 million

Net profit after tax of \$18.6 million impacted by one-off significant items

## TRADING EBIT

↑ \$72.3 million

Trading earnings before interest and tax (EBIT) up 8% on the prior period to \$72.3 million

## DIVIDENDS

5.5 cents

Fully franked final dividend of 5.5 cents per share to be paid in October 2014

### STRATEGIC REVIEW COMPLETED

with focus on core Bathrooms & Kitchens and Door & Access Systems businesses and divestment of non-core businesses – Dux Hot Water and Bravis Heating & Cooling

### SUBJECT TO SUCCESSFUL DIVESTMENT

of Dux and Bravis, 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

## CONTENTS

Five Year Financial Summary	1	GWA Heating & Cooling	14
Company Profile and Our Mission	2	Board of Directors	16
Chairman's Review	4	Corporate Governance Statement	18
Managing Director's Review of Operations	6	Directors' Report	28
Health and Safety	10	Financial Report	43
GWA Bathrooms & Kitchens	12	Other Statutory Information	90
GWA Door & Access Systems	13	Shareholder Information	91

# FIVE YEAR FINANCIAL SUMMARY

	2009/10 \$'000	2010/11 \$'000	2011/12 \$'000	2012/13 \$'000	2013/14 \$'000
Revenue from continuing operations	656,809	726,367	602,128	565,365	577,994
Earnings before interest, tax, depreciation, amortisation and significant items**	112,099	125,243	94,228	87,168	89,903
(%)	17.1	17.2	15.6	15.4	15.6
Depreciation and amortisation	(17,551)	(18,087)	(18,864)	(20,398)	(17,563)
<b>Earnings before interest, tax and significant items**</b>	<b>94,548</b>	<b>107,156</b>	<b>75,364</b>	<b>66,770</b>	<b>72,340</b>
(%)	14.4	14.8	12.5	11.8	12.5
Interest (net)	(15,027)	(15,175)	(14,247)	(13,324)	(11,201)
Trading profit before tax**	79,521	91,981	61,117	53,446	61,139
(%)	12.1	12.7	10.2	9.5	10.6
Tax expense	(24,068)	(28,622)	(15,565)	(14,115)	(17,363)
(%)	30.3	31.1	25.5	26.4	28.4
<b>Trading profit after tax**</b>	<b>55,453</b>	<b>63,359</b>	<b>45,552</b>	<b>39,331</b>	<b>43,776</b>
Significant items after tax	–	–	621	(6,941)	(25,180)
<b>Net profit after tax from continuing operations</b>	<b>55,453</b>	<b>63,359</b>	<b>46,173</b>	<b>32,390</b>	<b>18,596</b>
Loss from discontinued operations (net of income tax)	(6,926)	–	(6,518)	–	–
<b>Net profit after tax for the period</b>	<b>48,527</b>	<b>63,359</b>	<b>39,655</b>	<b>32,390</b>	<b>18,596</b>
Net cash from operating activities	67,165	88,558	60,499	63,349	33,898
Capital expenditure	15,450	24,727	25,798	14,703	5,570
Net debt	175,952	198,083	174,472	162,243	145,127
Shareholders' equity	431,089	439,995	426,984	426,742	425,989

## Other Ratios and Statistics

Return on shareholders' equity (%)	11.3	14.4	9.3	7.6	4.4
Interest cover (times)	7.5	8.3	6.6	6.5	8.0
Net debt / (net debt + equity) (%)	29.0	31.0	29.0	27.5	25.4
Basic earnings per share (cents)	16.2	21.0	13.2	10.6	6.1
Trading earnings per share (cents)*	18.5	21.0	15.1	12.9	14.3
Ordinary dividend per share (cents)	18.0	18.0	18.0	12.0	5.5
Franking (%)	100	100	100	100	100
Ordinary dividend payout ratio (%)	111.1	85.7	136.4	113.2	90.2
Share price (30 June) (\$)	3.01	2.75	2.10	2.40	2.63
Dividend yield (total dividend)(%)	6.0	6.5	8.6	5.0	2.1
Number of employees	1,922	2,150	1,788	1,680	1,681

\* excludes significant items

\*\* trading profit before significant items is a non-IFRS financial 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. The non-IFRS financial measure included in this table exclude significant items that are detailed in Note 5 of the financial report.

Notes: The Rover Mowers and Wisa Beheer businesses were divested during FY10 and were disclosed as discontinued operations in FY10. The results of the Sebel Furniture and Caroma North America businesses are included in FY10 through to FY11. These businesses were divested during FY12 and were disclosed as discontinued operations in FY12.

# COMPANY PROFILE

GWA Group Limited (GWA) listed on the Australian Securities Exchange in May 1993 and is Australia's leading supplier of building fixtures and fittings to households and commercial premises. The Group had 1,681 employees at 30 June 2014 with manufacturing, sales and distribution facilities located across Australia and with a branch office in New Zealand. GWA is a member of the ASX 200 index of listed Australian companies with a market capitalisation in excess of \$800 million at 30 June 2014.

GWA currently operates through three distinct business divisions including:



**GWA Bathrooms & Kitchens** is Australia's foremost designer, manufacturer, importer and distributor of residential and commercial bathroom and kitchen products. The product range is distributed under Australian brands including Caroma, Dorf, Fowler, Stylus, Clark, Epure, Radiant, Irwell, Dux, Ecosmart and international brands including Hansa, Schell, Virtu, EMCO and Sanitron. In December 2012, the division was expanded to include Dux Hot Water which is an Australian manufacturer and importer of hot water systems for residential and commercial markets.

**GWA Heating & Cooling** is an Australian designer, manufacturer and importer of heating and cooling systems for residential and light commercial markets. The product range is distributed under Australian brands including Brivis and APAC.

**GWA Door & Access Systems** is a leading Australian designer, manufacturer, importer and distributor of a comprehensive range of access and security systems for use in residential and commercial premises. The product range is distributed under Australian brands including Gainsborough, Trilock, Renovator, Austral Lock, Gliderol, Matador and international brands including Salto, Hillaldam and Eco Schulte. In October 2012, the division was expanded to include API Locksmiths which is an Australian supplier of security and access control systems and locksmithing services to major commercial enterprises.

GWA has grown significantly since listing as a result of the strong operating performance of the core building fixtures and fittings businesses and through successful acquisitions. The Group remains committed to growing shareholder wealth through organic growth initiatives in targeted market segments and acquisitions that add value to its core businesses by supporting expansion into new markets or providing access to new products and solutions.





# OUR MISSION

- ➔ 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:
  - » Increased innovation and market insights;
  - » Closer customer engagement and information via group information systems;
  - » Supply chain efficiencies and responsiveness;
  - » A supportive culture and pipeline of appropriately skilled management; and
  - » Unmatchable scale.

---

- ➔ We will pursue acquisitions which leverage our existing market relationship and scale.

To be Australia's **LEADING SUPPLIER** of **PRODUCTS** and **SOLUTIONS** to the **RESIDENTIAL** and **COMMERCIAL** building markets





# CHAIRMAN'S REVIEW

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 Bravis 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.

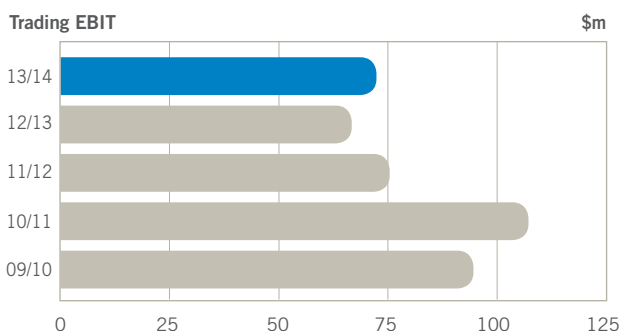
## OVERVIEW OF FINANCIAL RESULTS

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.

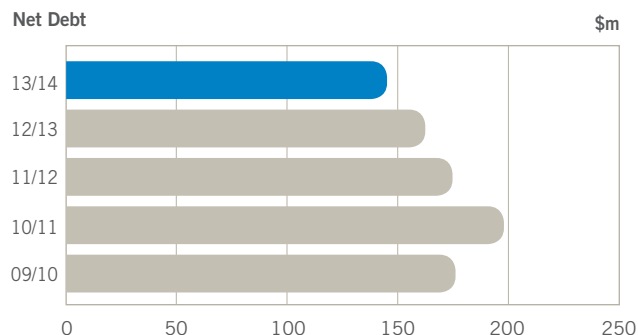
Cash generated from trading operations of \$63.5 million represented 71% of EBITDA and was impacted by higher inventory levels in Bathrooms & Kitchens and Gainsborough; inventory levels will be brought back into line during FY15.

## 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.



Trading EBIT of \$72.3 million in FY14 represents an increase of 8% on the prior year reflecting the improving trading conditions in calendar 2014.



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.

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](http://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](http://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 Bravis 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](http://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

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 on the opposite page 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.

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.

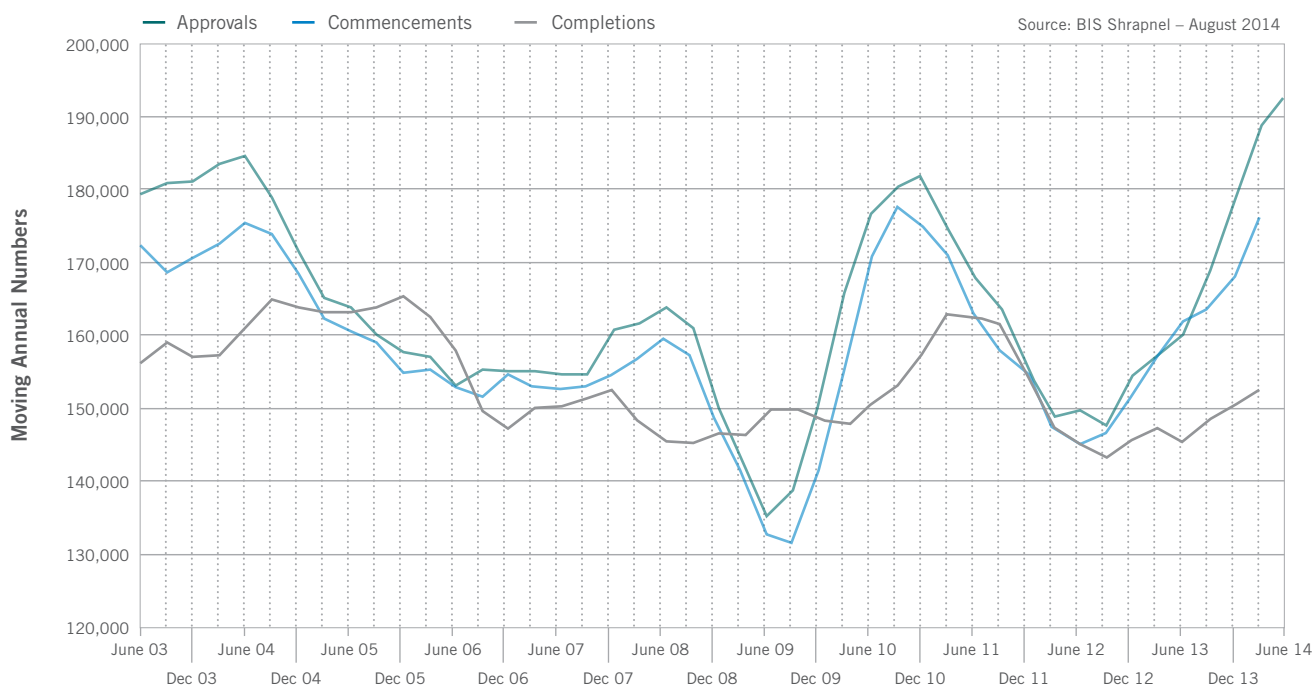
The poor Gliderol performance continued through FY14 culminating in a trading EBIT loss of \$4 million. Although significant improvements were made in operations, installation and customer service, sales declined as a result of the loss of market share particularly in New South Wales and Victoria. A 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.

Bravis 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.



Chart 1 – New Dwelling Activity (2003 – 2014)



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.

#### 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%
<b>Net Profit after Tax</b>	<b>18.6</b>	<b>32.4</b>	<b>-43%</b>
Trading Earnings per Share *	14.3	12.9	11%

\* excludes significant items

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

To be Australia's leading supplier of products and solutions to the residential and commercial building markets.

#### What we will do

- 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:
  - › Increased innovation and market insights;
  - › Closer customer engagement and information via group information systems;
  - › Supply chain efficiencies and responsiveness;
  - › A supportive culture and pipeline of appropriately skilled management; and
  - › Unmatchable scale.
- We will pursue acquisitions which leverage our existing market relationship and scale.

## SEGMENT PERFORMANCE

### 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.

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

Segment results are summarised below:

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

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		
<b>Gross debt</b>	<b>275</b>	<b>175.0</b>	<b>July 2016 – \$200 million 0.0 July 2018 – \$75 million</b>
Cash and deposits		(29.9)	
<b>Net debt</b>		<b>145.1</b>	

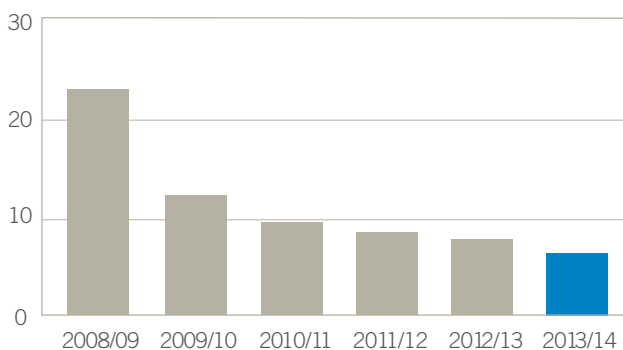
**HEALTH AND SAFETY**

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.

**Chart 2 – GWA Group Total Injury Frequency Rate (TIFR)**



**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](http://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 CO2e with 20,000 tonnes CO2e 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 CO2e 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.

# HEALTH & SAFETY



GWA continues to ensure that it provides a safe workplace for its employees, contractors, visitors and customers in an efficient and compliant manner. Through divisional or site based health and safety managers, the Group promotes awareness of health and safety in a continuous improvement environment.

The health and safety managers meet periodically with the Group Risk Manager with the collective objectives of:

- Discussing safety performance, goals and improvement strategies
- Exchanging ideas and detailing successful improvement programs
- Promoting training through guest speakers and external experts
- Planning for cross site auditing (whereby health and safety managers visit other internal GWA sites)
- Planning and implementing of new systems and procedures

The Group Risk Manager prepares a monthly Group Risk Report for the Board and attends the May and November Audit and Risk Committee meetings to present the Operational Risk Report. The reporting includes current health and safety performance, current improvement plans and compliance to regulations. An audit plan, consistent with the Group's health and safety objectives, is also presented for approval by the Board for the new financial year.

## WORK HEALTH AND SAFETY PERFORMANCE

GWA measures a range of balanced safety performance indicators. Proactive indicators such as number of hazards identified, risk assessments undertaken and actions issued and completed on time are recorded for each GWA site.

Three key measures of safety outcomes are:

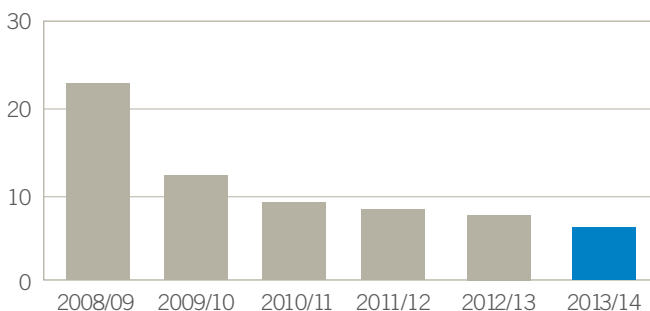
1. Lost Time Injury Frequency Rate (LTIFR) which measures lost time (injury that results in an inability to work for at least one full shift).
2. Medical Treatment Injury Frequency Rate (MTIFR) which measures the number of doctor treated injuries per million hours worked.
3. Injury Severity Rate which measures the number of hours for a lost time injury per million hours worked.

The collective sum of MTIFR plus LTIFR results in the Total Injury Frequency Rate (TIFR) for GWA.

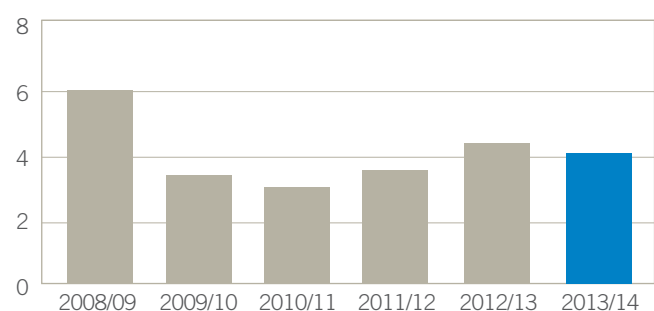
Major projects for FY14 include:

- Successful FY15 renewal application for the NSW "Retro Paid Loss" (RPL) scheme. FY15 will mark the third year in the scheme which has significantly reduced NSW workers compensation premiums. At the end of the third year the RPL scheme should deliver savings totalling \$1.5 million.

GWA Group Total Injury Frequency Rate (TIFR)



GWA Group Lost Time Injury Frequency Rate (LTIFR)



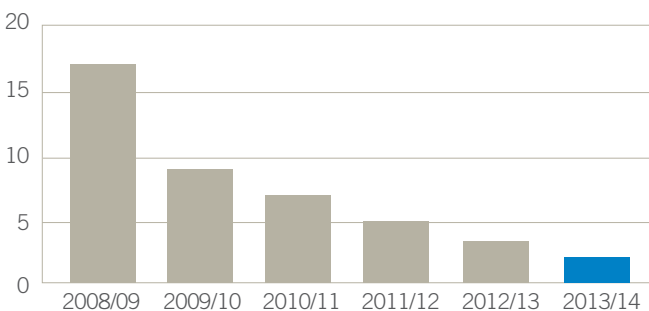




- The upgrade of GWA's elearning platform to enhance compliance for workplace health and safety (WHS) training in areas such as bullying, safety in the workplace and site inductions. The training is an important supplement to the Group's policies and procedures in these areas.
- Completed training of approximately 200 GWA managers for anti-bullying awareness. A central GWA bullying reporting/compliance officer has been appointed to handle bullying complaints in the Group.
- Continued the project commenced in 2013 to integrate WHS management systems across all Group businesses into one consistent structure. This project is expected to be completed by December 2014.

At the start of FY14 the GWA executive team set a target of 10% year on year improvement for TIFR versus the FY13 results. The actual improvement in TIFR performance was 19% which was significantly better than the target and was an excellent outcome. This is the ninth consecutive year that GWA has improved TIFR performance and demonstrates the Group's ongoing commitment to an injury free workplace.

**GWA Group Medical Treatment Injury Frequency Rate (MTIFR)**



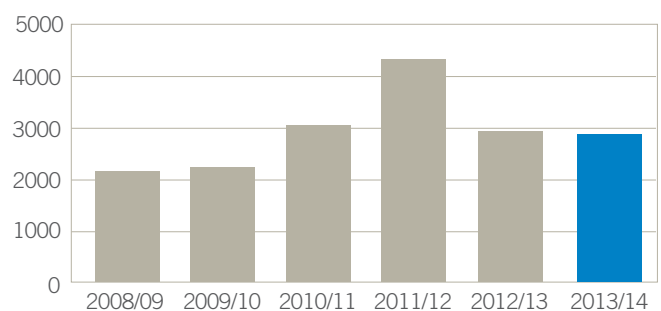
Highlights within the GWA divisions during FY14 include:

- The Group Injury Severity Rate (ISR) has reduced for the second year in a row however the reduction in FY14 was less than 1% compared to the prior year and the target of 2600 was not met. Heating & Cooling and Bathrooms & Kitchens achieved a reduction in ISR of 43% and 20% respectively from the prior year.
- All GWA divisions except Doors & Access Systems achieved better than target results for TIFR. Bathrooms & Kitchens achieved a 52% reduction in TIFR from the prior year which was an excellent outcome.

WHS improvement objectives and projects are planned to be met through continuation of the FY14 initiatives including:

- FY15 TIFR target of a further 6% reduction versus FY14 results by continuing to focus on hazard identification and regular audits.
- Plans to reduce ISR to 2600 through improved return to work plans and injury management.

**GWA Group Injury Severity Rate (ISR)**





## GWA Bathrooms & Kitchens

### SEGMENT PERFORMANCE

\$M	June 14	June 13	% Change
Sales Revenue	379.2	367.5	3%
Trading EBIT	75.0	64.5	16%
EBIT Margin	19.8%	17.6%	
Return on Funds Employed	17.2%	14.4%	

### BUSINESS DESCRIPTION

GWA Bathrooms & Kitchens is Australia's foremost designer, manufacturer, importer and distributor of residential and commercial bathroom and kitchen products. Through its portfolio of well known bathroom and kitchen brands, GWA Bathrooms & Kitchens aims to create environmentally friendly innovative product solutions for every Australian and New Zealand bathroom and kitchen. GWA Bathrooms & Kitchens is at the forefront of product innovation incorporating water saving technology and is the market leader in water efficient sanitaryware and tapware. GWA Bathrooms & Kitchens was expanded in 2012 to include Dux Hot Water which is an Australian manufacturer and importer of hot water systems for residential and commercial markets.

### MAIN PRODUCTS AND SERVICES

Vitreous china toilet suites, urinals, basins, plastic cisterns, bathroom accessories and fittings. Acrylic and pressed steel baths and shower trays. Tapware, showers and accessories, stainless steel sinks and laundry tubs. Hot water systems including mains pressure gas and electric storage, continuous flow gas, electric and gas boosted solar and heat pump products.

### MAJOR BRANDS

Owned: Caroma, Dorf, Fowler, Stylus, Clark, Epure, Radiant, Irwell, Starion, Dux, Ecosmart

Distributed: Hansa, Schell, EMCO, Virtu, Sanitron

### OPERATING LOCATIONS

Australia, New Zealand, export markets

### MAJOR MARKETS

New residential dwellings, renovation, replacement and commercial markets in Australia, New Zealand and selected international markets.

### STRATEGIC DIRECTION

GWA Bathrooms & Kitchens will maintain leadership in the domestic market by creating value for its customers through the development of innovative products with appealing design and advanced water saving technology, and providing a superior level of customer service.

GWA Bathrooms & Kitchens will continue to invest in its iconic brands to reinforce its brand values. GWA Bathrooms & Kitchens are committed to continuous process improvement in its Australian manufacturing and supply chain operations.

### HEAD OFFICE LOCATION

#### GWA Bathrooms & Kitchens

Caroma Industries Limited  
Level 1, 7-9 Irvine Place  
Bella Vista NSW 2153  
AUSTRALIA

Telephone: 61 2 8825 4400  
Facsimile: 61 2 8825 4567

[www.caroma.com.au](http://www.caroma.com.au)  
[specify.caroma.com.au](http://specify.caroma.com.au)  
[www.fowler.com.au](http://www.fowler.com.au)  
[www.dorf.com.au](http://www.dorf.com.au)  
[www.stylus.com.au](http://www.stylus.com.au)  
[www.clark.com.au](http://www.clark.com.au)  
[www.radiantstainless.com.au](http://www.radiantstainless.com.au)  
[www.epure.com.au](http://www.epure.com.au)  
[www.irwell.com.au](http://www.irwell.com.au)  
[www.starionaustr.com.au](http://www.starionaustr.com.au)

Dux Manufacturing Limited  
Lackey Road  
Moss Vale NSW 2577  
AUSTRALIA

Telephone: 61 2 4868 0200  
Facsimile: 61 2 4868 2014

[www.dux.com.au](http://www.dux.com.au)  
[www.ecosmart.com.au](http://www.ecosmart.com.au)





## GWA Door & Access Systems

### SEGMENT PERFORMANCE

\$M	June 14	June 13	% Change
Sales Revenue	136.6	140.9	-3%
Trading EBIT	3.9	10.9	-64%
EBIT Margin	2.9%	7.7%	
Return on Funds Employed	4.4%	10.6%	

### BUSINESS DESCRIPTION

GWA Door & Access Systems is a leading Australian designer, manufacturer, importer and distributor of a comprehensive range of access and security systems for use in residential and commercial premises. The division comprises three business units including the following:

- Gainsborough Hardware which is a leading Australian designer, manufacturer, importer and distributor of a comprehensive range of residential and commercial door hardware and fittings, including security products.
- Gliderol Garage Doors which is a leading Australian manufacturer and distributor of garage doors and openers for residential and commercial markets.
- API Locksmiths which is a national supplier of security and access control systems and locksmithing services to major commercial enterprises.

### MAIN PRODUCTS AND SERVICES

A comprehensive range of door hardware and access systems comprising door handles (knobs and levers), locking systems, door closers, hinges and other door accessories. A wide range of roller doors, sectional overhead doors, automatic operators, gate operators and roller shutters. Commercial locksmithing services for security systems and safes, supply and installation of electronic access control systems and associated products including CCTV, alarms and intercoms.

### MAJOR BRANDS

Owned: Gainsborough, Trilock, Renovator, Austral Lock, Gliderol, Matador, API Locksmiths

Distributed: Salto, Hillaldam, Eco Schulte

### OPERATING LOCATIONS

Australia, export markets

### MAJOR MARKETS

Residential home builders, DIY and renovation projects, commercial buildings and multi-dwelling developments, after sales servicing.

### STRATEGIC DIRECTION

GWA Door & Access Systems strategic direction encompasses the development of new and innovative door hardware, access system technologies and garage door products to suit residential buildings and commercial projects. GWA Door & Access Systems will continue to focus on its key customer relationships through the supply of market leading product innovation and design, and high levels of customer service.

### HEAD OFFICE LOCATION

#### GWA Door & Access Systems

Gainsborough Hardware Industries Limited  
31-33 Alfred Street  
Blackburn VIC 3130  
AUSTRALIA

Telephone: 61 3 9877 1555  
Facsimile: 61 3 9894 1599  
[www.gainsboroughhardware.com.au](http://www.gainsboroughhardware.com.au)  
[www.ausloc.com](http://www.ausloc.com)

Gliderol International Pty Limited  
31-33 Alfred Street  
Blackburn VIC 3130  
AUSTRALIA

Telephone: 61 3 9877 1555  
Facsimile: 61 3 9894 1599

[www.gliderol.com.au](http://www.gliderol.com.au)

API Services and Solutions Pty Limited  
248 Normanby Road  
South Melbourne VIC 3205  
AUSTRALIA

Telephone: 131KEY(539)  
Facsimile: 61 3 9644 5887  
[www.apisec.com.au](http://www.apisec.com.au)







**GWA**  
Heating & Cooling



## SEGMENT PERFORMANCE

\$M	June 14	June 13	% Change
Sales Revenue	62.8	58.8	7%
Trading EBIT	5.7	6.2	-9%
EBIT Margin	9.0%	10.6%	
Return on Funds Employed	12.6%	13.0%	

## BUSINESS DESCRIPTION

GWA Heating & Cooling is an Australian designer, manufacturer and importer of heating and cooling systems for residential and light commercial markets. All products are developed to provide consumers with greater control and comfort in their home or work environments. GWA Heating & Cooling has developed an extensive range of innovative environmental products to meet the changing regulatory requirements, while assisting consumers to reduce their energy consumption and manage comfort in the home.

## MAIN PRODUCTS AND SERVICES

The range includes heating and cooling systems, such as ducted gas furnaces, evaporative coolers and inverter based refrigerated heating and cooling systems. All products are supported by an after sales and service department with a full range of spare parts used to maintain the products.

## MAJOR BRANDS

Owned: Bravis, APAC

## OPERATING LOCATIONS

Australia, overseas distributors

## MAJOR MARKETS

GWA Heating & Cooling participates in the new home, renovation and replacement or breakdown markets primarily for residential and light commercial applications.

## STRATEGIC DIRECTION

GWA Heating & Cooling will continue to develop its range of climate solutions for consumers and take them to market through its channel partners under its strong brands. Much of the development in the division will be centered around reducing energy and water consumption to meet emerging Australian regulations. GWA Heating & Cooling will continue to strengthen its key customer and channel relationships, invest in brands and reduce costs through investment in improved manufacturing capability and selective sourcing of products and components.

## HEAD OFFICE LOCATION

**GWA Heating & Cooling**  
Bravis Climate Systems Pty Ltd  
61 Malcolm Road  
Braeside VIC 3195  
AUSTRALIA

Telephone: 61 3 9264 9555  
Facsimile: 61 3 9264 9400

[www.bravis.com.au](http://www.bravis.com.au)







# BOARD OF DIRECTORS

## DARRYL MCDONOUGH

BBUS (ACTY), LLB (HONS), SJD, FCPA, FAICD

### Independent Chairman and Non-Executive Director

- Expertise: Experienced public company director and lawyer
- Special Responsibilities: Chairman of Board and Nomination Committee and member of Remuneration and Audit and Risk Committees

Mr McDonough was appointed Deputy Chairman and Non-Executive Director of GWA Group Limited in 2009 and was appointed Chairman effective 30 October 2013. He has over 25 years of corporate experience as a director and lawyer. He has served as a director of a number of public companies in the past, including Bank of Queensland Limited and Super Retail Group Limited and is a Past-President of The Australian Institute of Company Directors, Queensland Division.

---

## JOHN MULCAHY PHD (CIVIL ENGINEERING), FIE AUST

### Independent Deputy Chairman and Non-Executive Director

- Expertise: Civil Engineer and experienced public company director
- Special Responsibilities: Member of Remuneration and Nomination Committees

Mr Mulcahy was appointed a Non-Executive Director of GWA Group Limited in 2010 and Deputy Chairman effective 30 October 2013. He is a Fellow of the Institute of Engineers and is a Non-Executive Director of Mirvac Group Limited, Coffey International Limited, ALS Limited and a Guardian of the Future Fund. He is the former Managing Director and Chief Executive Officer of Suncorp Group Limited ("Suncorp"). Prior to joining Suncorp, he held a number of senior executive roles at the Commonwealth Bank and Lend Lease Corporation.

During the past three years, Mr Mulcahy has served as a director of the following other listed companies, and the period in which the directorships have been held:

- Mirvac Group Limited since 2009\*
- Coffey International Limited since 2009\*
- ALS Limited since 2012\*

\*denotes current directorship

## PETER CROWLEY BA BECON FAICD

### Managing Director

- Expertise: Broad manufacturing experience in Australia and overseas

2003: Managing Director of GWA Group Limited

2001: Managing Director and Chief Executive, Austrim Nylex Limited, a diversified industrial company

1999: Executive Director, Cement and Lime, The Rugby Group PLC, a UK Public Company with extensive international cement operations. During this period, also served as a director of Adelaide Brighton Limited

1997: Chief Executive, Cockburn Cement Limited (a subsidiary of The Rugby Group PLC), Western Australia's largest cement producer and Australia's largest lime producer

1982: Various roles with Queensland Cement Limited and its parent company Holderbank culminating in General Management responsibilities within Australia and South-East Asia

---

## BILL BARTLETT FCA, CPA, FCMA, CA (SA)

### Independent Non-Executive Director

- Expertise: Chartered Accountant, actuarial, property, insurance and financial services
- Special Responsibilities: Chairman of Remuneration and Audit and Risk Committees and member of Nomination Committee

Mr Bartlett was appointed a Non-Executive Director of GWA Group Limited in 2007 and Chairman of the Audit and Risk Committee in October 2009. He is a Fellow of the Institute of Chartered Accountants and was a partner at Ernst & Young in Australia for 23 years, retiring on 30 June 2003. He is Chairman of the Cerebral Palsy Council of Governors and a former director and honorary treasurer of the Bradman Museum and Foundation.

During the past three years, Mr Bartlett has served as a director of the following other listed companies, and the period in which the directorships have been held:

- Suncorp Group Limited since 2003\*
- Reinsurance Group of America Inc (NYSE) since 2004\*
- Abacus Property Group since 2007\*

\*denotes current directorship

### ROBERT ANDERSON

#### Independent Non-Executive Director

- Expertise: Property investment and transport logistics

Mr Anderson was appointed a Non-Executive Director of GWA Group Limited in 1992. He was appointed a director of the former public company, GWA Limited in 1979 after joining the Group in 1955 where he gained wide experience in management, investment and property matters.

---

### PETER BIRTLES BSC, ACA

#### Independent Non-Executive Director

- Expertise: Chartered Accountant, retail, financial and operational
- Special Responsibilities: Member of Audit and Risk Committee

Mr Birtles was appointed a Non-Executive Director of GWA Group Limited in November 2010. He is a Chartered Accountant and is the current Managing Director and Chief Executive Officer of Super Retail Group Limited ("Super Retail"). He was formerly the Chief Financial Officer of Super Retail. Prior to joining Super Retail, he held a variety of finance, operational and information technology roles with The Boots Company in the United Kingdom and Australia and worked for Coopers & Lybrand.

During the past three years, Mr Birtles has served as a director of the following other listed company, and the period in which the directorship has been held:

- Super Retail Group Limited since 2006\*

\*denotes current directorship

### RICHARD THORNTON CA B COM (ACC) LLB (HONS) LLM

#### Executive Director and Company Secretary

- Expertise: Chartered Accountant, taxation and finance

Mr Thornton was appointed an Executive Director of GWA Group Limited in May 2009. He joined GWA Group Limited in 2002 as Group Taxation Manager and Treasurer and was appointed Company Secretary in 2003. He is a Chartered Accountant and is experienced in accounting, taxation and finance through positions at Coopers & Lybrand, Citibank and Ernst & Young in Australia and overseas. Mr Thornton continued in his role as Company Secretary following his appointment as an Executive Director in 2009. He is a director of Great Western Corporation Pty Ltd.

# CORPORATE GOVERNANCE STATEMENT

## FOR THE YEAR ENDED 30 JUNE 2014

The Board of Directors is responsible for the corporate governance of GWA Group Limited (the Group) which is an essential part of the role of the Board. The Group's corporate governance practices have been in place since listing and are constantly reassessed in the light of experience, contemporary views and guidelines on corporate governance practices. The Board adopts practices it considers to be superior and which will lead to better outcomes for the Group's shareholders.

The Board supports the Corporate Governance Principles and Recommendations (the recommendations) of the ASX Corporate Governance Council. The Board confirms that the current corporate governance practices of the Group meet or exceed the recommendations. The Group's corporate governance disclosures have been prepared in accordance with the third edition of the recommendations of the ASX Corporate Governance Council which are effective for financial years commencing 1 July 2014. Additional disclosures have also been provided to enhance the transparency of the Group's corporate governance practices.

### PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

#### Role of the Board and Management

The Board is responsible for the long term growth and financial performance of the Group. The Board charts the strategic direction of the Group and monitors executive and senior management performance on behalf of shareholders. To achieve this, the Board is engaged in the following activities:

- Providing input and final approval of corporate strategies and performance objectives developed by senior management.
- Approval and monitoring of financial and other reporting.
- Monitoring of executive and senior management performance, including the implementation of corporate strategies, and ensuring appropriate resources are available.
- Appointment and monitoring of the performance of the Managing Director.
- Liaison with the Group's External Auditor through the Audit and Risk Committee.
- Ensuring that the Group has appropriate systems of risk management and internal controls, reporting mechanisms and delegation authority limits in place.
- Approval and monitoring the progress of major capital expenditure, capital management, acquisitions and divestments.

- Any other matters required to be dealt with by the Board from time to time depending upon circumstances of the Group.
- Other matters referred to in the Board and Board Committee charters.

The Board operates under a charter that details the functions and responsibilities of the Board. The charter is reviewed annually to ensure it remains consistent with the Board's objectives and responsibilities. Refer to the Group's website at [www.gwagroup.com.au](http://www.gwagroup.com.au) for a copy of the charter.

Management is responsible for the implementation of corporate strategies and performance objectives and all aspects of the day to day running of the Group. Management are also responsible for ensuring the Group operates within the risk parameters set by the Board and for providing the Board with accurate and timely information to enable the Board to carry out its duties.

#### Delegations Policy

The Board has approved a Delegations Policy which clearly outlines the authorities of the Board and those which have been delegated to senior executives covering all management activities. The policy ensures that the executives understand the authorities delegated by the Board and are accountable to the Board for its compliance. Annual reviews are conducted on the appropriateness of the delegated authorities and any material breaches are reported to the Board.

#### Background Checks

Before the appointment of directors and senior executives the Group ensures that appropriate background checks are conducted as to the person's character, experience, education, criminal record and bankruptcy history. This is an important step in the recruitment process to ensure the appointment of suitable candidates to the director and senior executive roles.

All material information relevant to the election or re-election of directors is provided to shareholders in the director profiles which are included in the Explanatory Memorandum to the Notice of Annual General Meeting. The following information is provided to shareholders:

- Details of the qualifications, skills and experience of the director
- Details of any other directorships held by the director
- The term of office currently served by the director (if any)
- A statement if the Board considers the director independent
- A statement on whether the Board supports the election or re-election of the director
- Any other material information advised to shareholders that is relevant to the decision on whether to elect or re-elect the director



### Letter of Appointment

New directors of the Group are provided with a formal letter of appointment which outlines the key terms and conditions of their appointment. Similarly, senior executives including the Managing Director, Executive Director and Chief Financial Officer have formal job descriptions and letters of appointment describing their salary arrangements, rights and responsibilities and entitlements on termination.

A comprehensive induction program is available to directors and senior executives to ensure full understanding of the Group, its policies and procedures and the industry within which it operates.

### Company Secretary

The Company Secretary is accountable to the Board, through the Chairman, on all matters to do with the proper functioning of the Board including all corporate governance matters. The Company Secretary is responsible for the completion and dispatch of the agenda and papers for each Board and Committee meeting. The Company Secretary prepares the draft minutes for each meeting, which are tabled at the next Board meeting for review and approval. The Company Secretary and the directors communicate regularly on all Group and governance matters.

### Diversity in the Workforce

The Group is committed to the promotion of diversity in the organisation through the implementation of targeted employment policies and initiatives to achieve a diverse workforce. The Board understands the significant benefits that can arise from increasing the pool of talent from which the Group can draw high quality employees and the different perspectives that can be brought to the organisation from a diverse workforce.

The Group strengthened its focus on diversity in 2012 with the Board's approval of a specific Diversity Policy which is available on the Group's website at [www.gwagroup.com.au](http://www.gwagroup.com.au). In accordance with the policy, the Board has established a number of measurable objectives to promote and encourage increased diversity and in particular, to improve the representation of females within the workforce. The measurable objectives are assessed annually and performance is reported in the Corporate Governance Statement in the Annual Report.

The measurable objectives are:

1. Increase the percentage of females employed by GWA
  - Ensure the recruitment process and practices continue to comply with equal opportunity principles.
  - Provide recruitment training for managers ensuring a focus on equal opportunity and avoiding 'unconscious bias'.
  - Investigate the feasibility of implementing a graduate program with an emphasis on encouraging women into non-traditional roles.
2. Provide and promote flexible work practices to attract and retain female employees
  - Continue to promote awareness of current flexible work practices available in the Group to existing employees and potential candidates.
  - Investigate and implement any additional flexible work arrangements appropriate to the needs of employees with families.
3. Succession planning and high potential employee development
  - Ensure high potential female employees are identified as part of the Group's succession planning process and actively developed for career progression.

During the year the Group's recruitment practices were reviewed to ensure they continue to comply with equal opportunity principles and encourage diversity. An easy to use recruitment guide was developed and circulated to all managers. Recruitment training for managers is planned for the upcoming year which will reinforce the equal opportunity principles and encourage diversity in the recruitment process to assist in achieving an increase in the percentage of females employed by the Group. The implementation of a graduate program is still under consideration.

The Group has continued to promote the 'Work Life Balance' policies introduced in 2011. These policies, such as paid parental leave and flexible work arrangements, were aimed at assisting in attracting more females to apply for positions advertised and retaining the current female employees. It is pleasing that based on the Group's 2014 Workplace Gender Equality Report, 44% of staff recruited into the organisation during the reporting period were female, a significant

# CORPORATE GOVERNANCE STATEMENT (CONT)

## FOR THE YEAR ENDED 30 JUNE 2014

increase from the previous year's percentage of 31%. The Group continues to have a number of employees moving to flexible working arrangements, particularly on return from parental leave. The Group regularly reviews its policies and practices to ensure they are offering the flexibility required to attract and retain female talent.

In July 2014 the Group appointed a new Group General Manager – People, Culture and Communications, Ms Kay Veitch. Ms Veitch is part of the senior executive team reporting directly to the Managing Director and will enhance the focus on developing talent in the organisation and ensuring succession plans are in place for key senior management roles including the promotion of talented and high potential females. The position will assist the Board with its progress towards achieving the Group's measurable objectives to promote and encourage increased diversity in the organisation including an improved representation of females.

As outlined in the Group's 2014 Workplace Gender Equality Report, the overall workforce consists of 28% female and 72% male. This is a small but encouraging increase in the percentage of female employees from the prior year.

The following table outlines the Group's workplace profile at 31 March 2014:

Title	% Female	% Male
Board	0%	100%
Key Management Personnel	0%	100%
Other executives/General Managers	33%	66%
Senior Managers	18%	82%
Other Managers	12%	88%
<b>Total – Management</b>	<b>13%</b>	<b>87%</b>
Professionals	28%	72%
Technicians and trade	4%	96%
Clerical and Administrative	70%	30%
Sales	28%	72%
Machinery Operators and drivers	8%	92%
Labourers	24%	76%
Others	0	100%
<b>Total – Non-Management</b>	<b>30%</b>	<b>70%</b>
<b>Overall Totals</b>	<b>28%</b>	<b>72%</b>

In May 2014, the Group lodged its 2014 Workplace Gender Equality Report with the Workplace Gender Equality Agency in accordance with the *Workplace Gender Equality Act 2012*. The Group notified its employees and employee organisations that it lodged its report and advised how it may be accessed. The Group also allowed employees and employee organisations to make comments on the report. The report is available on the Group's website at [www.gwagroup.com.au](http://www.gwagroup.com.au) under Gender Equality Reporting. The Group received notification during June 2014 that it is compliant with the *Workplace Gender Equality Act 2012*.

### Performance Evaluation – Directors

The Nomination Committee conducts an annual evaluation of the performance of the Board, the Board Committees and the individual Board members to determine whether they are functioning effectively

by reference to current good practice. The performance evaluation is conducted by the Chairman of the Board through open discussions with the Board members and detailed questionnaires as required. Any issues or improvement opportunities identified from the performance evaluation are actioned.

During FY14 a performance evaluation of the Board was conducted by the Chairman in accordance with the evaluation process.

### Performance Evaluation – Senior Executives

Performance reviews of senior executives are conducted formally on a bi-annual basis. The performance review process is critical to the development of senior executives and enables performance issues to be addressed. The Group has identified core competencies for the key roles in the organisation and these are incorporated into individual job descriptions. During the performance review process, the performance of senior executives is assessed against the business objectives and core competencies.

Measurable personal financial and business improvement goals are established during the performance review process and the achievement of the personal goals is incorporated into the Group's Short Term Incentive Plan as outlined in the Remuneration Report.

During FY14 performance reviews of senior executives were conducted in accordance with the performance review process.

### PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE Board Meetings

The Board meets at least 9 times each year for scheduled meetings and may, on other occasions, meet to deal with specific matters that require attention between scheduled meetings. Together with the Board Committees, the directors use the Board meetings to challenge and fully understand the business and its operational issues. To assist with the Board's understanding of the business, the Board regularly conducts Board meetings at the various business locations followed by management presentations and site tours.

The Divisional Chief Executives and General Managers are required to regularly attend and present at the Board meetings on divisional and business unit operational issues and performance. An annual group strategy meeting is held as part of the budget approval process which enables the Board to review corporate strategies and performance with the executives. This ensures that the Board is effectively carrying out its duties of providing input and approving corporate strategies and performance objectives.

The Chief Financial Officer is required to attend Board meetings and present the finance department monthly report, and to answer questions from the directors on financial performance, accounting, risk management and treasury matters.

### Composition of the Board

The Board presently comprises 7 directors, 5 of whom, including the Chairman and Deputy Chairman, are non-executive directors and 2, the Managing Director and Executive Director, are executive directors.

The profiles of the directors are set out in the Annual Report. The profiles outline the skills, experience and expertise of each Board member, including the period of office held by each director.

The composition of the Board is determined by the Nomination Committee and, where appropriate, external advice is sought.

The following principles and guidelines are adhered to:

- The Board should maintain a majority of non-executive directors
- The Board should consist of a majority of independent directors
- The Chairperson should be an independent director
- The role of Chairperson and Managing Director should not be exercised by the same individual
- Non-executive directors should not be involved in management of the day to day operations of the Group
- All Board members should be financially literate and have relevant experience in the industries in which the Group operates

### Re-Election of Directors

In accordance with the Group's constitution, at each Annual General Meeting, a number of directors will face re-election. One third of the Board (excluding the Managing Director and any director not specifically required to stand for re-election) must stand for re-election. In addition, no director (other than the Managing Director) may hold office for more than three years without standing for re-election and any director appointed by the Board since the last Annual General Meeting must stand for re-election at the next Annual General Meeting. All retiring directors are eligible for re-election.

### Independence of Directors

The Board considers that the non-executive directors must be independent from management and free of any business or other relationship that could interfere, or reasonably be perceived to interfere, with the exercise of their unfettered and independent judgment.

In considering the relationships which may affect independent status as outlined in the recommendations of the ASX Corporate Governance Council, it has been determined that the Group's non-executive directors are independent. Therefore, the Board comprises 5 independent directors and 2 non-independent directors (being the Managing Director and Executive Director) which meets the recommendation of the ASX Corporate Governance Council of having a majority of the Board comprising independent directors.

The table below outlines the Group's directors considered to be independent.

The Board is responsible for ensuring that the action of individual directors in the Boardroom is that of independent persons. The Board distinguishes between the concept of independence and issues of conflict of interest or material personal interest which may arise from time to time – refer Conflicts of Interest on the following page.

In recognising the importance of the independence of directors and the immediate disclosure of conflicts of interest, the Board has included both matters as permanent items on the agenda at Board meetings. Any independence or conflict of interest issues that arise must be disclosed to the Chairman prior to each Board meeting. The disclosure is recorded in the Register of Directors' Interests and in the Board minutes.

#### (i) Legal Services provided by Clayton Utz

During FY14 Clayton Utz provided legal services amounting to \$712,246 (2013: \$332,195) to the Group as outlined in the key management personnel transactions in the Directors' Report. The legal services were provided on arm's length terms and covered specialty areas including employment, environment, competition, acquisition, litigation, corporate and commercial advice.

Mr Darryl McDonough is Chairman and Non-Executive Director of GWA Group Limited and is also a partner of Clayton Utz. Mr McDonough is not involved in providing any of the legal services to the Group, nor does he influence the selection of legal adviser by the Group. The Group also uses other legal providers.

The Group has utilised Clayton Utz for legal services for many years prior to the appointment of Mr McDonough. Clayton Utz is one of Australia's leading legal firms and the Group has a high regard for the expertise of their partners and quality of legal support. Over the years Clayton Utz has developed a detailed knowledge and understanding of GWA's business operations and requirements which knowledge enhances the quality of legal support provided to the Group.

The increase in legal fees paid to Clayton Utz during FY14 has been driven by the selection of Clayton Utz as the Group's preferred legal provider for general corporate advisory work including commercial contract and property leasing legal support. The Group previously used a smaller legal firm for these services which did not meet the Group's needs. Litigation services were also provided by Clayton Utz during FY14 in support of the Group's claims against Carrier – refer Note 27 of the financial statements.

The Board is of the view that the provision of legal services by Clayton Utz has no impact on the independence of Mr McDonough who continues to be classified as an independent director.

#### (ii) Length of Service – Mr Robert Anderson

The Board is of the opinion that the length of service of Mr Anderson as Non-Executive Director (since 1992) has not compromised his ability to bring independent judgement to bear on issues before

Director	Role	Length of Service	Non-Executive	Independent
Mr Darryl McDonough	Chairman	5 years	Yes	Yes
Mr John Mulcahy	Deputy Chairman	4 years	Yes	Yes
Mr Peter Crowley	Managing Director	11 years	No	No
Mr Bill Bartlett	Non-Executive Director	7 years	Yes	Yes
Mr Robert Anderson	Non-Executive Director	22 years	Yes	Yes
Mr Peter Birtles	Non-Executive Director	4 years	Yes	Yes
Mr Richard Thornton	Executive Director	5 years	No	No

# CORPORATE GOVERNANCE STATEMENT (CONT)

## FOR THE YEAR ENDED 30 JUNE 2014

the Board and to act in the best interests of the Group and its shareholders. Mr Anderson is a highly experienced director and has a deep understanding of the Group and its businesses through his long association. The Group and its shareholders are well served by his appointment as a director.

### (iii) Board Succession Planning

The Board has established succession plans for the retirement of individual Board members to ensure an appropriate balance of skills, experience and expertise on the Board. The Board views director renewal as an essential process to ensure optimal Board performance. The Board is also mindful of the need to increase diversity of the Board for future director appointments.

### Conflicts of Interest

The directors are required to disclose to the Board any relationships from which a conflict of interest might arise. A director who has an actual or potential conflict of interest or a material personal interest in a matter is required to absent himself from any meeting of the Board or Board Committee, whenever the matter is considered. In addition, the director does not receive any Board papers or other documents in which there is a reference to the matter.

This process is applied to business and trading relationships, dealings with the directors, dealings with companies with common directors and dealings with any significant shareholders of the Group.

The materiality thresholds used for the determination of independence and issues of conflict of interest has been considered from the point of view of the Group and directors. For the Group, a relationship which accounts for 5% or more of its revenue is considered material. For a director, a relationship which accounts for 5% or more of the total income of a director is considered material. Directors' fees are not subject to this test.

### Access to Independent Advice

Directors and the Board Committees have the right in connection with their duties and responsibilities to seek independent advice at the Group's expense. Prior approval of the Chairman is required, but this will not be unreasonably withheld. Where appropriate, directors share such advice with the other directors.

### Nomination Committee

The Nomination Committee meets as required and on several occasions throughout the year. For membership and attendance details of the Nomination Committee, refer to the Directors' Report.

The composition of the Nomination Committee is based on the following principles:

- The Nomination Committee should consist of non-executive directors only
- The Nomination Committee should consist of a majority of independent directors
- The Chairperson of the Nomination Committee should be an independent director
- The Nomination Committee should consist of a minimum of three members
- The Chairperson should be the Chairperson of the Board or another non-executive director

The Nomination Committee operates under a charter that details the Committee's role and responsibilities, composition, structure and membership requirements. The charter is reviewed annually to ensure it remains consistent with the Board's objectives and responsibilities. Refer to the Group's website at [www.gwagroup.com.au](http://www.gwagroup.com.au) for a copy of the charter.

The main responsibilities of the Committee include:

- Assessment of the necessary and desirable competencies of Board members
- Review of the Board succession plans
- Evaluation of the performance and contributions of Board members
- Recommendations for the appointment and removal of directors
- Review of the remuneration framework for the non-executive directors
- Reporting to the Board on the Committee's role and responsibilities covering all the functions in its charter

In performing its responsibilities, the Nomination Committee receives appropriate advice from external consultants and other advisers as required.

The Company Secretary prepares the draft minutes for each Nomination Committee meeting, which are tabled at the next Nomination Committee meeting for review and approval. The draft minutes are also included in the Board papers of the next Board meeting following the Nomination Committee meeting.

### Selection and Appointment of Directors

The Nomination Committee is responsible for the selection and appointment of directors. In the circumstances where there is a need to appoint a director, whether due to the retirement of a director, growth of the Group, or changed circumstances of the Group, certain procedures will be followed including the following:

- Determination of the skills and experience appropriate for an appointee, having regard to those of the existing directors and other likely changes to the Board.
- Upon identifying a potential appointee, consider the competency and qualifications, independence, other directorships, time availability, and the effect that their appointment would have on the overall balance of the composition of the Board.
- Consideration of the need for Board diversity and whether the potential appointee furthers the Board's objective of achieving a diverse workforce in accordance with its Diversity Policy.
- The Board members consent to the proposed appointee.

Details of the skills, experience and expertise of each director are outlined in the director profiles in the Annual Report.

### Induction Program

The Nomination Committee is responsible for ensuring that an effective induction program for new directors is in place and regularly reviewed to ensure its effectiveness. The Board has developed a comprehensive induction program for new directors to allow the new appointees to participate fully and actively in Board decision making. The Board views the induction program as critical in enabling the new directors to gain an understanding of the Group and the markets in which it operates. The Company Secretary assists with the induction



program for directors to ensure the Group's corporate governance practices are understood. The Group also supports appropriate professional development opportunities for directors to enable them to enhance their skills and knowledge.

### PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY

#### Code of Conduct

The Group's objective is to conduct its business with the highest standards of personal and corporate integrity. To assist employees in achieving this objective, the Group has developed a comprehensive Code of Conduct which guides the behaviour of directors, officers and employees (including senior executives) and demonstrates the commitment of the Group to ethical practices. The Code of Conduct is incorporated as part of new employees' induction training and an acceptance form is signed by new employees acknowledging their understanding and on-going compliance with the Code of Conduct and the Group's policies and procedures.

The Code of Conduct states the values and policies of the Group and complements the Group's risk management and internal control practices. The Code of Conduct is reviewed annually and updated to ensure that it reflects current good practice and to promote the ethical behaviour of all employees. Refer to the Group's website at [www.gwagroup.com.au](http://www.gwagroup.com.au) for a copy of the Code of Conduct.

#### Share Trading Policy

The Board has approved a Share Trading Policy which complies with the ASX Listing Rules. The policy limits the trading periods for directors and senior executives in the Group's securities to 30 days after each yearly/half yearly results announcement and Annual General Meeting, and provided they are not in the possession of unpublished insider information.

Outside of these trading periods, the directors, senior executives and other 'potential insiders' are prohibited from trading in the Group's securities unless 'exceptional circumstances' exist and prior written approval has been obtained. 'Exceptional circumstances' mean severe financial hardship or other circumstances considered to be exceptional, including a court order or court enforceable undertaking in a bona fide family settlement or some other overriding legal or regulatory requirement to transfer the Group's securities.

The Share Trading Policy requires the directors to notify the Executive Director within two business days after trading, to enable the Executive Director to lodge the required disclosures with the Australian Securities Exchange.

### PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING

#### Audit and Risk Committee

The Audit and Risk Committee meets as required and at least four times throughout the year. For membership and attendance details of the Audit and Risk Committee, refer to the Directors' Report. The qualifications and experience of each member of the Audit and Risk Committee is outlined in the director profiles in the Annual Report.

The composition of the Audit and Risk Committee is based on the following principles:

- The Audit and Risk Committee should consist of non-executive directors only
- The Audit and Risk Committee should consist of a majority of independent directors
- The Chairperson of the Audit and Risk Committee should be an independent director and not Chairperson of the Board
- The Audit and Risk Committee should consist of at least three members
- The Audit and Risk Committee should include members who are financially literate with at least one member who has financial and accounting related expertise

The Audit and Risk Committee is governed by a charter which outlines the Committee's role and responsibilities, composition, structure and membership requirements. The charter is reviewed annually to ensure it remains consistent with the Board's objectives and responsibilities. Refer to the Group's website at [www.gwagroup.com.au](http://www.gwagroup.com.au) for a copy of the charter. A detailed Terms of Reference has been developed to ensure the Audit and Risk Committee meeting agenda is consistent with the Committee's role and responsibilities as outlined in the charter.

The External Auditor, Managing Director, Chief Financial Officer, Executive Director, Group Commercial Manager, Group Risk Manager and other Group executives (as required) attend Audit and Risk Committee meetings, by invitation, to present the relevant statutory information, Financial Statements, reports, and to answer the questions of the members. At the Audit and Risk Committee meetings, the members will meet with the External Auditor without management present.

The main responsibilities of the Audit and Risk Committee include:

- Review of financial statements and external financial reporting
- Assess the management processes supporting external reporting
- Assess whether the external reporting is adequate to meet the information needs for shareholders
- Recommendations on the appointment and removal of the External Auditor
- Review and monitor the performance and independence of the external audit function
- Review of tax planning and tax compliance systems and processes
- Review and monitor risk management and internal compliance and control systems
- Assess the performance and objectivity of the internal audit function
- Reporting to the Board on the Committee's role and responsibilities covering all the functions in its charter

The Company Secretary prepares the draft minutes for each Audit and Risk Committee meeting, which is tabled at the next Audit and Risk Committee meeting for review and approval. The draft minutes are also included in the Board papers of the next Board meeting following the Audit and Risk Committee meeting.

# CORPORATE GOVERNANCE STATEMENT (CONT)

## FOR THE YEAR ENDED 30 JUNE 2014

### Certification of Financial Reports

The Managing Director and Chief Financial Officer state in writing to the Board at each reporting period that, in their opinion:

- The financial records of the Group have been properly maintained;
- The financial reports present a true and fair view of the Group's financial position and performance;
- The financial reports comply with Accounting Standards; and
- The opinion has been formed on the basis of a sound system of risk management and internal compliance and control which is operating effectively.

The statements from the Managing Director and Chief Financial Officer are based on a formal sign-off framework established throughout the Group and reviewed by the Audit and Risk Committee as part of the financial reporting process.

### External Auditor Independence

The Board recognises the importance of a truly independent external audit firm to ensure that the audit function delivers, for the benefit of the Board and all other stakeholders, an unbiased confirmation of both the Financial Statements and the state of affairs of the Group. Consistent with the Board's commitment to an independent audit firm, a policy has been approved by the Board on the role of the External Auditor, which is designed to ensure the independence of the external audit function.

The Audit and Risk Committee reviews the independence of the external audit function annually and makes a recommendation to the Board on continuing independence. As part of this review, the Audit and Risk Committee examines the non-audit roles performed by the External Auditor to satisfy itself that the auditor's independence is not compromised. Whilst the value of non-audit services could, in extreme cases, compromise audit independence, more important is to ensure that the External Auditor is not passing an audit opinion on the non-audit work of its own firm.

As a further measure to ensure the independence of the audit function, the Chairman of the Audit and Risk Committee must pre-approve all audit services provided by the External Auditor and non-audit services with a value of greater than \$5,000.

During the year, the Group's External Auditor, KPMG, provided an Auditor Independence Declaration to the Board (refer to the Directors' Report) that, to the best of their knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- Any applicable code of professional conduct in relation to the audit.

In considering the KPMG independence declaration and the recommendation of the Audit and Risk Committee, the Board is satisfied with the continuing independence of the external audit function. For details of the non-audit roles performed by KPMG during the year, please refer to the notes to the Financial Statements.

### Selection and Appointment of External Auditor

Following shareholder approval at the 2004 Annual General Meeting, KPMG were appointed External Auditor for the financial year commencing 1 July 2004 after a comprehensive tender process conducted by the Audit and Risk Committee. KPMG replaced Ernst & Young who had been the External Auditor since 1995.

### Rotation of External Auditor

KPMG has advised the Group that their policy of audit partner rotation requires a change in the lead engagement partner and review partner after a period of five years. An audit partner rotation plan has been reviewed and approved by the Audit and Risk Committee to ensure the transition process is managed effectively. In accordance with the plan, effective from 1 July 2010, Mr Greg Boydell was appointed the Lead Engagement Partner following the rotation of Mr Mark Epper.

### AGM Attendance

The External Auditor attends the Annual General Meeting and is available to answer questions from shareholders about the conduct of the external audit and the preparation and content of the Independent Auditor's Report. Shareholders attending the Annual General Meeting are made aware they can ask questions of the External Auditor concerning the conduct of the audit.

### PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

The Group is committed to ensuring the timely disclosure of material price sensitive information through compliance with the continuous disclosure obligations in the ASX Listing Rules and the *Corporations Act 2001*. The Group includes continuous disclosure as a permanent item on the agenda for Board meetings. The Board has approved a Continuous Disclosure Policy to ensure the Group complies with the continuous disclosure requirements and to ensure accountability at the executive and senior management level for that compliance.

The Managing Director is the Group's Continuous Disclosure Compliance Officer and is responsible for ensuring compliance with the continuous disclosure requirements and overseeing and authorising disclosure of information to the ASX. All media releases which contain material price sensitive information must be approved by the Board prior to release to the ASX.

The Company Secretary coordinates the communications with the ASX including ensuring compliance with regulatory requirements and overseeing information released to the ASX, shareholders and other interested parties. Announcements made to the ASX are published on the Group's website immediately after release.

## PRINCIPLE 6 – RESPECT THE RIGHTS OF SECURITY HOLDERS

The Group is committed to ensuring shareholders and the financial markets are provided with full, open and timely information about its activities. This is achieved by the following:

- Ensuring that shareholder communications (including the Annual Report and Notice of Annual General Meeting) satisfy relevant regulatory requirements and guidelines. The Group is committed to producing shareholder communications in plain English with full and open disclosure about the Group's policies and procedures, operations and performance.
- Ensuring that shareholders have the opportunity to receive external announcements by the Group through the corporate website at [www.gwagroup.com.au](http://www.gwagroup.com.au). All Group announcements and information released to the market (including half and full year results) are located on the website and may be accessed by shareholders. There is a Corporate Governance section on the website which outlines the Group's governance practices and policies and other information such as the Group's carbon emissions reporting, gender equality reporting and information on workplace health and safety performance.
- The Board is committed to the use of electronic communications with shareholders to reduce the environmental impact and costs. Shareholders can elect to receive Group communications electronically, although at present not all communications are made available electronically. Annual Reports are no longer printed and mailed to shareholders, unless specifically requested. Annual Reports are made available to shareholders on the Group's website at [www.gwagroup.com.au](http://www.gwagroup.com.au) in an accessible and user friendly format. Shareholders are mailed the Notice of Annual General Meeting and Proxy Form, which includes details on accessing the online Annual Report and instructions for casting proxy votes electronically.
- The Group encourages shareholders to attend and participate at the Annual General Meeting to canvass the relevant issues of interest with the Board. An opportunity is given at the Annual General Meeting for shareholders to ask questions on the Group's financial reports and the business operations and performance. If shareholders are unable to attend the Annual General Meeting personally, they are encouraged to participate through proxy voting. The Group has implemented online proxy voting to make it easier for shareholders to lodge their proxy votes if they are unable to attend the Annual General Meeting. The Group endeavours to set the timing and the location of the Annual General Meeting so that it is convenient for shareholders generally.
- The Group has developed an investor relations program to facilitate effective communications with investors. The Group actively engages with the financial media, broking analysts, institutional and private investors on the Group's operations, performance, governance and prospects, and to provide an opportunity for investors to express their views or concerns about the Group. At all times the Group ensures compliance with the continuous disclosure obligations in the ASX Listing Rules and the *Corporations Act 2001*.

## PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

The Board recognises that effective risk management processes help ensure the business is more likely to achieve its business objectives and that the Board meets its corporate governance responsibilities. In meeting its responsibilities, the Board has ensured that management has put in place comprehensive risk management policies and practices across the Group. The Board conducts annual reviews of the Group's risk management framework to ensure that it continues to be sound. During FY14, the Audit and Risk Committee conducted a review of the Group's risk management framework to ensure it is working effectively and within the risk parameters set by the Board.

Such risk management processes include defining the risk oversight responsibilities of the Board and the responsibilities of management in ensuring risks are both identified and effectively managed. Whilst ultimate responsibility for risk oversight rests with the Board, the Audit and Risk Committee is the delegated mechanism for focusing the Group on risk oversight, risk management and internal controls. The Audit and Risk Committee reports to the Board on risk management and internal control matters in accordance with its main responsibilities as outlined in the Audit and Risk Committee Charter.

For further details of the Audit and Risk Committee composition and responsibilities, refer to the Audit and Risk Committee disclosures under Principle 4 – Safeguard integrity in corporate reporting.

The Audit and Risk Committee is supported in managing risk through the combined activities of:

- An Executive Risk Committee (ERC) comprising the executive and senior management of the Group which has been established to identify business risks in the organisation and review status and risk mitigation activities. Formal enterprise risk profiles have been prepared for the businesses and these are reviewed half yearly by the ERC. The major business risks are reported to the Audit and Risk Committee at the May and November meetings together with risk mitigation activities. The ERC reports to the Audit and Risk Committee on its activities as outlined in the ERC charter;
- Enterprise risk profiles have been developed for the Group and its divisions which are regularly reviewed and updated as part of the strategic planning process together with mitigation actions. The identified risks are analysed based on their potential impact and likelihood of occurrence and mitigation responses are put in place to manage the risks. Updates to the enterprise risk profiles form part of the agenda for the quarterly business reviews and strategy planning sessions with the Managing Director, Chief Financial Officer and Group Commercial Manager. An enterprise risk update for the major risks is prepared for the Audit and Risk Committee at the May and November meetings;
- A Finance Committee comprising the executive and senior management of the Group which has been established to review and monitor the financial risks in the organisation, oversee the execution of Group policies in relation to finance risk and measure the impact of both the underlying risk and the mitigation strategies employed. Financial risks include liquidity and funding risk, interest rate risk, foreign currency risk, credit risk and legal risk. The Finance Committee reports to the Audit and Risk Committee on its activities as outlined in the Finance Committee charter;

# CORPORATE GOVERNANCE STATEMENT (CONT)

## FOR THE YEAR ENDED 30 JUNE 2014

- A Group Commercial Manager who has primary responsibility for designing, implementing and coordinating the overall risk management and internal control practices of the Group. The Group Commercial Manager attends the Audit and Risk Committee meetings to present the Internal Audit Report and prepares a monthly Commercial Risk Report for the Board. Whilst reporting to the Chief Financial Officer on a day to day basis, the Group Commercial Manager has the authority to report directly to the Board or Audit and Risk Committee on any matter;
- A Group Risk Manager who has specific responsibilities in respect of operational risks including workplace health and safety, business continuity, environmental, sustainability and industrial relations risks. The Group Risk Manager prepares a monthly Group Risk Report for the Board and attends the May and November Audit and Risk Committee meetings to present the Operational Risk Report;
- A Group Information Systems Manager who has specific responsibilities in respect of the Group's information technology (IT) security and risk environment. The Group Information Systems Manager attends the May and November Audit and Risk Committee meetings to present the IT Security, Risk and Governance Report;
- A Company Secretary who is responsible for putting in place adequate insurances to cover the major group insurable risks including property and business interruption, product and public liability, product recall and directors and officers liability insurances. The Group's insurance brokers are AON Risk Solutions who assist with arranging the insurances and claims management. The insurance policies are placed with reputable insurers with appropriate coverage, limits and deductibles;
- An Internal Audit function under the management of Grant Thornton. The Internal Audit activities are carried out by a combination of internal and appropriately qualified external resources from Grant Thornton based on a program of work approved by the Audit and Risk Committee. Such activities link to the Group's risk management practices by ensuring risks are being adequately identified and managed through the effective and efficient operation of control procedures. The internal audit function is independent of the external audit function; and
- External Audit activities undertaken by the External Auditor, KPMG, to review internal controls as part of the year end audit procedures. Internal control weaknesses are identified by the External Auditor and communicated to management to address through a formal reporting process. The actions taken by management are reviewed by the Chief Financial Officer and Group Financial Controller as part of the stewardship review process for the half and full year accounts.

The Group has implemented risk management software across the Group for the purpose of identifying and managing workplace health and safety, business continuity and environmental risks. The software is a critical tool for executives and senior management and has enhanced the identification, reporting and monitoring of actions in this important area in order to support management's objectives.

Risk management is embedded in the Group's policies and procedures which have enabled the Group to pro-actively identify and manage all types of risk within the organisation. The Board aims to continually evaluate and re-assess the risk management and internal control practices of the Group to ensure current good practice is maintained and to preserve and create value within the organisation.

### Certification of Risk Management Controls

In conjunction with the certification of financial reports, the Managing Director and Chief Financial Officer state in writing to the Board each reporting period that in their opinion:

- The statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- The Group's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The statements from the Managing Director and Chief Financial Officer are based on a formal sign-off framework established throughout the Group and reviewed by the Audit and Risk Committee as part of the financial reporting process.

### Environment and Sustainability Risks

The Group does not have any material exposures to environment and social sustainability risks.

The Board is committed to reducing energy, carbon emissions, water and waste across the Group's operations. The Group reports its group carbon emissions annually under the Federal Government's National Greenhouse and Emissions Reporting Scheme and the reports can be accessed on the Group's website at [www.gwagroup.com.au](http://www.gwagroup.com.au) under Carbon Reporting. In recent years, the Group's carbon emissions have declined due to a combination of factors including site rationalisations, site closures, reduced demand and energy efficiency measures.

## PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

### Remuneration Committee

The Remuneration Committee meets as required and on several occasions throughout the year. For membership and attendance details of the Remuneration Committee, refer to the Directors' Report.

The composition of the Remuneration Committee is based on the following principles:

- The Remuneration Committee should consist of non-executive directors only
- The Remuneration Committee should consist of a majority of independent directors
- The Remuneration Committee should consist of a minimum of three members
- The Chairperson of the Remuneration Committee should be an independent director

The Remuneration Committee operates under a charter that details the Committee's role and responsibilities, composition, structure and membership requirements. The charter is reviewed annually to ensure it remains consistent with the Board's objectives and responsibilities. Refer to the Group's website at [www.gwagroup.com.au](http://www.gwagroup.com.au) for a copy of the charter.

The main responsibilities of the Committee include:

- Review of the Group's remuneration and incentive policies
- Review of executive and senior management remuneration packages
- Review of the Group's recruitment, retention and termination policies and procedures
- Review of the Group's superannuation arrangements
- Reporting to the Board on the Committee's role and responsibilities covering all the functions in its charter

In performing its responsibilities, the Remuneration Committee receives appropriate advice from independent external advisers. During the year, the Remuneration Committee engaged the services of Guerdon Associates to provide market benchmarking data to assist with the FY15 executive remuneration review.

The Company Secretary prepares the draft minutes for each Remuneration Committee meeting which are tabled at the next Remuneration Committee meeting for review and approval. The draft minutes are also included in the Board papers of the next Board meeting following the Remuneration Committee meeting.

### Remuneration Policies

The Board's objective in setting the Group's remuneration policies is to provide maximum stakeholder benefit from the retention of a high quality Board and executive team. This is achieved by remunerating directors and executives fairly and appropriately based on relevant market benchmarking data and the linking of the executives' emoluments to the Group's financial and operating performance in order to align with shareholder wealth creation.

The Nomination Committee is responsible for determining the remuneration for the non-executive directors, with the maximum aggregate amount approved by shareholders. The non-executive directors receive their remuneration by way of directors' fees only (including statutory superannuation) and are not able to participate in the executive incentive schemes. There are no director retirement benefits other than statutory superannuation.

The Remuneration Committee is responsible for reviewing and determining the remuneration and incentive arrangements for the executives. The Remuneration Committee obtains market benchmarking data from an independent external adviser to assist in determining market remuneration levels. The remuneration and incentive arrangements have been structured to ensure that performance is fairly rewarded and to attract, motivate and retain a high quality executive team.

The Group has an equity based remuneration scheme for senior executives which was approved by shareholders in 2008. For details of the scheme, refer to the Remuneration Report. In accordance with the rules of the scheme, participants must not enter into any transactions or arrangements (whether through the use of derivatives or otherwise) which reduces or limits the economic risk of participating in the scheme.

For details of the Group's remuneration policies and disclosures, refer to the Remuneration Report.



# 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 shown in the following table:

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
<b>Total**</b>	<b>8,858,235</b>

\* The executive directors, Mr P C Crowley and Mr R J Thornton, are holders of Performance Rights under the GWA Group Limited Long Term Incentive Plan. For details of the Performance Rights held, please refer to 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 table on the following page.

### 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.

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 <sup>(1)</sup>	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 <sup>(2)</sup>	10	10	-	-	-	-	-	-
G J McGrath <sup>(3)</sup>	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

(3) G J McGrath retired on 30 October 2013

## DIVIDENDS

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

### Declared and paid during FY14

Dividend	Cents per share	Total Amount \$'000	Franked	Date of Payment
Final 2012/13			Fully	4 October
Ordinary	6.0	18,392	Franked	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			Fully	8 October
Ordinary	5.5	16,859	Franked	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 Bravis 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.

# DIRECTORS' REPORT (CONT)

AS AT 30 JUNE 2014

## 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:

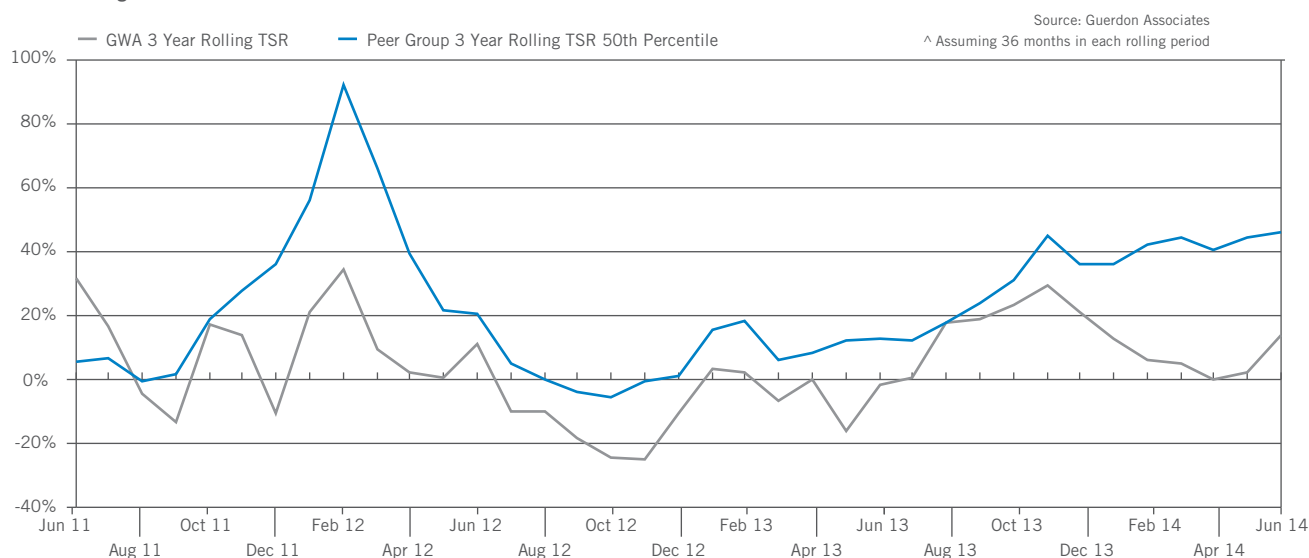
1. Board role in setting remuneration strategy and principles;
2. Relationship between remuneration policy and Group performance;
3. Description of non-executive director remuneration;
4. Description of executive remuneration;
5. Details of director and executive remuneration; and
6. Key terms of employment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

### 3 Year Rolling TSR<sup>^</sup>



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.

# DIRECTORS' REPORT (CONT)

AS AT 30 JUNE 2014

The graph at the top of the previous page 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.

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
<b>Operational goals</b>		
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.	
<b>Strategy and growth goals</b>		
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 Bravis and Dux businesses with the aim of delivering higher shareholder returns.	



FY14 Goals	Results	Assessment
<b>Strategy and growth goals</b>		
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.	
<b>Supply chain goals</b>		
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.	
<b>Financial targets</b>		
STI financial performance targets	In FY14 the 'reasonably achievable' trading EBIT financial performance targets for Bathrooms & Kitchens and Bravis were achieved but no other STI financial performance targets were achieved.	

 = Fully achieved    = Partially achieved    = 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.

# DIRECTORS' REPORT (CONT)

AS AT 30 JUNE 2014

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	<b>120</b>

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	<b>65</b>	15	<b>80</b>

\* 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
<b>Total</b>	<b>50</b>	<b>90</b>	<b>140</b>

\* 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	<b>80</b>

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	<b>40</b>	10	<b>50</b>

## 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 50th 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 75th 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.

# DIRECTORS' REPORT (CONT)

AS AT 30 JUNE 2014

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.
- 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 – FY15 Changes

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)



# DIRECTORS' REPORT (CONT)

AS AT 30 JUNE 2014

## 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 on the opposite page.

#### 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 Bravis 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 – Bravis 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.

		Short-term			Long-term		Post-employment		Total	Proportion of remuneration performance based	STI Cash Bonus vested in year	STI Cash Bonus forfeited in year
		Salary & Fees	STI Cash Bonus	Non-Monetary	Employee Share Plan Interest	Value of Share-Based Awards	Super-annuation Benefits	Termination Benefits				
		\$(a)	\$(b)	\$(c)	\$(d)	\$(e)	€	€	€	%	%	%
<b>Non-Executive Directors</b>												
D McDonough Chairman (Appointed 30 October 2013)(f)	2014	253,947	–	–	–	–	34,999	–	288,946	–	–	–
	2013	130,353	–	–	–	–	24,999	–	155,352	–	–	–
J Mulcahy Deputy Chairman (Appointed 30 October 2013)(f)	2014	138,225	–	–	–	–	14,089	–	152,314	–	–	–
	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 (Retired 30 October 2013)(f)	2014	112,148	–	–	–	–	5,924	–	118,072	–	–	–
	2013	318,723	–	–	–	–	28,685	–	347,408	–	–	–
<b>Total – Non-Executive Directors</b>	<b>2014</b>	<b>855,037</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>116,751</b>	<b>–</b>	<b>971,788</b>			
	<b>2013</b>	<b>902,237</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>128,068</b>	<b>–</b>	<b>1,030,305</b>			
<b>Executive Directors</b>												
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
<b>Total – Directors Remuneration</b>	<b>2014</b>	<b>2,656,607</b>	<b>392,942</b>	<b>120,782</b>	<b>–</b>	<b>282,975</b>	<b>184,525</b>	<b>–</b>	<b>3,637,832</b>			
	<b>2013</b>	<b>2,708,178</b>	<b>247,200</b>	<b>98,210</b>	<b>49,078</b>	<b>205,775</b>	<b>194,538</b>	<b>–</b>	<b>3,502,979</b>			
<b>Executives</b>												
I Brannan Chief Financial Officer (Appointed 30 July 2012)	2014	522,440	91,677	1,856	–	96,820	24,600	–	737,393	25.6	32	68
	2013	645,063	275,000	8,864	–	62,720	22,550	–	1,014,197	33.3	100	–
L Patterson Chief Executive – GWA Bathrooms & Kitchens (Appointed 17 October 2012)	2014	529,986	146,522	2,905	–	65,692	24,999	–	770,104	27.6	54	46
	2013	491,459	104,000	122,103	28,537	53,625	24,999	–	824,723	19.1	40	60
C Camillo General Manager – Bravis (Appointed 1 December 2012) (h)	2014	289,631	94,500	13,681	–	52,573	24,999	–	475,384	30.9	60	40
	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 (Ceased employment 11 October 2013)(i)(j)	2014	138,005	–	–	–	(76,375)	35,000	349,195	445,825	-17.1	–	–
	2013	430,655	54,960	7,000	–	47,092	25,000	–	564,707	18.1	24	76
<b>Total – Executives Remuneration</b>	<b>2014</b>	<b>1,480,062</b>	<b>332,699</b>	<b>18,442</b>	<b>–</b>	<b>138,710</b>	<b>109,598</b>	<b>349,195</b>	<b>2,428,706</b>			
	<b>2013</b>	<b>1,771,835</b>	<b>579,460</b>	<b>137,967</b>	<b>30,412</b>	<b>197,410</b>	<b>82,462</b>	<b>–</b>	<b>2,799,546</b>			
<b>Total – Directors and Executives Remuneration</b>	<b>2014</b>	<b>4,136,669</b>	<b>725,641</b>	<b>139,224</b>	<b>–</b>	<b>421,685</b>	<b>294,123</b>	<b>349,195</b>	<b>6,066,538</b>			
	<b>2013</b>	<b>4,480,013</b>	<b>826,660</b>	<b>236,177</b>	<b>79,490</b>	<b>403,185</b>	<b>277,000</b>	<b>–</b>	<b>6,302,525</b>			

# DIRECTORS' REPORT (CONT)

AS AT 30 JUNE 2014

## 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	% forfeited in year	Fair value of rights at grant date \$*	Issue price used to determine number of rights granted
<b>Executive Directors</b>							
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
<b>Executives</b>							
I Brannan Chief Financial Officer (Appointed 30 July 2012)	2014	55,000	24 February 2014	–	–	102,300	3.12
	2013	96,000	25 February 2013	–	–	188,160	1.70
	2012	–	–	–	–	–	–
	2011	–	–	–	–	–	–
L Patterson, Chief Executive – GWA Bathrooms & Kitchens (Appointed 17 October 2012)	2014	50,000	24 February 2014	–	–	93,000	3.12
	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 – Bravis (Appointed 1 December 2012)	2014	30,000	24 February 2014	–	–	55,800	3.12
	2013	52,000	25 February 2013	–	–	101,920	1.70
	2012	–	–	–	–	–	–
	2011	–	–	–	–	–	–
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.

	Held at 1 July 2013	Granted as compensation	Purchases	Sales	Held at 30 June 2014
<b>Directors: non-executive</b>					
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
<b>Executive Directors</b>					
P Crowley	330,000	150,000	–	–	480,000
R Thornton	43,694	15,000	–	–	58,694
<b>Executives</b>					
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
<b>Directors: non-executive</b>					
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
<b>Executive Directors</b>					
P Crowley	750,000	152,500	–	(572,500)	330,000
R Thornton	128,694	15,000	–	(100,000)	43,694
<b>Executives</b>					
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



# DIRECTORS' REPORT (CONT)

AS AT 30 JUNE 2014

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, are shown in the tables on previous page.

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

# FINANCIAL REPORT

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

## CONTENTS

Consolidated statement of profit or loss and other comprehensive income	44
Consolidated statement of financial position	45
Consolidated statement of cash flows	46
Consolidated statement of changes in equity	47

## NOTE

1 Significant accounting policies	48	19 Loans and borrowings	67
2 Operating segments	55	20 Employee benefits	69
3 Other income	57	21 Share-based payments	70
4 Other expenses	57	22 Provisions	71
5 Significant items	58	23 Capital and reserves	72
6 Personnel expenses	59	24 Financial instruments and financial risk management	73
7 Auditors' remuneration	59	25 Operating leases	80
8 Net financing costs	59	26 Capital commitments	81
9 Income tax expense	60	27 Contingencies	81
10 Earnings per share	61	28 Deed of cross guarantee	81
11 Cash and cash equivalents	62	29 Consolidated entities	84
12 Trade and other receivables	62	30 Parent entity disclosures	85
13 Inventories	62	31 Reconciliation of cash flows from operating activities	86
14 Current tax assets and liabilities	62	32 Related parties	87
15 Deferred tax assets and liabilities	63	33 Subsequent events	87
16 Property, plant and equipment	64		
17 Intangible assets	65		
18 Trade and other payables	67		
Directors' Declaration			88
Independent Auditor's Report to the members of GWA Group Limited			89

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### For the year ended 30 June 2014

<i>In thousands of AUD</i>	Note	2014	2013
<b>Continuing operations</b>			
Sales revenue	2	577,994	565,365
Cost of sales		(382,820)	(367,956)
<b>Gross profit</b>		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)
<b>Results from operating activities</b>		43,823	55,339
Finance income		683	1,479
Finance expenses		(11,884)	(14,803)
<b>Net financing costs</b>	8	(11,201)	(13,324)
<b>Profit before tax</b>		32,622	42,015
Income tax expense	9	(14,026)	(9,625)
<b>Profit for the period</b>		18,596	32,390
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
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
<b>Other comprehensive income for the period, net of income tax</b>		(775)	2,628
<b>Total comprehensive income for the period</b>		17,821	35,018
<b>Earnings per share</b>			
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 48 to 87.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

## As at 30 June 2014

<i>In thousands of AUD</i>	Note	2014	2013
<b>Current assets</b>			
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
<b>Total current assets</b>		271,944	226,777
<b>Non-current assets</b>			
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
<b>Total non-current assets</b>		480,291	512,900
<b>Total assets</b>		752,235	739,677
<b>Current liabilities</b>			
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
<b>Total current liabilities</b>		130,221	98,862
<b>Non-current liabilities</b>			
Loans and borrowings	19	175,000	195,000
Employee benefits	20	13,241	12,693
Provisions	22	7,784	6,380
<b>Total non-current liabilities</b>		196,025	214,073
<b>Total liabilities</b>		326,246	312,935
<b>Net assets</b>		425,989	426,742
<b>Equity</b>			
Issued capital	23	408,100	408,100
Reserves	23	(1,241)	(408)
Retained earnings		19,130	19,050
<b>Total equity</b>		425,989	426,742

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 48 to 87.

## CONSOLIDATED STATEMENT OF CASH FLOWS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### For the year ended 30 June 2014

<i>In thousands of AUD</i>	Note	2014	2013
<b>Cash flows from operating activities</b>			
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)
<b>Net cash from operating activities</b>	31	33,898	63,349
<b>Cash flows from investing activities</b>			
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)
<b>Net cash from investing activities</b>		1,168	(24,868)
<b>Cash flows from financing activities</b>			
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)
<b>Net cash from financing activities</b>		(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
<b>Cash and cash equivalents at 30 June</b>	11	29,873	32,757

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 48 to 87.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### For the year ended 30 June 2014

<i>In thousands of AUD</i>	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
<b>Total comprehensive income for the period</b>						
Profit for the period	–	–	–	–	32,390	32,390
<i>Other comprehensive income</i>						
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
<b>Transactions with owners, recorded directly in equity</b>						
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
Balance at 1 July 2013	408,100	(1,985)	(289)	1,866	19,050	426,742
<b>Total comprehensive income for the period</b>						
Profit for the period	–	–	–	–	18,596	18,596
<i>Other comprehensive income</i>						
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
<b>Transactions with owners, recorded directly in equity</b>						
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 profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 48 to 87.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

## 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.

### (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.

### (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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Foreign currency (continued)

#### (i) Foreign currency transactions (continued)

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.

### (f) Hedging

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

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

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

#### (i) Cash flow hedges

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Hedging (continued)

#### (i) Cash flow hedges (continued)

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.

### (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Intangible assets (continued)

#### (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.

#### (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.

##### *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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Impairment (continued)

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

##### *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.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (o) Employee benefits (continued)

#### (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.

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

#### (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (t) Income tax (continued)

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.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### 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.

## 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.

<i>In thousands of AUD</i>	Bathrooms & Kitchens		Door & Access Systems		Heating & Cooling		Total	
	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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 2. OPERATING SEGMENTS (CONTINUED)

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

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
<b>Revenues</b>		
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
<b>Profit</b>		
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
<b>Assets</b>		
Total assets for reportable segments	654,100	661,741
Unallocated amounts: corporate assets*	98,135	77,936
Consolidated total assets	752,235	739,677
<b>Liabilities</b>		
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

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
<b>Depreciation</b>		
Total depreciation for reportable segments	12,196	13,314
Unallocated amounts: depreciation on corporate assets	619	429
Consolidated total depreciation	12,815	13,743
<b>Amortisation</b>		
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
<b>Capital expenditure</b>		
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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 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.

<i>In thousands of AUD</i>	Australia		Unallocated		Consolidated	
	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

<i>In thousands of AUD</i>	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

<i>In thousands of AUD</i>	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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 5. SIGNIFICANT ITEMS

<i>In thousands of AUD</i>	Note	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 Bravis business, the consolidated entity has continued product recalls by the former owner, Carrier, for evaporative coolers containing defective components. Although the Bravis 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 6. PERSONNEL EXPENSES

<i>In thousands of AUD</i>	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

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

### 8. NET FINANCING COSTS

<i>In thousands of AUD</i>	2014	2013
<b>Finance income</b>		
Interest income on call deposits	601	880
Unwinding of discount on loans and provisions	–	455
Other	82	144
	683	1,479
<b>Finance expense</b>		
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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 9. INCOME TAX EXPENSE

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

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

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

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
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

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
Derivatives	(694)	840

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 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

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
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

<i>In thousands of shares</i>	<b>2014</b>	<b>2013</b>
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)

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
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 (diluted)

<i>In thousands of shares</i>	<b>2014</b>	<b>2013</b>
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

	<b>2014</b>	<b>2013</b>
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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 11. CASH AND CASH EQUIVALENTS

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
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

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
<b>Current</b>		
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

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
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 ASSETS AND 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 15. DEFERRED TAX ASSETS AND LIABILITIES

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

<i>In thousands of AUD</i>	Assets		Liabilities		Net	
	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:

<i>In thousands of AUD</i>	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

<i>In thousands of AUD</i>	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

<i>In thousands of AUD</i>	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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 16. PROPERTY, PLANT AND EQUIPMENT

<i>In thousands of AUD</i>	<b>Land and buildings</b>	<b>Plant and equipment</b>	<b>Motor vehicles</b>	<b>Work in progress</b>	<b>Total</b>
<b>Cost</b>					
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
<b>Depreciation and impairment losses</b>					
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)
<b>Carrying amounts</b>					
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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 17. INTANGIBLE ASSETS

<i>In thousands of AUD</i>	Software	Brand names	Trade names, designs, patents and customer relationships	Goodwill	Total
<b>Cost</b>					
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
<b>Amortisation</b>					
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)
<b>Carrying amounts</b>					
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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 17. INTANGIBLE ASSETS (CONTINUED)

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

<i>In thousands of AUD</i>	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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 18. TRADE AND OTHER PAYABLES

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
<b>Current</b>		
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

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
Unsecured cash advance facilities	175,000	195,000

#### Terms and debt repayment schedule

<i>In thousands of AUD</i>	<b>Currency</b>	<b>Year of maturity</b>	<b>2014 Face value</b>	<b>2014 Carrying amount</b>	<b>2013 Face value</b>	<b>2013 Carrying amount</b>
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%).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 19. LOANS AND BORROWINGS (CONTINUED)

#### Financing facilities

<i>In thousands of AUD</i>	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
<b>Facilities utilised at reporting date</b>		
Bank overdraft	–	–
Standby letters of credit	–	–
Bank guarantees	4,258	2,965
Unsecured cash advance facility	175,000	195,000
	179,258	197,965
<b>Facilities not utilised at reporting date</b>		
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

#### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
 ABN 15 055 964 380

### 20. EMPLOYEE BENEFITS

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
<b>Current</b>		
Liability for annual leave	9,374	9,588
Liability for long-service leave	2,374	2,224
	11,748	11,812
<b>Non-current</b>		
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).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 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.

Tranche	Grant date	Expiry date	Balance at beginning of the year	Granted during the year	Cancelled during the year	Vested during the year	Forfeited during the year	Balance at end of the year
			Number	Number	Number	Number	Number	Number
<b>2014</b>								
(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
<b>2013</b>								
(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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 21. SHARE-BASED PAYMENTS (CONTINUED)

#### 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.

### 22. PROVISIONS

<i>In thousands of AUD</i>	<b>Warranties</b>	<b>Restructuring</b>	<b>Site restoration</b>	<b>Product liability</b>	<b>Other</b>	<b>Total</b>
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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 23. CAPITAL AND RESERVES

#### Share capital

<i>In thousands</i>	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.

#### Translation reserve

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

#### Hedging reserve

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

#### Equity compensation reserve

The equity compensation reserve represents the fair value of the cumulative net charges of the performance rights.

#### Dividends

Dividends recognised in the current year are:

<i>In thousands of AUD</i>	Cents per share	Total amount	Franked	Date of payment
<b>2014</b>				
Interim 2014 ordinary	–	–	–	–
Final 2013 ordinary	6.0	18,392	100%	4th Oct 2013
Total amount	6.0	18,392		
<b>2013</b>				
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.

<i>In thousands of AUD</i>	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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 23. CAPITAL AND RESERVES (CONTINUED)

Dividend franking account	The Company	
	2014	2013
<i>In thousands of AUD</i>		
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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 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.

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

<i>In thousands of AUD</i>	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:

<i>In thousands of AUD</i>	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:

<i>In thousands of AUD</i>	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)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 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 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

<i>In thousands of AUD</i>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Less than 6 months</b>	<b>6–12 months</b>	<b>1–2 years</b>	<b>3–5 years</b>	<b>5+ years</b>
<b>2014</b>							
<b>Non-derivative financial liabilities</b>							
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)	–	–	–
<b>Derivative financial liabilities</b>							
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	–	–	–	–
<b>Total at 30 June 2014</b>	<b>(236,265)</b>	<b>(254,935)</b>	<b>(64,677)</b>	<b>(4,955)</b>	<b>(9,590)</b>	<b>(175,713)</b>	<b>–</b>
<b>2013</b>							
<b>Non-derivative financial liabilities</b>							
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)	–	–	–	–
<b>Derivative financial liabilities</b>							
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	–	–	–	–
<b>Total at 30 June 2013</b>	<b>(245,588)</b>	<b>(277,569)</b>	<b>(54,459)</b>	<b>(5,659)</b>	<b>(10,529)</b>	<b>(206,922)</b>	<b>–</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 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:

<i>In thousands of AUD</i>	<b>2014 Notional value</b>	<b>2014 Carrying amount</b>	<b>2013 Notional value</b>	<b>2013 Carrying amount</b>
<b>Variable rate financial instruments</b>				
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)
<b>Fixed rate financial instruments</b>				
Interest rate swap derivatives	125,000	(1,521)	125,000	(1,939)
<b>Total</b>	<b>(20,127)</b>	<b>(146,648)</b>	<b>(37,243)</b>	<b>(164,182)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

## 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:

<i>In thousands of AUD</i>	2014	2013
<b>Increase of 100 basis points</b>		
Hedging reserve (increase)/decrease	(2,484)	(2,135)
Financial assets increase/(decrease)	963	196
Financial liabilities (increase)/decrease	1,521	1,939
	-	-
<b>Decrease of 100 basis points</b>		
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:

<i>In thousands of AUD</i>	2014	2013
<b>Increase of 100 basis points</b>		
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)
<b>Decrease of 100 basis points</b>		
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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 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 balance date.

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

<i>In thousands of AUD equivalent</i>	USD	NZD	EUR	RMB
<b>Currency transaction risk</b>				
<b>2014</b>				
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
<b>2013</b>				
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)	3,954	(3,452)	(4,299)
Forward exchange contracts	19,623	(3,791)	493	–
Net exposure 30 June 2013	(20,819)	209	(3,212)	(4,294)
Foreign exchange rates at balance date	0.9275	1.1871	0.7095	5.6991
<b>Currency translation risk</b>				
<b>2014</b>				
Net assets	–	2,524	–	(313)
<b>2013</b>				
Net assets	–	2,441	–	45



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Market risk (continued)

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

##### (ii) Sensitivity analysis

The impact of exchange rate movements on profit is subject to other variables including competitor exchange rate positions and movement in market prices. The impact of exchange rate movements on equity is not material.

#### Fair values

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

<i>In thousands of AUD</i>	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%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Estimation of fair values (continued)

##### (v) Fair value hierarchy

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

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

<i>In thousands of AUD</i>	Level 1	Level 2	Level 3	Total
<b>30 June 2014</b>				
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)
<b>30 June 2013</b>				
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:

<i>In thousands of AUD</i>	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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 26. CAPITAL COMMITMENTS

<i>In thousands of AUD</i>	2014	2013
<b>Capital expenditure commitments</b>		
<b>Plant and equipment</b>		
<i>Contracted but not provided for and payable:</i>		
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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 28. DEED OF CROSS GUARANTEE (CONTINUED)

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

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
Sales revenue	557,629	547,663
Cost of sales	(370,558)	(336,801)
<b>Gross profit</b>	187,071	210,862
Operating expenses	(143,584)	(156,671)
Finance income	681	1,476
Finance expenses	(11,883)	(14,803)
<b>Profit before tax</b>	32,285	40,864
Income tax expense	(12,713)	(8,955)
<b>Profit after tax</b>	19,572	31,909
<b>Total comprehensive income for the period, net of tax</b>	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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 28. DEED OF CROSS GUARANTEE (CONTINUED)

#### Statement of financial position

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
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
<b>Total current assets</b>	<b>263,546</b>	<b>218,849</b>
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
<b>Total non-current assets</b>	<b>484,149</b>	<b>516,935</b>
<b>Total assets</b>	<b>747,695</b>	<b>735,784</b>
<b>Liabilities</b>		
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
<b>Total current liabilities</b>	<b>128,327</b>	<b>97,829</b>
Loans and borrowings	175,000	195,000
Employee benefits	13,236	12,669
Provisions	7,784	6,379
<b>Total non-current liabilities</b>	<b>196,020</b>	<b>214,048</b>
<b>Total liabilities</b>	<b>324,347</b>	<b>311,877</b>
<b>Net assets</b>	<b>423,348</b>	<b>423,907</b>
<b>Equity</b>		
Issued capital	408,100	408,100
Reserves	(100)	1,515
Retained earnings	15,348	14,292
<b>Total equity</b>	<b>423,348</b>	<b>423,907</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

## 29. CONSOLIDATED ENTITIES

	Parties to cross guarantee	Country of incorporation	Ownership interest	
			2014	2013
<b>Parent entity</b>				
GWA Group Limited	Y	Australia		
<b>Subsidiaries</b>				
API Services and Solutions Pty Limited	Y	Australia	100%	100%
Austral Lock Pty Ltd	Y	Australia	100%	100%
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%



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 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.

<i>In thousands of AUD</i>	<b>Company</b>	
	<b>2014</b>	<b>2013</b>
<b>Results of the parent entity</b>		
Profit for the period	18,089	30,363
Other comprehensive income	–	–
Total comprehensive income for the period	18,089	30,363
<b>Financial position of the parent entity</b>		
Current assets	–	216
Total assets	627,810	607,001
Current liabilities	2,822	551
Total liabilities	199,294	178,000
<b>Shareholders equity of the parent entity</b>		
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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 31. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

<i>In thousands of AUD</i>	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Profit for the period	18,596	32,390
<i>Adjustments for:</i>		
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)
<b>Net cash from operating activities</b>	<b>33,898</b>	<b>63,349</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### 32. RELATED PARTIES

#### Key management personnel compensation

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

<i>In AUD</i>	<b>2014</b>	<b>2013</b>
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
	<b>6,066,537</b>	<b>7,114,097</b>

#### 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 Bravis 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

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

- 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



Director

## 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**  
19 August 2014



**Greg Boydell**  
Partner

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GWA GROUP LIMITED

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

## 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 and loss and other comprehensive income, consolidated statement of changes in equity or 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.

### 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 30 to 42 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  
Sydney  
19 August 2014

Greg Boydell  
Partner

## OTHER STATUTORY INFORMATION AS AT 14 AUGUST 2014

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### STATEMENT OF SHAREHOLDING

In accordance with the Australian Securities Exchange Listing Rules, the directors state that, as at 14 August 2014, the share capital in the Company was held as follows:-

Range	Ordinary Shareholders	Ordinary Shares	%
1 – 1,000	1,627	793,354	0.26
1,001 – 5,000	4,564	13,511,844	4.41
5,001 – 10,000	2,194	16,765,916	5.47
10,001 – 100,000	1,673	35,798,424	11.68
100,001 and over	85	239,664,232	78.19
<b>Total</b>	<b>10,143</b>	<b>306,533,770</b>	<b>100.00</b>

The number of shareholders with less than a marketable parcel of 177 shares is 479.

### VOTING RIGHTS

The voting rights attached to shares are as set out in clause 9.20 of the Company's Constitution. Subject to that clause, at General Meetings of the Company:

1. On a show of hands, every person present as a member, proxy, attorney or representative of a member has one vote; and
2. On a poll, every person present as a member, proxy, attorney or representative of a member, has one vote for each fully paid share.

### SUBSTANTIAL SHAREHOLDERS

The following information is extracted from the Company's Register of Substantial Shareholders as at 14 August 2014:

Shareholder	Number of Shares	% Shares on Issue
Ellerston Capital Limited	29,757,586	9.71

### 20 LARGEST SHAREHOLDERS AS AT 14 AUGUST 2014

Shareholder	Number of Shares	% Shares on Issue
J P Morgan Nominees Australia Limited	55,554,751	18.12
HSBC Custody Nominees (Australia) Limited	31,381,231	10.24
National Nominees Limited	21,454,940	7.00
HGT Investments Pty Ltd	14,000,000	4.57
KFA Investments Pty Ltd	11,209,542	3.66
Citicorp Nominees Pty Limited	10,947,474	3.57
Erand Pty Ltd	9,898,229	3.23
JMB Investments Pty Ltd	9,186,434	3.00
Ashberg Pty Ltd	8,118,442	2.65
Theme (No 3) Pty Ltd	7,930,985	2.59
Mr Peter Zinn <Carol Zinn Family No 2 A/C>	6,371,621	2.08
BNP Paribas Noms Pty Ltd <DRP>	5,855,718	1.91
RBC Investor Services Australia Nominees Pty Limited <PI Pooled A/C>	5,443,235	1.78
ITA Investments Pty Ltd	5,152,338	1.68
CJZ Investments Pty Ltd	4,221,500	1.38
Dabary Investments Pty Ltd	3,553,830	1.16
Milton Corporation Limited	2,275,000	0.74
Mr William Edward Duncan & Mr Rodney John Turner <Duncan Family A/C>	2,219,714	0.72
Mr Michael John McFadyen <Michael McFadyen A/C>	2,171,136	0.71
AMP Life Limited	1,349,711	0.44
<b>Total</b>	<b>218,295,831</b>	<b>71.21</b>



## SHAREHOLDER INFORMATION

GWA GROUP LIMITED AND ITS CONTROLLED ENTITIES  
ABN 15 055 964 380

### ANNUAL GENERAL MEETING

The Annual General Meeting of GWA Group Limited will be held in The Conference Room, Emporium Hotel, 1000 Ann Street, Fortitude Valley on Friday 24 October 2014 commencing at 10:30am. Shareholders will be mailed their Notice of Annual General Meeting and Proxy Form during September 2014.

### SHAREHOLDER ENQUIRIES

Shareholders with enquiries about their shareholding or dividend payments should contact the Company's share registry, Computershare Investor Services Pty Limited, on 1300 850505 or write to GPO Box 2975 Melbourne Victoria Australia 3001. Alternatively, you can view details of your holding or make changes to your personal information online at [www.computershare.com.au](http://www.computershare.com.au).

### CHANGE OF ADDRESS

Shareholders who have changed their address should immediately notify the Company's share registry in writing or online at [www.computershare.com.au](http://www.computershare.com.au).

### CONSOLIDATION OF SHAREHOLDINGS

Shareholders who wish to consolidate their separate shareholdings into one holding should notify the Company's share registry in writing.

### ANNUAL REPORTS

Annual Reports are made available to shareholders on the Company's website at [www.gwagroup.com.au](http://www.gwagroup.com.au). Shareholders wishing to be mailed a copy of the Annual Report should notify the Company's share registry in writing or online at [www.computershare.com.au](http://www.computershare.com.au). Shareholders will be mailed the Notice of Annual General Meeting and Proxy Form which will include details on accessing the online Annual Report.

### DIVIDENDS

Dividends are determined by the Board having regard to the financial circumstances of the Company. Dividends are normally paid in April and October each year following the release of the Company's half and full year results to the market. The latest dividend details can be found on the Company's website at [www.gwagroup.com.au](http://www.gwagroup.com.au).

### DIRECT CREDIT OF DIVIDENDS

To minimise cost and ensure fast and efficient payment of dividends to shareholders, the Company mandates direct credit for payment of dividends. Dividends may be paid directly to a bank, building society or credit union account in Australia. Payments are electronically credited on the dividend payment date and confirmed by an advice mailed to shareholders on that date, or emailed where shareholders have requested this form of communication. Direct credit application forms can be obtained from the Company's share registry or online at [www.computershare.com.au](http://www.computershare.com.au).

### DIVIDEND REINVESTMENT PLAN

The Dividend Reinvestment Plan was suspended by the Board in August 2013. At the present time the Company has access to sufficient capital to meet its funding requirements. The Board keeps this position under review.

### SECURITIES EXCHANGE LISTING

The Company's shares are listed on the Australian Securities Exchange under the ASX code: GWA. Details of the trading activity of the Company's shares are published in most daily newspapers, generally under the abbreviation GWA Grp.

### SHAREHOLDER TIMETABLE 2014

#### 30 June

Financial year end

#### 19 August

Year end result and final dividend announcement

#### 15 September

Ex dividend date for final dividend

#### 17 September

Record date for determining final dividend entitlement

#### 19 September

Notice of Annual General Meeting and Proxy Form mailed to shareholders

#### 8 October

Final ordinary dividend paid

#### 22 October

Proxy returns close 10:30am Brisbane time

#### 24 October

Annual General Meeting

#### 31 December

Half year end

# HEAD OFFICE LOCATIONS

## **GWA Group Limited**

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

Telephone: 61 7 3109 6000

Facsimile: 61 7 3852 2201

[www.gwagroup.com.au](http://www.gwagroup.com.au)

## **GWA Bathrooms & Kitchens**

Caroma Industries Limited  
Level 1, 7-9 Irvine Place  
Bella Vista NSW 2153  
AUSTRALIA

Telephone: 61 2 8825 4400

Facsimile: 61 2 8825 4567

[www.caroma.com.au](http://www.caroma.com.au)

[specify.caroma.com.au](http://specify.caroma.com.au)

[www.fowler.com.au](http://www.fowler.com.au)

[www.dorf.com.au](http://www.dorf.com.au)

[www.stylus.com.au](http://www.stylus.com.au)

[www.clark.com.au](http://www.clark.com.au)

[www.radiantstainless.com.au](http://www.radiantstainless.com.au)

[www.epure.com.au](http://www.epure.com.au)

[www.irwell.com.au](http://www.irwell.com.au)

[www.starionaust.com.au](http://www.starionaust.com.au)

Dux Manufacturing Limited

Lackey Road

Moss Vale NSW 2577

AUSTRALIA

Telephone: 61 2 4868 0200

Facsimile: 61 2 4868 2014

[www.dux.com.au](http://www.dux.com.au)

[www.ecosmart.com.au](http://www.ecosmart.com.au)

## **GWA Heating & Cooling**

Brivis Climate Systems Pty Limited

61 Malcolm Road

Braeside VIC 3195

AUSTRALIA

Telephone: 61 3 9264 9555

Facsimile: 61 3 9264 9400

[www.brivis.com.au](http://www.brivis.com.au)

## **GWA Door & Access Systems**

Gainsborough Hardware Industries Limited

31-33 Alfred Street

Blackburn VIC 3130

AUSTRALIA

Telephone: 61 3 9877 1555

Facsimile: 61 3 9894 1599

[www.gainsboroughhardware.com.au](http://www.gainsboroughhardware.com.au)

[www.ausloc.com](http://www.ausloc.com)

Gliderol International Pty Limited

31-33 Alfred Street

Blackburn VIC 3130

AUSTRALIA

Telephone: 61 3 9877 1555

Facsimile: 61 3 9894 1599

[www.gliderol.com.au](http://www.gliderol.com.au)

API Services and Solutions Pty Limited

248 Normanby Road

South Melbourne VIC 3205

AUSTRALIA

Telephone: 131KEY(539)

Facsimile: 61 3 9644 5887

[www.apisec.com.au](http://www.apisec.com.au)



# CORPORATE DIRECTORY

## Directors

D D McDonough, Chairman  
J F Mulcahy, Deputy Chairman  
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

## Chief Financial Officer

I Brannan, ACMA MBA

## Company Secretary

R J Thornton, CA B Com (Acc) LLB (Hons) LLM

## Registered Office

Level 2, HQ South Tower  
520 Wickham Street  
Fortitude Valley QLD 4006  
AUSTRALIA  
Telephone: 61 7 3109 6000  
Facsimile: 61 7 3852 2201  
[www.gwagroup.com.au](http://www.gwagroup.com.au)  
ASX code: GWA

## Auditor

KPMG  
10 Shelley Street  
Sydney NSW 2000  
AUSTRALIA  
Telephone: 61 2 9335 7000  
Facsimile: 61 2 9335 7001

## Share Registry

Computershare Investor Services Pty Limited  
117 Victoria Street  
West End QLD 4101  
AUSTRALIA  
GPO Box 2975  
Melbourne VIC 3001  
AUSTRALIA  
(within Australia) 1300 850 505  
(outside Australia) 61 3 9415 4000  
[www.computershare.com.au](http://www.computershare.com.au)

## Group Bankers

Commonwealth Bank of Australia  
Australia and New Zealand Banking Group  
HSBC Bank Australia  
Westpac Banking Corporation



Printed using Forestry Stewardship Council (FSC) certified paper.  
All paper sourced from responsibly managed plantation forests.  
ISO14001 environmental management system in use.



**GWA**  
*Smarter Solutions*

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

Telephone: 61 7 3109 6000  
Facsimile: 61 7 3852 2201

Website: [www.gwagroup.com.au](http://www.gwagroup.com.au)