



GWA
Group Limited

ABN 15 055 964 380
t 61 7 3109 6000
f 61 7 3852 2201
www.gwagroup.com.au

7 Eagleview Place
Eagle Farm QLD 4009

GPO Box 1411
Brisbane QLD 4001

16 August 2018

ASX On-Line
Manager Company Announcements
Australian Securities Exchange

Dear Sir

Financial Results for the Year Ended 30 June 2018

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

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

Yours faithfully

A handwritten signature in black ink, appearing to read 'R J Thornton', written over a light blue circular watermark.

R J Thornton
Executive Director

GWA GROUP LIMITED

ABN: 15 055 964 380

Appendix 4E
Preliminary final report - 30 June 2018
Results for announcement to the market

For the year ended 30 June	2018	2017
Revenue (\$'000)		
Revenue from continuing operations	Up 2.5% to 359,281	350,437
Revenue from discontinued operations ¹	Down -2.1% to 93,890	95,895
Total revenue from ordinary activities	Up 1.5% to 453,171	446,332
Earnings before interest and tax ('EBIT') (\$'000)		
EBIT from continuing operations	Up 2.6% to 76,242	74,301
EBIT from discontinuing operations ¹	Up 0.4% to 6,316	6,293
Total EBIT from ordinary activities	Up 2.4% to 82,558	80,594
Net Profit (\$'000)		
Net profit from continuing operations	Up 1.8% to 50,139	49,251
Net profit from discontinued operations ¹	Down -6.9% to 4,113	4,420
Total net profit from ordinary activities	Up 1.1% to 54,252	53,671
¹ Discontinued operations include the Door & Access Systems business that was sold with an effective date of 3 July 2018, and results include \$1.9m of disposal costs (\$1.7m post tax) incurred during the year ended 30 June 2018.		
Dividends (cents per share)		
Final ordinary dividend ² - 100% franked	9.5	9.0
Interim ordinary dividend - 100% franked	8.5	7.5
² The record date for determining entitlements to the dividend is 28 August 2018 and the dividend is payable on 6 September 2018.		
Net tangible asset and net asset backing (cents per share)		
Net tangible asset backing	17.7	2.4
Net asset backing	126.3	121.5

Brief explanation of the figures reported above

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

The attached Annual Financial Report has been audited by GWA's independent statutory auditors.

Chairman's Review

The year under review is the third consecutive year of increased earnings per share and increased dividend payments to shareholders. Over that period we have continued to invest to strengthen our business to drive future growth and sustainable value creation for shareholders.

The Group will focus on superior water solutions in our Bathrooms & Kitchens business which has strong market positions, market leading brands and identified growth opportunities.

GWA possesses an enviable and rich heritage in Bathrooms & Kitchens with our brands and products possessing an outstanding reputation for providing innovative water solutions.

We have identified growth opportunities in both existing and adjacent segments where we believe we can leverage this heritage and existing strong market position to maximise value creation for shareholders.

Apart from its financial results, GWA has made significant progress in FY18 in strengthening its business for the future.

Operationally, we continue to improve our supply chain management which will benefit further from the investment we have made in the new national Innovation and Distribution Centre at Prestons, New South Wales which importantly includes an expanded onsite research and development facility. The opening of our flagship stores in Adelaide and Sydney enable us to engage more effectively with consumers and showcase our market-leading brands.

Our people remain critical to our future success and we continue to invest in developing a high-performance culture, including the appointment of Cara Reil as our General Manager of People and Performance.

As a result, GWA is well placed to grow in our core Bathrooms & Kitchens segment.

Financial Overview - Continuing¹ and Discontinued Operations

Group net sales increased by 1.5 per cent to \$453.2 million with normalised² Group earnings before interest and tax (EBIT) increasing by 4.7 per cent to \$84.4 million and the Group EBIT margin improving by 0.5 percentage points to 18.6 per cent. The results were driven by our continued focus on sales of higher value product categories together with ongoing cost discipline.

Normalised net profit after tax increased by 4.2 per cent to \$56.0 million with normalised earnings per share increasing by 4.3 per cent to 21.2 cents per share.

On a reported basis, after significant items, net profit after tax was \$54.3 million.

¹ Continuing Operations exclude the Door & Access Systems' business which is classified as an asset held for sale in the FY18 Financial Report and the sale of which was completed on 3 July 2018.

² Normalised is Before Significant Items – Significant Items of \$1.9m pre-tax relate to costs associated with the sale of Door & Access Systems

Dividends and Capital Management

The Board resolved to pay a final dividend of 9.5 cents per share, fully-franked consistent with its policy to pay 65-85 per cent of net profit after tax as ordinary dividends. This brings the full-year dividend to 18.0 cents per share, fully-franked compared to 16.5 cents for the prior year, being an increase of 9.1 per cent on the prior year.

GWA's financial metrics of leverage, gearing, and interest cover ratios are consistent with investment grade.

Strategy

At the release of the Group's interim results in February 2018, the Board announced that following a strategic review, it decided to divest the Door & Access Systems' business as it was not core.

GWA successfully completed the sale of the Door & Access Systems' business to Allegion (Australia) Pty Ltd on 3 July 2018. The purchase price (excluding transaction costs) was \$107 million. The Board believes the sale is a positive outcome for a number of reasons.

The sale of the D&A business to Allegion represents a positive opportunity for our employees and customers to leverage the global scale and resources of Allegion to grow the business further.

On behalf of the Board, I want to acknowledge and thank our employees in the Door & Access Systems' business and wish them every future success under Allegion's ownership.

The divestment of the Door & Access Systems business now provides GWA with a clear strategic focus on the Bathrooms & Kitchens segment where we have significant opportunities to generate further growth to benefit shareholders over the medium to long term.

The net proceeds from the sale provide strong funding capability to pursue these growth opportunities and maximise returns to shareholders while also ensuring the Group maintains the necessary financial flexibility to manage through the construction cycle.

The Group will focus on superior water solutions in our Bathrooms & Kitchens business which has strong market positions, market leading brands and identified growth opportunities.

Governance and Risk Management

The Board is cognisant of its corporate governance and risk management responsibilities. In particular, the Board is very aware of the recent renewed emphasis on corporate governance.

GWA takes a proactive approach to risk management and manages a range of identifiable risks throughout the organisation. The Board has mechanisms in place and is actively engaged with management to ensure the Group's objectives and activities are managed in accordance with appropriate risk frameworks that work at a practical level in a meaningful manner.

In addition, the Board appreciates the wider implications of its risk management responsibilities and remains engaged with its key stakeholders, including supply partners, employees, regulatory authorities, government, shareholders and the wider community.

The Group has identified the material risks to its future prospects and has adopted and implemented mitigation strategies which are outlined in the Managing Director's Review of Operations.

Further details of the Group's corporate governance and risk management structures are set out on the GWA website at www.gwagroup.com.au under Corporate Governance.

Sustainability

GWA is committed to sustainable practices throughout its operations and we continue to work with our key stakeholders and communities.

We accept that a sustainable business is one that provides a safe, rewarding and diverse environment for our people whilst operating in an environmentally and socially responsible manner. We also accept the increasingly important role our products and superior solutions play in enabling our customers and consumers to conserve and use water more efficiently.

GWA has a strong pedigree and history in developing innovative solutions in water. Sustainability in the area of water solutions has been our mantra for over 35 years.

Caroma was the first brand in the world to introduce dual flush technology in 1984 which has subsequently been further developed with dual flush and smart flush enhancements to enable enhanced water conservation. Dual and Smart flush continue to save on average 32,000 litres per year for each toilet in which they are used – the equivalent of one Sydney harbour saved each and every year.

More recently, GWA introduced its patented rimless design technology with Caroma Cleanflush which embraces innovative flush and flow technology.

Caroma leads the market in innovative water solutions with its Caroma Smart Command® - an intelligent bathroom system which includes a set of Bluetooth-enabled, touchless bathroom products that integrate into commercial building management systems - that enables real time monitoring and management of water. Caroma Smart Command® will be formally launched in the first quarter of FY19.

During FY19, GWA will introduce a consolidated sustainability report to provide shareholders and other stakeholders with detailed information on our approach to sustainability. In the meantime, we continue to provide information on the key measures of Safety, Diversity and Carbon emissions.

Safety

GWA provides a safe workplace for employees, contractors, visitors and customers, and seeks to drive a positive safety culture and works to actively reduce and mitigate risks.

GWA measures a range of balanced safety performance indicators. Proactive 'LEAD' indicators such as the number of Safety Interactions conducted, hazards reported, and actions closed were measured in FY18. GWA also measures key

'LAG' indicators that measure lost time and medically treated injuries, hours lost due to injury and total injuries which represents a combination of lost time and medically treated injuries.

Substantial progress continues to be made to improve the Group's safety culture with a number of safety initiatives being implemented, and ownership and accountability for safety being accepted at all levels in the business.

A safety plan for FY19 has been developed. The Board and management remain focused on initiatives to improve GWA's safety performance and culture with the continued aim of an injury free workplace.

Diversity

GWA is committed to promoting diversity and inclusion through the implementation of employment policies and initiatives to achieve a diverse workforce. The Board believes that significant benefits arise from increasing the pool of diverse talent across the business.

In FY18 a talent acquisition specialist was appointed to increase our ability to attract diverse talent, embed our employee value proposition and create career paths for our employees.

The Group continues to review employment policies and practices to ensure that, among other things, flexibility is offered to attract and retain talent.

During FY18 the Group had regular talent reviews to strengthen our succession plans. As outlined in the Group's 2018 Workplace Gender Equality Report, the overall workforce consists of 37 per cent female which increased by two percentage points from FY17. In addition, female representation across all levels of management has increased on the prior year including two female appointments to the Executive Leadership Team.

Carbon emissions

The Board is committed to reducing energy, carbon emissions, water and waste across the GWA Group operations. GWA is a low emissions intensity entity but it continues to voluntarily report its carbon emissions on the GWA website www.gwagroup.com.au under Carbon Reporting.

For FY18 total carbon emissions from GWA's controlled facilities were approximately 5,800 tonnes of carbon dioxide equivalent (CO₂e), representing a 15 per cent reduction on the prior year. This reduction is due to a combination of factors including site closures and the implementation of energy efficiency measures across the Group.

Energy Efficiency Measures

In July 2018 a 250kW solar array was commissioned on the roof of the new Bathrooms & Kitchens 30,000m² Innovation and Distribution Centre (IDC) at Prestons NSW. The 1,368m² solar array is designed to reduce emissions by approximately 3,000 tonnes CO₂e over the life of the installation. The IDC has been rated as a five star sustainable building and harvests 60,000 litres of rain water from the roof to water gardens and flush toilets.

The lighting at the Bathrooms & Kitchens' warehouse at Pascoe Vale Victoria and the Door & Access Systems' site at Blackburn Victoria were upgraded to LED lights in December 2017 and January 2018 respectively to save energy and reduce carbon emissions.

The Bathrooms & Kitchens' flagship showroom, Caroma on Collins, opened in Alexandria NSW during May 2018, uses innovative evaporative coolers to cool the space in summer with substantial savings over conventional air conditioning. Installed rain water tanks harvest water from the roof to flush toilets and water garden plants and are expected to save 200,000 litres per annum.

Executive Remuneration

The Board obtained market benchmarking data from Ernst & Young for the FY19 executive remuneration review. The Board aims to provide remuneration to executives which is fair and sufficient to attract and retain a high-quality management team with the requisite experience, knowledge, skills and judgement required for the business.

In order to achieve this objective, the key principle is that fixed remuneration for executives varies between the median and third quartiles relative to companies of comparable size and scope. The remuneration package for the Managing Director, Tim Salt, was determined by the Board in FY16 and was aligned to the then market median in relation to a group of comparable companies to GWA. Mr Salt's remuneration arrangements have not changed since then.

During FY19, the Board will engage an independent remuneration consultant to review the executive remuneration structure including the fixed and variable components. The purpose of the review is to ensure our executive remuneration structure remains aligned with the Board's remuneration strategy and market practice.

The recommendations from the review will be considered for implementation during FY20 and the changes outlined in the FY19 Remuneration Report.

The Board continued the freeze on executive fixed remuneration for FY18 except for one executive who received a four per cent increase. This is the third consecutive year executive fixed remuneration has been frozen.

The short-term incentive payments for the Managing Director and other executives for FY18 reflect the improved Group profit performance driven by sales growth in the Bathrooms & Kitchens business exceeding market growth for the period. This enabled the Board to maintain the high dividend payout to shareholders for FY18.

Conclusion

FY18 was another successful year for GWA. We continue to execute our strategy and improve our financial performance which has led to enhanced returns to shareholders on the prior year.

On behalf of the Board I acknowledge and thank our Managing Director and CEO Tim Salt, our executive leadership team and employees across the Group for their contribution over the past year.

Managing Director's Review of Operations

Summary

During FY18, GWA continued to deliver profitable market share growth across our core segments which has translated to increased earnings and improved returns to shareholders compared to the prior year.

We also continued to progress our strategy to build a stronger competitive platform for future growth across our business. In a transformational year for the Group, the sale of the Door & Access Systems' business now provides GWA with a clear focus on our Bathrooms & Kitchens business where we have strong market positions and market leading brands.

Our strong financial position means we can leverage this platform to invest further and pursue accretive growth opportunities to create additional value for shareholders.

Market conditions in FY18

In total, GWA estimates that the increase in market activity weighted across its end markets for Bathrooms & Kitchens was approximately 2.0 per cent for the year ended 30 June 2018. GWA's revenue in Bathrooms & Kitchens increased ahead of the market with net sales up 2.5 per cent.

GWA's core markets are in Renovations and Replacements, our largest and most important segment which continues to be robust and also the Detached Housing and Commercial segments.

GWA is not overly exposed to the more volatile Multi-residential apartment building segment, which represents only 11 per cent of revenue but significantly less profit contribution.

- Market activity for home Renovations and Replacements, (approximately 53% of GWA revenue) increased by approximately 2.5 per cent
- Detached House completions (21 per cent of GWA revenue) decreased by approximately 2.0 per cent
- Medium and high-density dwelling completions (approximately 11 per cent of GWA revenue) increased by approximately 1.5 per cent.
- On a value of work done basis, Commercial building activity (approximately 15% of GWA revenue) increased by approximately 4.0 per cent.

Progress on Strategy

During the year GWA outlined its strategic priorities to maximise growth opportunities with a focus on providing superior solutions for water.

GWA's strategy is focused on enhanced engagement with customers and consumers by making the transition from being a *push* business to a *pull* business.

To deliver this strategy, GWA continues to create solutions that meet the needs of both our primary merchant customers and secondary customers such as plumbers, developers and builders and also through delivering value-added experiences to consumers to drive revenue and market share growth.

In FY18 the business made significant progress on this strategy.

We have better aligned the Group to support the front end of the business and embedded a continuous improvement approach to deliver best cost to support profitability and fund selective reinvestment.

GWA continued to work more collaboratively and build stronger engagement with our primary and secondary customers through our joint business planning initiative.

This approach has resulted in enhanced ranging as well as listings for new products and stronger programmes in specific growth segments such as aged care.

As part of the company's focus to grow in the Renovations & Replacements segment, GWA has further developed its consumer insights model and utilised this to align its brand portfolio to better target distinct consumer groups. GWA relaunched its largest brand, Caroma and repositioned Clark, supported by increased investment in traditional and digital media to engage more effectively with consumers.

To further support the consumer engagement strategy and provide physical brand and product experiences, GWA opened two flagship stores in Adelaide and Sydney. Initial store visitation metrics have exceeded expectations.

Meanwhile, the new 30,000 square metre Bathrooms & Kitchens' distribution centre at Prestons, NSW was successfully opened in April 2018. This facility includes a new warehouse management system designed to efficiently deliver customer requirements.

We are committed to designing and developing new products here in Australia for Australian/NZ consumers and conditions that exceed stringent local standards. To enable this we have built a state of the art 2,000 square metre innovation centre adjacent to our new Prestons warehouse facility to house our expanded research and development facilities.

In a first for the market, GWA has commenced the roll out of Caroma Smart Command® - an intelligent bathroom system which includes a set of Bluetooth-enabled, touchless bathroom products that integrate into commercial building management systems to enable the monitoring and management of water. GWA has worked with key customers to test Caroma Smart Command®.

Initial response from customers has been very positive and GWA expects to commence the full launch of Caroma Smart Command® in the first quarter of FY19.

The sale of the Door & Access Systems' business means GWA has a clear focus and strong financial position to compete in a \$1.4 billion addressable market which offers significant growth potential.

GWA continues to build a stronger platform to harness this growth potential and has identified a range of opportunities in existing and adjacent segments to deliver growth to maximise shareholder returns over the longer term.

Our immediate priority is to continue to strengthen our core business through organic growth and potential inorganic expansion into category adjacencies.

GWA will continue to further develop its own intellectual property while exploring opportunities to access new technology through selective investment to accelerate our market position in both Australia and New Zealand.

Group Financial Results – Continuing Operations¹ and Discontinued Operations (Normalised² – Before Significant Items)

<i>A\$ million (Before Significant Items)</i>	FY17	FY18	% change
<i>Revenue</i>	446.3	453.2	+1.5%
<i>EBITDA²</i>	86.2	89.5	+3.8%
<i>EBIT²</i>	80.6	84.4	+4.7%
<i>NPAT²</i>	53.7	56.0	+4.3%

GWA continues to drive revenue growth with Group net sales increasing by 1.5 per cent to \$453.2 million.

Group EBIT increased by 4.7% to \$84.4 million with Group EBIT in the second half \$42.6 million, which was slightly ahead of the market guidance provided at the half year result in February 2018.

Group EBIT margin increased by 0.5 percentage points to 18.6 per cent from a continued focus on higher value product categories and ongoing cost discipline.

GWA continues to focus on generating strong return on funds employed in the business resulting in Group Return on Funds Employed (ROFE) increasing by 0.3 percentage points on the prior year to 20.5 per cent from higher earnings, despite an increase in funds employed.

Net profit after tax increased by 4.3 per cent to \$56.0 million, reflecting the increase in Group EBIT, together with lower net interest expense compared to the prior year due to lower average borrowings and lower interest rates.

The Group reported effective tax rate for the year was 30.2 per cent compared to the prior year's rate of 28.7 per cent.

GWA's earnings per share of 21.2 cents improved by 4.3 per cent on the prior year.

Significant items (pre-tax) of \$1.9 million relate to costs associated with the sale of the Door & Access Systems business incurred in FY18.

On a reported basis, including significant items, net profit after tax was \$54.3 million.

Financial Position and Capital Management

GWA continues to generate strong cashflow with cashflow from operations of \$71.6 million in FY18 compared to \$88.8 million in the prior year. The reduction in operating cash reflects an increase in working capital related to an inventory build, as part of the company's transition to its new purpose-built warehouse

¹ Continuing Operations exclude the Door & Access Systems' business which is classified as an asset held for sale in the FY18 Financial Report and the sale of which was completed on 3 July 2018.

² Normalised is Before Significant Items. Significant Items of \$1.9m pre-tax relate to costs associated with the sale of Door & Access Systems

distribution centre in Prestons, NSW and also to support new product development launches and customer service.

GWA remains in a solid financial position with financial flexibility to support strategic growth initiatives and manage through the construction cycle. Net debt at 30 June 2018 was \$97.7 million compared to \$79.8 million in the prior year. Net debt was slightly higher at year end due primarily to the increase in inventory.

GWA's credit metrics remain consistent with investment grade with the company's gearing ratio (net debt/net debt plus equity) of 22.7 per cent compared to 19.9 per cent at 30 June 2017 and leverage ratio (net debt/EBITDA) of 1.1 times compared to 0.9 times for the prior year. Meanwhile, GWA's strong financial position continues to be reflected in the improved interest cover ratio (EBITDA/net interest) which at 30 June 2018 was 19.6 times compared to 17.1 times last year.

GWA maintains significant headroom within its three-year revolving \$225 million facility which matures in October 2020.

On 3 July 2018, GWA announced the completion of the sale of the Door & Access Systems business with proceeds of \$107 million received after balance date.

As indicated at the half-year result in February 2018, capital expenditure increased in FY18 to \$12.5 million (FY17: \$4.9 million) due primarily to investments in the new innovation and distribution centre, an increase in new product development initiatives and flagship stores in Adelaide (opened October 2017) and Sydney (opened May 2018).

Dividend

The Board resolved to pay a final dividend of 9.5 cents per share, fully-franked, bringing the full-year dividend to 18.0 cents per share, fully-franked compared with 16.5 cents for the prior year – an increase of 9.1 per cent.

This represents a normalised dividend payout ratio of 85 per cent which is at the top end of the company's dividend policy to pay out as ordinary dividends 65-85 per cent of net profit after tax.

The record date for entitlement to receive the final dividend will be 28 August 2018 with the dividend being paid on 6 September 2018. The Dividend Reinvestment Plan will not be offered to shareholders for the final dividend.

Financial results – Continuing Operations - Group

<i>A\$ million</i>	FY17	FY18	% change
<i>Revenue</i>	350.4	359.3	+2.5%
<i>EBITDA</i>	78.4	80.2	+2.3%
<i>EBIT</i>	74.3	76.2	+2.6%
<i>NPAT</i>	49.3	50.1	+1.6%

Continuing Operations exclude the Door & Access Systems' business which is classified as an asset held for sale in the FY18 Financial Report and was sold on 3 July 2018.

Continuing Operations – Bathrooms & Kitchens

The Bathrooms & Kitchens' division delivered solid revenue growth ahead of the market due to continued market share gains in core categories and new product development. GWA's ongoing focus on customer engagement driving profitable product mix and cost discipline continues to provide margin resilience.

A\$ million	FY17	FY18	% change
<i>Sales Revenue</i>	350.4	359.3	+2.5%
<i>EBIT</i>	87.6	89.8	+2.5%
<i>EBIT Margin</i>	25.0%	25.0%	No change
<i>Return on Funds Employed (ROFE)</i>	25.2%	24.6%	(0.6) ppts

For the third consecutive year, GWA's Bathrooms & Kitchens' business increased market share, helping to drive an increase in revenue of 2.5 per cent.

Net sales (up 2.5 per cent) continue to grow ahead of the market (up approximately 2.0 per cent) from continued profitable market share growth in the core segments of Renovations and Replacements, Commercial buildings and Detached housing. The increase in net sales also reflected customer initiatives to drive improved volumes and product mix from sales in higher value categories.

GWA's continued focus on joint business planning with its major customers resulted in net sales growth with each of the major merchants.

Geographically, revenue growth was stronger in the eastern states with net sales in NSW and VIC both up ~9 per cent with SA up ~3 per cent; partially offset by QLD down ~4 per cent, and WA down ~12 per cent.

Sanitaryware sales benefitted from the continued strong market response to the Caroma Cleanflush range of rimless toilets, with Cleanflush sales increasing by 73 per cent compared to the prior period. Tapware sales were boosted by new product launches and enhanced ranging through the merchant channel.

GWA continues to invest for future growth across the Bathrooms & Kitchens' business with increased investment in marketing, including digital and traditional media, Caroma and Clark brand relaunches, new product development and new flagship stores in Adelaide and Sydney which were successfully opened during the year.

Despite this increased investment, EBIT margin has been maintained through GWA's ongoing cost efficiency initiatives and also through the continued focus on sales in higher margin product categories.

As a result, EBIT increased by 2.5 per cent to \$89.8 million, with EBIT margin of 25 per cent remaining constant with the prior year.

Despite higher EBIT, Return on Funds Employed was slightly below the prior year, reflecting higher capital expenditure supporting growth initiatives and the inventory build-up leading to an increase in funds employed compared to the prior year.

Discontinued Operations - Door & Access Systems

A\$ million (<i>Before Significant Items</i>)	FY17	FY18	% change
<i>Sales Revenue</i>	95.9	93.9	(2.1%)
<i>Normalised EBIT</i>	6.3	8.2	+29.9%
<i>Normalised EBIT Margin</i>	6.6%	8.7%	+2.1ppts
<i>Return on Funds Employed (ROFE)</i>	12.3%	17.0%	+4.7ppts

Revenue in Door and Access Systems declined by 2.1 per cent on the prior year to \$93.9 million.

However, normalised EBIT increased by 29.9 per cent to \$8.2 million compared to \$6.3 million in the prior year, following initiatives to strengthen and refocus the business on its core markets.

Outlook

For FY19, GWA expects the overall market to remain resilient. The Renovation and Replacements segment, the largest segment accounting for just over half of GWA's revenue, is forecast to remain robust.

While residential construction activity is expected to slow, the pipeline of building work yet to be completed remains at reasonably high levels which continues to support continued demand for GWA's brands into FY19.

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

GWA monitors foreign exchange rates closely and adopts appropriate mitigation strategies as appropriate. At 30 June 2018, approximately 79 per cent of foreign exchange exposure is hedged at \$US0.78 for FY19.

GWA continues to pursue its strategy to increase revenue and market share across its core product categories and segments through the launch of new products and solutions, working collaboratively with key customers and engaging with end consumers.

In the meantime, we remain focused on continuing to address the company's cost base through SG&A and supply chain savings. The company's financial position remains robust with the ability to generate strong operating cashflow across the business.

GWA expects to provide a trading update at the company's Annual General Meeting on 26 October 2018.

Risks

GWA has identified a number of risks to this outlook and has implemented a range of measures to mitigate these risks, where possible, as outlined in the table below.

Risk	Monitoring and Mitigation
<p>A significant deterioration in building activity impacting sales growth and margins</p>	<p>GWA monitors building activity carefully and this is factored into the company's monthly reporting, forecasting and annual budget and planning processes.</p> <p>Approximately 53% of GWA's revenue is generated from the Renovation and Replacements segment which is the largest and most stable segment in the overall market.</p> <p>GWA's forward order book for commercial projects remains solid with several major projects secured.</p>
<p>A significant movement in the Australian dollar impacting the price of imported products leading to changes in market pricing in order to maintain margins and competitiveness</p>	<p>GWA monitors foreign exchange rates closely and adopts appropriate mitigation strategies as appropriate. Approximately 79 per cent of foreign exchange exposure is hedged at \$US0.78 for FY19.</p> <p>GWA's contracts with major customers include provisions for pricing based on significant movements in the Australian dollar.</p>
<p>Unforeseen disruptions impacting product supply from offshore suppliers leading to reputational damage, lower sales and loss of market share.</p>	<p>GWA has exclusive long term supply partnerships with experienced suppliers.</p> <p>GWA's supply chain processes include dual-sourcing strategies to mitigate the risk of supplier disruption.</p> <p>GWA has its own employees located in Asia working directly with its supply partners.</p>
<p>Security risks around external threats to the digital network, IT systems and data could potentially result in adverse operational, financial and reputational impacts through possible system failures and security / cyber breaches.</p>	<p>The Company has established a formal IT security risk and governance framework to address current gaps and establish sustainable risk management models and practices across the business.</p>
<p>Workplace Health and Safety risks could potentially result in physical injury to employees, contractors or others, or damage to the Company's reputation.</p>	<p>GWA remains committed to continuous improvement in workplace health and safety performance and has implemented comprehensive safety systems and processes, communication with employees and increased diligence in identifying and removing safety risks.</p>

Directors' Report as at 30 June 2018

Your directors present their report on the consolidated entity of GWA Group Limited (the Group) and the entities it controlled during FY18.

Directors

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

D D McDonough, Chairman and Non-Executive Director
J F Mulcahy, Deputy Chairman and Non-Executive Director
T R Salt, Managing Director and Chief Executive Officer
P A Birtles, Non-Executive Director
J M McKellar, Non-Executive Director
S T Goddard, Non-Executive Director
R J Thornton, Executive Director
W J Bartlett, Non-Executive Director (retired 27 October 2017)

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

Details of the directorships of other listed companies held by each director in the three years prior to the end of FY18, and the period for which each directorship has been held, are outlined in the director profiles in the Annual Report.

Company Secretary

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

Directors' Interests

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

Director	Ordinary Shares
D D McDonough	150,000
J F Mulcahy	40,950
T R Salt*	36,070
P A Birtles	38,650
R J Thornton*	120,577
J M McKellar	1,000
S T Goddard	10,000
Total**	397,247

Notes:

* The executive directors, Mr T R Salt and Mr R J Thornton, are holders of Performance Rights under the GWA Group Limited Long Term Incentive Plan. For details of the Performance Rights held, please refer to section 6.2.1 of the Remuneration Report.

** Section 6.3.3 of the Remuneration Report sets out the number of shares held directly, indirectly or beneficially by key management personnel or their related entities at balance date as prescribed in Accounting Standard AASB 124, this being 407,247 shares (2017: 359,669 shares).

Directors' Meetings

The number of meetings of directors (including meetings of Committees of directors) held during FY18 and the number of meetings attended by each director is outlined in the following table:

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

Notes:

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

B – Number of meetings attended

⁽¹⁾ J M McKellar was appointed a member of the Nomination and Remuneration Committee on 27 October 2017

⁽²⁾ S T Goddard was appointed Chairman of the Audit and Risk Committee on 27 October 2017

⁽³⁾ R J Thornton attends Committee meetings as Company Secretary

⁽⁴⁾ W J Bartlett retired as Non-Executive Director on 27 October 2017

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.¹

Operating and Financial Review

The Operating and Financial Review for the consolidated entity during the financial year ended 30 June 2018 is provided in the Managing Director's Review of Operations, and forms part of this Directors' Report.

Dividends

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

Declared and paid during FY18

Dividends	Cents per share	Total Amount \$'000	Franked	Date of Payment
Final 2016/17 Ordinary	9.0	23,755	Fully Franked	5 September 2017
Interim 2017/18 Ordinary	8.5	22,436	Fully Franked	6 March 2018

¹ GWA announced the sale of the Door & Access Systems business to Allegion (Australia) Pty Ltd on 14 May 2018 with the sale completing on 3 July 2018.

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

Declared after end of FY18

After the balance date the following dividend was approved by the directors. The dividend has not been provided and there are no income tax consequences at 30 June 2018.

Dividend	Cents per share	Total Amount \$'000	Franked	Date of Payment
Final 2017/18 Ordinary	9.5	25,075	Fully Franked	6 September 2018

The financial effect of the final dividend has not been brought to account in the financial statements for the year ended 30 June 2018 and will be recognised in subsequent financial reports.

The record date for the final dividend is 28 August 2018 and the dividend payment date is 6 September 2018. The Dividend Reinvestment Plan will not be offered to shareholders for the final dividend.

Events Subsequent to Reporting Date

On 3 July 2018, the sale of the Door & Access Systems business completed. The sale price of \$107 million comprises an initial payment of \$102 million received on 3 July 2018 and a \$5 million contingent payment received in August 2018, and is subject to a post completion working capital adjustment. The gain on sale (after disposal costs) is expected to be approximately \$45-\$47 million.

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

Likely Developments

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

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

Environmental Regulation

Environmental Licences

The consolidated entity holds licences 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 licences 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 licence 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 licence conditions. The directors are not aware of any breaches of the consolidated entity's licence conditions during FY18.

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 result directly or indirectly from facts or circumstances relating to the person serving (or having served) in their capacity as director or secretary of the Group, but excluding any liability arising out of conduct involving a lack of good faith or conduct known to the person to be wrongful or any liability to the Group or related body corporate.

Insurance Premiums

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

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

Non-Audit Services

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

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

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

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

Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration is set out in the Annual Report and forms part of the Directors' Report for FY18.

Rounding

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

Remuneration Report - Audited

Introduction

The Directors of GWA Group Limited present this Remuneration Report for the period ended 30 June 2018. The Remuneration Report outlines the Group's remuneration philosophy and practices, explains how the Group's FY18 performance has driven executive remuneration outcomes, and provides the details of specific remuneration arrangements that apply to Key Management Personnel (KMP) in accordance with section 300A of the Corporations Act 2001 (Cth) (Corporations Act) and applicable accounting standards.

The structure of the Remuneration Report is outlined below:

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

1. Key Management Personnel

The names and titles of the Group's KMP for FY18, being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, are set out below.

1.1 Non-Executive Directors

D D McDonough, Chairman and Non-Executive Director
J F Mulcahy, Deputy Chairman and Non-Executive Director
P A Birtles, Non-Executive Director
J M McKellar, Non-Executive Director
S T Goddard, Non-Executive Director
W J Bartlett, Non-Executive Director (retired 27 October 2017)

1.2 Executive Directors

T R Salt, Managing Director and Chief Executive Officer
R J Thornton, Executive Director

1.3 Other Executive KMP

P A Gibson, Group Chief Financial Officer
C D Norwell, General Manager Sales – GWA Bathrooms & Kitchens
C M Reil, Group General Manager People & Performance

2. Board role in setting remuneration strategy and principles

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

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

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

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

The charter for the Nomination and Remuneration Committee is available on the Company's website at www.gwagroup.com.au under Corporate Governance Policies.

During July 2018, the Nomination and Remuneration Committee obtained market benchmarking data from Ernst & Young for the FY19 executive remuneration review. No remuneration recommendations as defined under Division 1, Part 1.2.98 (1) of the *Corporations Act 2001*, were made by Ernst & Young.

2.1 Managing Director remuneration

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

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

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

For the FY19 executive remuneration review, the market benchmark data and analysis provided by Ernst & Young confirmed that the Managing Director's remuneration remains aligned with peer company CEO remuneration levels and market practice.

2.2 FY18 director and executive remuneration

As outlined in the FY17 Remuneration Report, the Board determined that the fixed remuneration for the Managing Director and other executives was to be frozen for FY18 with the exception of one executive (C Norwell, General Manager Sales – GWA Bathrooms &

Kitchens) who received a 4% increase in fixed remuneration. This was the third consecutive year that fixed remuneration for the Managing Director and other executives has been frozen. See section 5.2 for further details. This position is reflected in the Remuneration Tables in section 6.1.

Following the Board's approval of a 16% reduction in non-executive director remuneration in FY16, non-executive director remuneration has remained frozen in FY17 and FY18. See section 4.1 for further details. This position is reflected in the Remuneration Tables in section 6.1.

2.3 FY18 Long Term Incentive Plan

As outlined in the FY17 Remuneration Report, the Board approved important changes to the LTI Plan for FY18 which applied to the grant of Performance Rights to the Managing Director and other executives. The changes relate to the Return on Funds Employed (ROFE) hurdle, which is the second performance measure under the LTI Plan. The performance requirements under the ROFE hurdle have been increased to require a higher level of performance over the three year performance period before vesting will occur and at all vesting thresholds.

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

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

The changes are reflected in the ROFE table in section 5.4.2.2.

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

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

2.4 FY19 Executive Remuneration Structure Review

During FY19, the Board will engage an independent remuneration consultant to review the executive remuneration structure comprising all elements of executive remuneration including the fixed and variable components. The purpose of the review is to ensure that the executive remuneration structure remains aligned with the Board's remuneration strategy and market practice. The recommendations from the review will be considered for implementation during FY20 and the changes will be outlined in the FY19 Remuneration Report.

3. Relationship between remuneration policy and Group performance

Remuneration is linked to performance by:

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

GWA measures performance on the following key corporate measures:

- Earnings before interest and tax (EBIT);

- Return on funds employed (ROFE); and
- Total shareholder return (TSR).

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

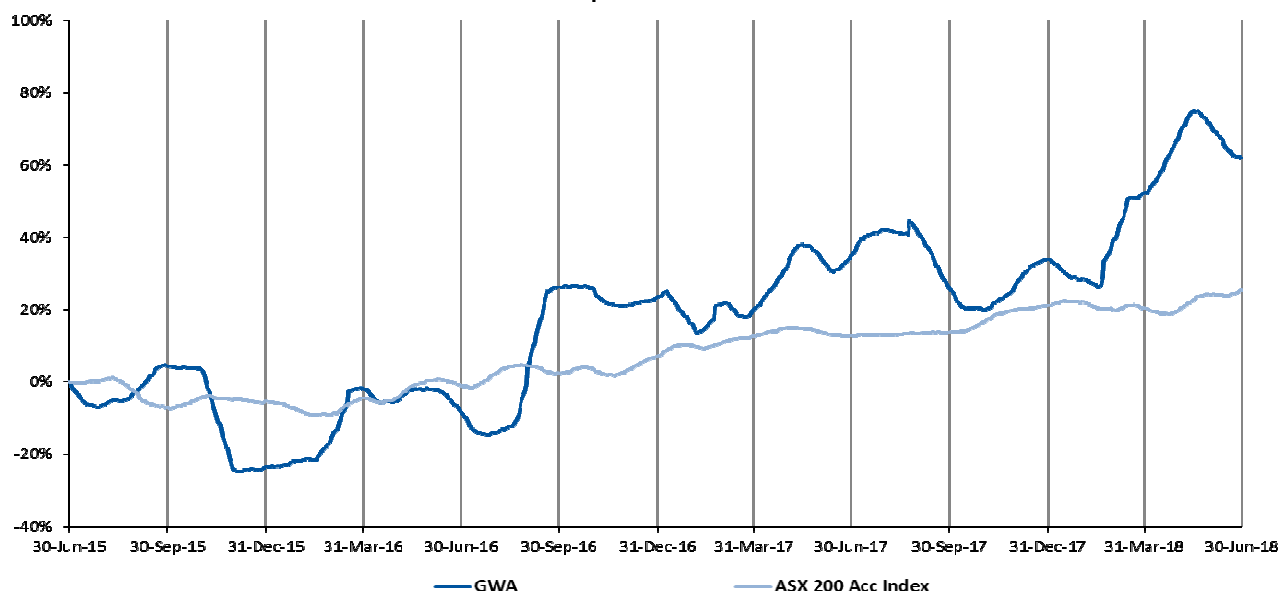
Any adjustments to normalise the EBIT and ROFE measures, and the reasons for any adjustments, will be disclosed. In FY18 EBIT and ROFE measures were normalised for \$1.9m (pre-tax) transaction costs incurred in the year to 30 June 2018 associated with the disposal of the Door & Access Systems' business. It would be unfair not to adjust for these costs as they are non-recurring costs associated with a strategic divestment and the proceeds / profit on this sale will not be recorded until the FY19 accounts. The profit on sale will also be adjusted for the purposes of the EBIT and ROFE measures for determining FY19 performance.

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

The following graph shows the Group's relative TSR performance over the 3 year period from 1 July 2015 to 30 June 2018 compared to the ASX 200 Accumulation Index. The chart highlights the outperformance of the GWA share price since approximately June 2016 compared to the ASX 200 Accumulation Index which comprises the top 200 stocks on the Australian Securities Exchange based on liquidity and size, and is recognised as the investable benchmark for the Australian equity market.



**Total Shareholder Return (TSR) Chart for GWA vs. ASX 200 Acc Index
From 1 July 2015 to 30 June 2018**



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

Financial Year	Normalised EBIT ^(a) (\$m)	Normalised EPS ^(a) (cents)	Total DPS (cents) ^(e)	Capital Return ^(d) (cents)	Share Price (30 June) (\$)	Market Capitalisation (30 June) (\$m)
2013/14 ^(c)	64.5	12.4	5.5	-	2.63	806.2
2014/15 ^(b)	72.8	14.8	6.0	22.8	2.28	636.0
2015/16 ^(b)	78.3	19.0	16.0	-	2.09	551.7
2016/17	80.6	20.3	16.5	-	3.15	831.4
2017/18	84.4	21.2	18.0	-	3.40	897.4

Notes:

- (a) excludes significant items (FY18 Door & Access Systems disposal costs of \$1.9 million pre tax)
- (b) excludes the discontinued operations of Gliderol, Dux and Bravis
- (c) FY14 performance has been re-presented to exclude the discontinued operations in FY15 and FY16
- (d) a capital return of 22.8 cents per share and a special dividend of 6 cents per share from the Bravis and Dux net sale proceeds was paid to shareholders on 15 June 2015
- (e) includes ordinary and special dividends

The remuneration and incentive framework focus executives on sustaining short term operating performance coupled with moderate long term strategic growth in the mature Australian and New Zealand markets in which the business operates.

The Group delivered its fourth year of improved profit performance in FY18 driven by sales growth in the Bathrooms & Kitchens business exceeding market growth for the period and significantly higher returns from the Door & Access Systems business. This enabled the Board to increase dividend payments to shareholders for FY18 with the dividend pay-out ratio at the top end of the Group's dividend policy. The improved performance for FY18 was reflected in the higher GWA share price and resulted in higher shareholder returns.

The Group has continued its progress against the strategic objectives in FY18 to enhance the operating performance of the business and to maximise returns to shareholders over time. The progress against the strategic objectives is outlined in the Managing Director's Review of Operations. The successful execution of the Group's strategic objectives were included as personal goals and reflected in the financial performance targets for the executives under the STI Plan for FY18; refer section 5.3 Short Term Incentive.

The remuneration and incentive framework has focused the executives on responding appropriately to the high levels of dwelling construction activity in FY18. STI payments related to performance improvement and strategy execution have encouraged management to respond quickly and make long term decisions to sustain competitiveness and improve profitability. This has enabled the Group to take advantage of the upturn in market activity over recent years while ensuring that the Group is well placed to maximise returns through the market cycles.

4. Description of non-executive director remuneration

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

At the 2004 Annual General Meeting, shareholders approved non-executive director fees up to an annual maximum aggregate amount of \$1.095 million including statutory superannuation. The actual fees paid to the non-executive directors are outlined in the Remuneration Tables in section 6.1.

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

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

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

The Board does not require its non-executive directors to hold GWA shares, however the holding of shares is actively encouraged and all non-executive directors currently hold shares in the Company. For details of the non-executive director shareholdings, please refer to section 6.3.3.

4.1 Non-executive director remuneration

Non-executive director remuneration remained frozen in FY18 as reflected in the Remuneration Tables in section 6.1 and as follows:

- Board Chair \$280,000 (including superannuation);
- Other non-executive directors \$120,000 (including superannuation); and
- Committee Chair \$10,000 (including superannuation).

4.2 Non-executive director remuneration – FY19 proposed changes

At the Group's 2018 Annual General Meeting, the Board will seek an increase in the upper limit of non-executive director remuneration of \$255,000 to an aggregate maximum amount of \$1,350,000 per annum including statutory superannuation. The Board has not sought an increase in directors' fees since 2004. The proposed increase will:

- allow for Board appointments as part of transitional arrangements;
- accommodate the possible appointment of additional non-executive directors in the future in accordance with the Board succession plans; and
- provide flexibility to allow for payment of appropriate fees over time.

For details of the non-executive directors' fees paid for FY18, please refer to the Remuneration Tables in section 6.1.

5. Description of executive remuneration

5.1 Executive remuneration structure

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

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

As outlined in section 2.4, during FY19 the Board proposes to engage an independent remuneration consultant to review the executive remuneration structure to ensure it remains aligned with the Board's remuneration strategy and market practice. The recommendations from the review will be considered for implementation during FY20 and the changes outlined in the FY19 Remuneration Report.

5.1.1 Managing Director remuneration structure

The FY18 incentives structure for the Managing Director is provided in the following table:

Managing Director	Maximum STI as % of fixed remuneration	Maximum LTI as % of fixed remuneration (grant date fair value)	Maximum total performance pay as % of fixed remuneration
FY18	50	60	110

The FY18 STI components for the Managing Director are provided in the following table:

Managing Director	Financial Targets as maximum % of fixed remuneration	Personal Goals as maximum % of fixed remuneration	Maximum STI as % of fixed remuneration
FY18	30	20	50

5.1.2 Other Executives' remuneration structure

The FY18 incentives structure for other executives is provided in the following table:

Other Executives	Maximum STI as % of fixed remuneration	Maximum LTI as % of fixed remuneration (grant date fair value)	Maximum total performance pay as % of fixed remuneration
FY18	50	30	80

The FY18 STI components for other executives are provided in the following table:

Other Executives	Financial Targets as maximum % of fixed remuneration	Personal Goals as maximum % of fixed remuneration	Maximum STI as % of fixed remuneration
FY18	30	20	50

5.1.3 Actual remuneration received by executives for FY18

The following table sets out the actual value of remuneration received by executives for FY18, derived from the various components of their remuneration during FY18. This table differs from the more detailed statutory remuneration disclosures in the Remuneration Tables in section 6.1 due to the exclusion of LTI amounts not vested or reversal of accounting expenses associated with LTI grants and is therefore unaudited.

Executives FY18	Fixed Remuneration \$ ^(a)	Short Term Incentive \$ ^(b)	Long Term Incentive (Earned) \$ ^(c)	Total \$
T Salt, Managing Director ^(d)	1,001,584	500,000	-	1,501,584
R Thornton, Executive Director	417,400	204,770	44,611	666,781
P Gibson, Group Chief Financial Officer	752,301	375,000	-	1,127,301
C Norwell, General Manager Sales – GWA Bathrooms & Kitchens	414,368	208,000	-	622,368
C Reil, Group General Manager – People & Performance ^(e)	250,845	122,500	-	373,345
Total	2,836,498	1,410,270	44,611	4,291,379

Notes:

- (a) Fixed remuneration represents amounts actually paid to executives during FY18 and includes base salary, non-monetary benefits and superannuation.
- (b) Represents the STI payments awarded for FY18 inclusive of deferred amounts. These amounts, exclusive of the deferred amounts, will be paid in FY19.
- (c) The performance hurdles for the 2015 LTI grant were tested in FY18 and partially achieved; refer section 6.2.1 Performance Rights. Excludes the value of any unvested LTI grants expensed or reversed during FY18.
- (d) For details of Mr Tim Salt's remuneration arrangements as Managing Director refer to section 2.1.
- (e) Ms Cara Reil was appointed Group General Manager – People & Performance effective 20 November 2017.

5.2 Fixed remuneration

Fixed remuneration is the sum of base salary, non-monetary benefits and superannuation.

The level of fixed remuneration is set:

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

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

Based on an independent survey by Ernst & Young for the FY19 executive remuneration review, the fixed remuneration for most executive positions at GWA are comparable to market benchmark levels for companies of comparable operational scope and size to GWA, having regard to market capitalisation and revenue. The 18 listed peer companies included in the survey provided reliable and robust statistical remuneration benchmarking and shared some common attributes with GWA, but few direct competitors and good position matches exist for precise remuneration positioning. The Nomination and Remuneration Committee therefore exercised judgement in determining appropriate remuneration levels, having regard to the background and experience of the individuals.

While market levels of remuneration are monitored on a regular basis, there is no contractual requirement that pay will be adjusted each year. Where these levels are above the 75th percentile, fixed remuneration will either be frozen or increases will be below market levels. For FY18, the Board froze the fixed remuneration for the Managing Director and other executives with the exception of one executive (C Norwell, General Manager Sales – GWA Bathrooms & Kitchens) who received a 4% increase in fixed remuneration. This is reflected in the Remuneration Tables in section 6.1.

5.3 Short-term incentive (STI)**5.3.1 STI overview**

The STI plan provides for an annual payment that varies with performance measured over the Group's financial year to 30 June 2018. 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 value creation. As noted in section 5.1, the maximum STI that can be earned is capped to minimise excessive risk taking.

The STI payment is made in cash after finalisation of the annual audited financial statements. As outlined in the Remuneration Tables in section 6.1, 50% of the financial target component of the STI is deferred for executives that achieved their STI financial targets for FY18. The deferred component is subject to further testing by the Board to confirm the integrity of the achievement of the STI financial targets following finalisation of the FY19 audited financial

statements. If the Board is satisfied the deferred component will be paid to executives in September 2019 together with interest at market rates. However, if the Board is not satisfied the deferred component will be subject to forfeiture.

5.3.2 STI performance requirements

5.3.2.1 Financial Performance Targets

For FY18, STI financial performance targets are based on Earnings Before Interest and Tax (EBIT) and Return On Funds Employed (ROFE) targets as determined by the Nomination and Remuneration Committee. The use of EBIT and ROFE as the basis of STI financial targets is aimed at ensuring executives are accountable for delivering both profit and return on funds improvements.

The Board is of the view that a combination of EBIT and ROFE targets are an effective basis for STI targets as they are currently key metrics used in the business and ROFE is a key target in driving returns on capital employed in excess of the cost of capital. The EBIT and ROFE targets are weighted equally and assessed on an aggregated basis for divisional and corporate executives, and adjusted for normalisation if applicable; refer section 3.

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

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

The Board retains the right to vary from policy in exceptional circumstances. However, any variation from policy and the reasons for it will be disclosed. There was no variation from policy in setting the STI financial performance targets for FY18.

5.3.2.1.1 FY18 STI Financial Performance Outcomes

For FY18, GWA Corporate and Bathrooms & Kitchens achieved their EBIT and ROFE STI financial targets at the 'stretch' level reflecting the strong financial performance of the business and gains in market share in core segments during the period. Door & Access Systems did not achieve their STI financial targets for FY18. Accordingly, no STI payments were awarded to Door & Access Systems' executives for FY18.

The STI outcomes for FY18 were aligned with shareholders' interests as the Group's profit performance for FY18 was strong and above market expectations, generated higher returns to shareholders for the period both from the ability to pay higher dividends to shareholders and an improvement in GWA's share price at 30 June 2018.

In accordance with the STI Plan rules, 50% of the STI incentive payment relating to financial targets has been deferred for GWA Corporate and Bathrooms & Kitchens executives and will be subject to further testing and potential clawback in August 2019 under the STI Plan rules. The full amount of the STI cash bonuses (including the deferred component) is reflected in the Remuneration Tables in section 6.1.

The deferred component of the STI incentive payments for FY17 for executives was tested by the Board in August 2018 to confirm the integrity of the achievement of the STI financial targets in FY17. Following satisfaction with the testing, the Board approved the payment of the deferred component to executives together with interest at market rates.

5.3.2.2 Personal Goals

The personal goals set for each executive include achievement of key milestones to improve or consolidate the Group or business unit's strategic position. The personal goals vary with the individual's role, risks and opportunities and are aligned with the Group's strategic plan and corporate priorities. Achievement of personal goals account for a maximum 20% of each executive's fixed remuneration.

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

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





Assessment of the personal goals STI component for FY18 has been determined following a formal performance review process for each executive. The performance reviews for executives are conducted semi-annually by the Managing Director with the annual outcomes reviewed and approved by the Nomination and Remuneration Committee. The personal goals for executives for FY19 were established at the performance reviews, and reviewed and approved by the Nomination and Remuneration Committee.

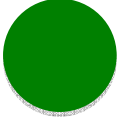
The Managing Director's performance review is conducted semi-annually by the Chairman following input from the Board and with the outcomes reviewed and approved by the Nomination and Remuneration Committee. An assessment of the Managing Director's key performance goals subject to STI incentive payments for FY18 is provided in section 5.3.2.2.1. The other executives were awarded STI payments for FY18 based on achievement of personal goals following their performance reviews. This is reflected in the Remuneration Tables in section 6.1.

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




5.3.2.2.1 Managing Director's key performance goals and outcomes

An assessment of the Managing Director's key performance goals and financial targets subject to STI incentive payments for FY18 is provided in the following table.

FY18 Goals	Results	Assessment
Personal Objectives		
Achieve leading safety performance with the aim of an injury free workplace.	Performance for FY18 is primarily assessed on 'leading' safety indicators that include proactive measures to improve safety, rather than 'lagging' indicators. Substantial progress was made to improve the Group's safety culture with a number of safety initiatives implemented such as Safety Homecoming training which was rolled out to all employees and the implementation of Myosh, an online safety reporting system. A three year safety plan has been developed with specific initiatives for FY19. Ownership and accountability for safety exists at all levels in the business with "Caring For Each Other" central to the Group's cultural pillars.	
Executing and delivering FY18 business plan – ensure planned, communicated, resourced and tracked.	Substantial progress has been made with each of the strategic growth objectives in FY18 as outlined in the Managing Director's Review of Operations. Performance is assessed on the basis of the improvement in the Group's sales and profitability, principally driven by the strong performance of Bathrooms & Kitchens in FY18, which achieved 'stretch' financial targets, and through successful execution of growth initiatives in target market segments leading to gains in market share. A process was commenced to divest the Door & Access Systems business during FY18 and the sale was successfully completed on 3 July 2018 enabling the focus on the Group's superior water solutions strategy.	
Build employee engagement and culture to deliver the strategy	The Group continues to implement programs to drive a high performance culture. There is an active Culture Council which is led by the Managing Director who champions programs aligned to GWA's Cultural Pillars. Increasing the diversity of the Group's talent continues to be a focus and the percentage of female employees increased by two percentage points to 37% in FY18 and there were two females appointed to the Executive Leadership Team. Employee engagement continues to improve and has assisted the Group's strong financial performance for FY18.	
Deliver the first year of the five year growth strategy with key growth initiatives planned, underway, funded and tracked.	Long term growth plans have been developed for the Group in order to accelerate growth and improve shareholder returns and these plans were presented as part of the Investor Market Briefing in April 2018. The plans outline growth initiatives to extend and defend the core businesses, build emerging businesses and create growth options into the future as part of the transformation of the business in line with the Group's superior water solutions strategy. A strategic planning cycle with management and the Board is in place to expedite strategy development and execution, with work plans in place for each of the strategic growth initiatives.	

Financial targets		
STI financial performance targets	For FY18, GWA Corporate and Bathrooms & Kitchens achieved their EBIT and ROFE financial performance targets at the 'stretch' level reflecting the strong trading performance and gains in market share in core segments during the period. Door & Access Systems did not achieve their STI financial performance targets for FY18, although the impact on the Group's financial results was negligible. This is reflected in the Remuneration Tables in section 6.1.	

Key

-  Fully achieved
-  Partially achieved
-  Not achieved

5.4 Long-term incentive (LTI)

5.4.1 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, subject to meeting financial performance hurdles and the holder remaining in employment with the Group until the nominated vesting date.

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

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

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

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

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

The Board considers that ROFE is an appropriate target, both over the one year horizon, for STI purposes, and over the three year horizon, for LTI purposes. The Board is cognisant that in any one year ROFE can be impacted by the timing of investments in growth, e.g. capital

spend, where benefits (EBIT) may accrue in subsequent periods, thereby depressing ROFE in the current year. By setting a longer term ROFE target the Board is also able to incentivise executives for achievement of the ROFE target above the cost of capital over time.

For the FY18 LTI grant, 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. This was to ensure that executives retain a suitable shareholding in the Group. There are limited circumstances where a participant may dispose of the shares before the end of the 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, the extent of the executives Group shareholdings as a multiple of fixed remuneration, and such other factors as it considers relevant to the application. No applications from participants to dispose of the shares were received by the Board in FY18.

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

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

For the FY18 LTI grant, the proportion of Performance Rights that can vest will be calculated and the shares will vest in August 2020 subject to achieving the performance hurdles. If the performance hurdles are not met the Performance Rights will be cancelled.

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

The maximum number of outstanding Performance Rights granted to executives must not exceed 5% of the total number of shares on issue by the Group. The total number of outstanding Performance Rights granted to executives at 30 June 2018 was 1,769,722 which represents 0.7% of the Group's total issued shares.

5.4.2 LTI performance requirements

For the FY18 LTI grant, the performance hurdles continue to provide for vesting scales graduated with performance and demanding performance hurdles.

5.4.2.1 TSR hurdle

The performance hurdles and vesting proportions for the TSR performance measure that applied to the FY18 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 50 th percentile	0%
50 th percentile	12.5%
Between the 50 th percentile and 75 th percentile	Straight line vesting between 12.5% and 50%
75 th percentile or higher	50% (i.e. 50% of total grant)

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

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

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

5.4.2.2 ROFE hurdle

As outlined in section 2.3, the Board has approved important changes to the LTI Plan for FY18 which applied to the grant of Performance Rights to the Managing Director and other executives. The changes relate to the ROFE hurdle which is the second performance measure under the LTI Plan. The performance requirements under the ROFE hurdle have been increased to require a higher level of performance over the three year performance period before vesting will occur and at all vesting thresholds.

The performance hurdles and vesting proportions for the ROFE performance measure that applied to the FY18 LTI grant is outlined in the following table:

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

The ROFE hurdle is calculated as earnings before interest and tax (EBIT) divided by funds employed and adjusted for normalisation if applicable; refer section 3. Funds employed is calculated as net assets minus cash plus borrowings.

6. Details of director and executive remuneration

6.1 Remuneration Tables

Details of the nature and amount of each element of remuneration for each director of the Group and other key management personnel (KMP) for the year ended 30 June 2018 are provided in the following Remuneration Tables.

		Short-term			Long-term		Post-employment		Total	Proportion of remuneration performance based	STI Cash Bonus vested in year	STI Cash Bonus forfeited in year
		Salary & Fees	STI Cash Bonus	Non-Monetary	Value of Share-Based Awards	Long Service Leave	Super-annuation Benefits	Termination Benefits				
		\$(^a)	\$(^b)	\$(^c)	\$(^d)	\$	\$	\$				
Non-Executive Directors ^(g)												
D McDonough, Chairman	2018	259,951	-	-	-	-	20,048	-	279,999	-	-	-
	2017	260,423	-	-	-	-	19,615	-	280,038	-	-	-
J Mulcahy, Deputy Chairman	2018	117,649	-	-	-	-	12,350	-	129,999	-	-	-
	2017	117,649	-	-	-	-	12,350	-	129,999	-	-	-
P Birtles, Non-Executive Director	2018	108,600	-	-	-	-	11,400	-	120,000	-	-	-
	2017	108,600	-	-	-	-	11,400	-	120,000	-	-	-
J McKellar, Non-Executive Director (Appointed 28 October 2016)	2018	108,600	-	-	-	-	11,400	-	120,000	-	-	-
	2017	81,450	-	-	-	-	8,550	-	90,000	-	-	-
S Goddard, Non-Executive Director (Appointed 28 October 2016)	2018	114,633	-	-	-	-	12,033	-	126,666	-	-	-
	2017	70,950	-	-	-	-	19,050	-	90,000	-	-	-
W Bartlett, Non-Executive Director (Retired 27 October 2017)	2018	39,216	-	-	-	-	4,116	-	43,332	-	-	-
	2017	118,149	-	-	-	-	12,350	-	130,499	-	-	-
Total - Non-Executive Directors	2018	748,649	-	-	-	-	71,347	-	819,996			
	2017	757,221	-	-	-	-	83,315	-	840,536			
Executive Directors ^(h)												
T Salt, Managing Director ^(e)	2018	1,009,615	500,000	1,585	399,523	-	24,999	-	1,935,722	46	100	-
	2017	976,330	500,000	1,248	257,070	-	35,000	-	1,769,648	43	100	-
R Thornton, Executive Director	2018	393,870	204,770	7,861	47,996	6,327	20,048	-	680,872	37	100	-
	2017	376,785	204,770	5,521	93,094	6,320	19,615	-	706,105	42	100	-
Total – Directors Remuneration	2018	2,152,134	704,770	9,446	447,519	6,327	116,394	-	3,436,590			
	2017	2,110,336	704,770	6,769	350,164	6,320	137,930	-	3,316,289			

		Short-term			Long-term		Post-employment		Total	Proportion of remuneration performance based	STI Cash Bonus vested in year	STI Cash Bonus forfeited in year
		Salary & Fees	STI Cash Bonus	Non-Monetary	Value of Share-Based Awards	Long Service Leave	Super-annuation Benefits	Termination Benefits				
		\$(a)	\$(b)	\$(c)	\$(d)	\$	\$	\$				
Executives ^(h)												
P Gibson, Group Chief Financial Officer	2018	743,750	375,000	2,302	160,608	-	24,999	-	1,306,659	41	100	-
	2017	729,423	375,000	2,454	107,189	-	34,999	-	1,249,065	39	100	-
C Norwell, General Manager Sales – GWA Bathrooms & Kitchens	2018	385,355	208,000	1,036	87,418	-	24,999	-	706,808	42	100	-
	2017	368,461	200,000	-	57,529	-	30,000	-	655,990	39	100	-
C Reil, Group General Manager - People & Performance (Appointed 20 November 2017) ^(f)	2018	241,881	122,500	1,000	29,890	-	13,076	-	408,347	37	100	-
	2017	-	-	-	-	-	-	-	-	-	-	-
Total – Executives Remuneration	2018	1,370,986	705,500	4,338	277,916	-	63,074	-	2,421,814			
	2017	1,097,884	575,000	2,454	164,718	-	64,999	-	1,905,055			
Total – Directors and Executives Remuneration	2018	3,523,120	1,410,270	13,784	725,435	6,327	179,468	-	5,858,404			
	2017	3,208,220	1,279,770	9,223	514,882	6,320	202,929	-	5,221,344			

Notes to the Remuneration Tables

- (a) Salary and fees represents base salary and includes the movement in annual leave provision. The fixed remuneration for the Managing Director and other executives was frozen by the Board for FY16, FY17 and FY18 with the exception of one executive who received a 4% increase in fixed remuneration; refer section 5.2.
- (b) The Short Term Incentive (STI) Plan cash bonuses relate to performance during FY18 based on the achievement of personal goals and financial performance targets, and includes the deferred component. GWA Corporate and Bathrooms & Kitchens achieved their STI financial performance targets in FY18 at the 'stretch' level and in accordance with the STI Plan rules, 50% of the amount has been deferred and will be subject to further testing in August 2019. Door & Access Systems did not achieve their STI financial performance targets for FY18. The FY18 STI cash bonuses for GWA Corporate and Bathrooms & Kitchens executives will be paid in FY19 excluding the deferred component. The amounts have been determined following individual performance reviews and have been approved by the Nomination and Remuneration Committee.
- (c) The short term non-monetary benefits include insurance and other minor benefits including any applicable fringe benefits tax.
- (d) The Long Term Incentive (LTI) Plan was approved by shareholders at the 2008 Annual General Meeting. The outstanding Performance Rights at 30 June 2018 were granted to executives in each of the years 30 June 2016, 2017 and 2018 (as applicable) and are subject to vesting conditions and the achievement of specified performance hurdles over the three year performance periods. During FY18, 50% of the Performance Rights in respect of the 2015 LTI grant lapsed as the EPS hurdle was not achieved and 50% of the Performance Rights vested as the ROFE hurdle was fully achieved. The fair value of the Performance Rights granted in 30 June 2016, 2017 and 2018 were calculated using Black Scholes Model (ROFE and EPS hurdles) and Monte Carlo Simulation (TSR hurdle) valuation methodologies and allocated to each financial year evenly over the three year performance period. If the specified performance hurdles are not achieved, then no benefits will be received by the executives under the LTI Plan and the Performance Rights are cancelled.
- (e) For details of Mr Tim Salt's remuneration arrangements as Managing Director, please refer to section 2.1.
- (f) Ms Cara Reil was appointed Group General Manager – People & Performance effective 20 November 2017.
- (g) Non-executive director remuneration remained frozen by the Board for FY18. The total non-executive director remuneration is within the annual aggregate maximum amount approved by shareholders. For details of non-executive director remuneration, please refer to section 4.1.
- (h) The fixed remuneration for the Managing Director and other executives was frozen by the Board for FY16, FY17 and FY18 with the exception of one executive who received a 4% increase in fixed remuneration; refer section 5.2. For the actual remuneration received by the executives for FY18, please refer to the table in section 5.1.3.

6.2 Share based payments

6.2.1 Performance Rights

The following table shows details of the Performance Rights granted to key management personnel during the year ended 30 June 2018 and in prior years that affects compensation in this or future reporting periods.

	Year of grant	Number of rights granted	Grant date*	% vested in year	% forfeit in year	Fair value of rights at grant date \$*	Issue price used to determine number of rights granted
Executive Directors							
T Salt, Managing Director	2018	224,000	19 February 2018	-	-	427,358	2.68
	2017	214,500	24 February 2017	-	-	363,931	2.80
	2016	262,000	23 March 2016	-	-	407,279	2.29
	2015	-	-	-	-	-	-
R Thornton, Executive Director	2018	46,000	19 February 2018	-	-	87,761	2.68
	2017	44,000	24 February 2017	-	-	74,653	2.80
	2016	65,000	23 March 2016	-	-	115,408	1.89
	2015	45,000	25 February 2015	50	50	89,222	2.72
Executives							
P Gibson, Group Chief Financial Officer	2018	84,000	19 February 2018	-	-	160,259	2.68
	2017	80,500	24 February 2017	-	-	136,580	2.80
	2016	119,000	23 March 2016	-	-	184,986	1.89
	2015	-	-	-	-	-	-
C Norwell, General Manager Sales - GWA Bathrooms & Kitchens	2018	47,000	19 February 2018	-	-	89,669	2.68
	2017	44,000	24 February 2017	-	-	74,653	2.80
	2016	63,000	23 March 2016	-	-	97,934	1.89
	2015	-	-	-	-	-	-
C Reil, Group General Manager - People & Performance (Appointed 30 November 2017)	2018	47,000	19 February 2018	-	-	89,669	2.68
	2017	-	-	-	-	-	-
	2016	-	-	-	-	-	-
	2015	-	-	-	-	-	-

Note:

* The issue price used to determine the number of Performance Rights offered to key management personnel during FY18 was \$2.68 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 27 October 2017. The grant dates and corresponding fair values per right in the table have been determined in accordance with Australian Accounting Standards. Fair values have been calculated using the Black Scholes Model valuation methodology for the ROFE hurdle and Monte Carlo simulation for the TSR hurdle. The fair value of rights issued during the year under the ROFE hurdle was \$2.38 per right and TSR hurdle was \$1.43 per right.

All of the rights carry an exercise price of nil. The rights granted on 23 March 2016, 24 February 2017 and 19 February 2018 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 2018, 2019 and 2020 respectively, subject to the achievement of the performance hurdles. The rights granted to Mr Thornton were approved by shareholders at the 2015, 2016 and 2017 Annual General Meetings in accordance with ASX Listing Rule 10.14. The rights granted to Mr Salt in FY16 did not require shareholder approval as he was not a director of the Company at the time of the grant. The rights granted to Mr Salt in FY17 and FY18 were approved by shareholders at the 2016 and 2017 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 LTI Plan. For the rights granted to key management personnel on 25 February 2015, the Group did not achieve the EPS hurdle and fully achieved the ROFE hurdle for the performance period of 1 July 2014 to 30 June 2017. The rights subject to the EPS hurdle lapsed in FY18 resulting in the forfeiture of 22,500 rights with a grant date fair value of \$44,611 for current key management personnel. The rights subject to the ROFE hurdle fully vested in FY18 resulting in

the exercise of 20,475 shares (adjusted for the share consolidation effective on 9 June 2015) with a grant date fair value of \$44,611 for current key management personnel.

The number of rights outstanding at 30 June 2018 represents the balance yet to be tested.

6.3 Key management personnel transactions

6.3.1 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 2018 (2017: nil).

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

There were no other key management personnel transactions with the Group or its controlled entities during the year ended 30 June 2018 (2017: nil).

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

6.3.3 Movements in shares

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

	Held at 1 July 2017	Granted as compensation	Purchases	Sales	Held at 30 June 2018
Non-Executive Directors					
D McDonough	130,000	-	20,000	-	150,000
J Mulcahy	40,950	-	-	-	40,950
P Birtles	13,650	-	25,000	-	38,650
J McKellar	-	-	1,000	-	1,000
S Goddard	10,000	-	-	-	10,000
W Bartlett (Retired 27 October 2017)	30,207	-	-	-	n/a
Executive Directors					
T Salt	29,760	-	6,310	-	36,070
R Thornton	100,102	20,475	-	-	120,577
Executives					
P Gibson	5,000	-	5,000	-	10,000
C Norwell	-	-	-	-	-
C Reil (Appointed 30 November 2017)	n/a	-	-	-	-

	Held at 1 July 2016	Granted as compensation	Purchases	Sales	Held at 30 June 2017
Non-Executive Directors					
D McDonough	118,300	-	11,700	-	130,000
J Mulcahy	40,950	-	-	-	40,950
P Birtles	13,650	-	-	-	13,650
J McKellar (Appointed 28 October 2016)	n/a	-	-	-	-
S Goddard (Appointed 28 October 2016)	n/a	-	10,000	-	10,000
W Bartlett (Retired 27 October 2017)	30,207	-	-	-	30,207
Executive Directors					
T Salt (Appointed 1 July 2016)	11,900	-	17,860	-	29,760
R Thornton	81,902	18,200	-	-	100,102
Executives					
P Gibson	-	-	5,000	-	5,000
C Norwell	-	-	-	-	-

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 2018 is listed in the Directors' Report under Directors' Interests.

During the FY18 reporting period, there were 20,475 shares granted to key management personnel as compensation (2017: 18,200). The aggregate number of shares held by key management personnel or their related parties at 30 June 2018 was 407,247 (2017: 359,669).

7. Key terms of employment contracts

7.1 Notice and termination payments

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

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

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

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

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

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

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



Darryl D McDonough
Chairman



Tim R Salt
Managing Director

Sydney, 16 August 2018

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

Annual financial report
30 June 2018

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

For the year ended 30 June

In thousands of AUD

Profit or loss

Continuing operations

Sales revenue

Cost of sales

Gross profit

Other income

Selling expenses

Administrative expenses

Other expenses

Operating profit

Finance income

Finance expenses

Net financing costs

Profit before tax

Income tax expense

Profit from continuing operations

Discontinued operations

Profit from discontinued operations, net of income tax

Profit for the period

Other comprehensive income

Items that may be reclassified subsequently to profit or loss:

Exchange differences on translation of foreign subsidiaries, net of tax

Cashflow hedges, net of tax

Other comprehensive income, net of tax

Total comprehensive income for the period

Earnings per share (cents)

Total

- Basic

- Diluted

Continuing operations

- Basic

- Diluted

	Note	2018	2017 * Restated
4a		359,281	350,437
4c		(205,212)	(200,381)
		<u>154,069</u>	<u>150,056</u>
4b		383	361
		(44,652)	(43,661)
		(33,295)	(31,852)
4d		(263)	(603)
		<u>76,242</u>	<u>74,301</u>
		374	575
		(5,187)	(5,913)
4f		(4,813)	(5,338)
		<u>71,429</u>	<u>68,963</u>
5		(21,290)	(19,712)
		<u>50,139</u>	<u>49,251</u>
3		4,113	4,420
		<u>54,252</u>	<u>53,671</u>
		(168)	79
		5,020	2,146
		<u>4,852</u>	<u>2,225</u>
		<u>59,104</u>	<u>55,896</u>
6		20.6	20.3
6		<u>20.4</u>	<u>20.2</u>
6		19.0	18.7
6		<u>18.9</u>	<u>18.6</u>

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

* The Door & Access Systems' business was sold with an effective date of 3 July 2018 and is classified as a discontinued operation, including for comparative purposes, in the above statement. Refer to Note 3 for further information regarding discontinued operations.

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

As at 30 June	Note	2018	2017
<i>In thousands of AUD</i>			
Current assets			
Cash and cash equivalents	7a	27,860	36,360
Trade and other receivables	8	63,484	65,862
Inventories	9	68,138	72,319
Other		2,413	2,679
Assets classified as held for sale*	3	61,912	-
Total current assets		223,807	177,220
Non-current assets			
Deferred tax assets	10	10,175	16,023
Property, plant and equipment	11	14,906	10,493
Intangible assets	12	286,808	314,242
Other		297	286
Total non-current assets		312,186	341,044
Total assets		535,993	518,264
Current liabilities			
Trade and other payables	13	41,540	50,783
Employee benefits	14	4,371	6,528
Income tax payable	5	6,532	7,346
Provisions	15	6,348	10,594
Liabilities classified as held for sale*	3	12,025	-
Total current liabilities		70,816	75,251
Non-current liabilities			
Trade and other payables	13	718	827
Loans and borrowings	16	125,000	112,000
Employee benefits	14	4,427	7,316
Provisions	15	1,631	2,267
Total non-current liabilities		131,776	122,410
Total liabilities		202,592	197,661
Net assets		333,401	320,603
Equity			
Issued capital	17	307,790	307,838
Reserves	17	4,451	(334)
Retained earnings		21,160	13,099
Total equity		333,401	320,603

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

* The Door & Access Systems' business was sold with an effective date of 3 July 2018 and is classified as a discontinued operation. The assets and liabilities associated with the Door & Access Systems business are classified as held for sale as at 30 June 2018. The comparative period is not restated. Refer to Note 3 for further information regarding discontinued operations.

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

For the year ended 30 June

In thousands of AUD

	2018	2017
Cash flows from operating activities		
Receipts from customers	496,179	483,652
Payments to suppliers and employees	(428,712)	(406,387)
Cash generated from operations	67,467	77,265
Interest and facility fees paid	(5,019)	(5,881)
Interest received	374	575
Income taxes paid	(23,664)	(14,788)
Net cash from operating activities	39,158	57,171
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	7	370
Acquisition of property, plant and equipment	(11,270)	(3,681)
Acquisition of intangible assets	(1,205)	(1,600)
Business disposal costs	(750)	-
Net cash used in investing activities	(13,218)	(4,911)
Cash flows from financing activities		
Proceeds from borrowings	26,000	27,000
Repayment of borrowings	(13,000)	(35,000)
Dividends paid	(46,191)	(43,551)
Capital return to holders of LTI grants	(48)	(39)
Net cash used in financing activities	(33,239)	(51,590)
Net (decrease) / increase in cash and cash equivalents	(7,299)	670
Cash and cash equivalents at the beginning of the year	36,360	35,696
Effect of exchange rate changes	9	(6)
Cash within assets held for sale	(1,210)	-
Cash and cash equivalents at 30 June	27,860	36,360

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

The Door & Access Systems' business was sold with an effective date of 3 July 2018 and is classified as a discontinued operation. The above cash flows are inclusive of discontinued operations. Refer to Note 3 for further information regarding discontinued operations including summarised cash flow information.

GWA Group Limited and its controlled entities

Consolidated statement of changes in equity

For the year ended 30 June 2018

In thousands of AUD

	Share Capital	Translation Reserve	Hedging Reserve	Equity Compensation Reserve	Retained Earnings	Total
Balance as at 1 July 2017	307,838	(993)	(1,785)	2,444	13,099	320,603
Total comprehensive income for the period						
Profit for the period	-	-	-	-	54,252	54,252
<i>Other comprehensive income</i>						
Exchange differences on translation of foreign subsidiaries, net of tax	-	(168)	-	-	-	(168)
Cash flow hedges, net of tax	-	-	5,020	-	-	5,020
Total other comprehensive income	-	(168)	5,020	-	-	4,852
Total comprehensive income	-	(168)	5,020	-	54,252	59,104
Transaction with owners, recorded directly in equity						
Share-based payments, net of tax	(48)	-	-	(67)	-	(115)
Dividends paid	-	-	-	-	(46,191)	(46,191)
Total transactions with owners	(48)	-	-	(67)	(46,191)	(46,306)
Balance at 30 June 2018	307,790	(1,161)	3,235	2,377	21,160	333,401

For the year ended 30 June 2017

In thousands of AUD

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

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

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section I: Overview

1. Significant accounting policies

GWA Group Limited (the 'Company') is a for-profit company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2018 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity').

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

The financial report was authorised for issue by the directors on 16 August 2018.

(a) Statement of compliance

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

(b) Basis of preparation

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

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

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191 dated 24 March 2016 and in accordance with that Instrument, amounts in the financial report and Directors' Report have been rounded 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. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

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

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

During the year, the consolidated entity has modified the classification of certain supply chain expenses to reflect more appropriately the nature of the expenditure. Comparative amounts in the consolidated statement of profit or loss have been reclassified for consistency (\$4,453,000) from selling expenses to cost of sales). Further, certain comparative information included in note disclosures have been amended in these financial statements to conform to the current year presentation.

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section I: Overview (continued)

1. Significant accounting policies (continued)

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

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

The following new and revised Standards and Interpretations have been adopted by the consolidated entity for the first time for the year ended 30 June 2018:

- AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*
- AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 Statement of Cash Flows*

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

(ii) Standards and Interpretations issued but not yet effective

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

Standard/Interpretation	Effective for the annual reporting period beginning on	Expected to be initially applied in the period ending
AASB 9 <i>Financial Instruments</i> ⁽¹⁾	1 January 2018	30 June 2019
AASB 15 <i>Revenue from Contracts with Customers</i> ⁽³⁾	1 January 2018	30 June 2019
AASB 2016-5 <i>Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018	30 June 2019
AASB Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018	30 June 2019
AASB 16 <i>Leases</i> ⁽²⁾	1 January 2019	30 June 2020
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019	30 June 2020
AASB 2017-6 <i>Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation</i>	1 January 2019	30 June 2020
<i>Annual Improvements to IFRS Standards 2015-2017 Cycle</i>	1 January 2019	30 June 2020

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

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

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section I: Overview (continued)

1. Significant accounting policies (continued)

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

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

- (3) AASB 15 will be first applicable for the year commencing 1 July 2018 and the full retrospective transition method will be applied. Based on an assessment of revenue streams and customer contracts as at 1 July 2018, the measurement and recognition impact of this standard is limited to accounting for estimated future stock returns.

This will lead to a decrease to sales revenue and cost of sales (no impact to gross profit), and an increase in inventories, increase in trade and other receivables, and an increase in trade and other payables reported in the prior period. This is due to the period end stock return provision under AASB 15 being accounted for on a gross basis in the Income Statement (previously accounted for on a net basis within sales revenue) and recorded within trade and other payables (previously within trade and other receivables).

The impact has been quantified to be \$0.7m (sales revenue, cost of sales) for the 30 June 2018 Income Statement, and \$2.0m inventories, \$2.7m trade and other receivables, and \$4.7m trade and other payables for the 30 June 2018 Balance Sheet.

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

(d) Basis of consolidation

(i) Business combinations

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

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

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

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section I: Overview (continued)

1. Significant accounting policies (continued)

(e) Foreign currency

(i) Foreign currency transactions

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

(ii) Financial statements of foreign operations

The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions.

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. Foreign exchange differences arising on retranslation at balance date are recognised in other comprehensive income, and presented in the foreign currency translation reserve (FCTR) in equity. Hedge instrument movements of a hedge of a net investment in a foreign operation is also recognised in the FCTR to the extent the hedge is effective.

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.

(f) Current vs non-current classification

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

An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

All other liabilities are classified as non-current.

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

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section II: Results for the year

2. Operating segments

The consolidated entity has one continuing reportable segment, Bathrooms & Kitchens. This segment includes the sale of vitreous china toilet suites, basins, plastic cisterns, tapware, baths, kitchen sinks, laundry tubs and bathroom accessories. The CEO reviews internal management reports on a monthly basis.

Information regarding the results of the reportable segment is included below. Performance is measured based on segment profit before interest and income tax ('EBIT') 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 segment relative to other entities that operate in these industries.

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

Discontinued operations include the Door & Access Systems' business that was sold with an effective date of 3 July 2018. Refer to Note 3 for further information regarding discontinued operations.

<i>In thousands of AUD</i> For the year ended 30 June	Bathrooms & Kitchens		Discontinued		Total	
	2018	2017	2018	2017	2018	2017
Sales revenue	359,281	350,437	93,890	95,895	453,171	446,332
Segment EBIT before disposal costs	89,802	87,603	8,176	6,293	97,978	93,896
Disposal costs ¹	-	-	(1,860)	-	(1,860)	-
Segment EBIT	89,802	87,603	6,316	6,293	96,118	93,896
Depreciation	2,033	1,842	825	1,034	2,858	2,876
Amortisation	-	-	304	406	304	406
Capital expenditure	9,577	3,017	1,143	662	10,720	3,679
Reportable segment assets	426,105	400,532	57,612	60,153	483,717	460,685
Reportable segment liabilities	42,098	49,214	12,025	9,711	54,123	58,925

¹ Disposal costs incurred during the year ended 30 June 2018. Further disposal costs and net proceeds of sale will be recognised in the year ending 30 June 2019.

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

Section II: Results for the year (continued)

2. Operating segments (continued)

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

In thousands of AUD

	2018	2017
Revenues		
Total revenue for reportable segments	453,171	446,332
Elimination of discontinued operations	(93,890)	(95,895)
Consolidated revenue	<u>359,281</u>	<u>350,437</u>
Profit		
Total EBIT for reportable segments	96,118	93,896
Elimination of discontinued operations	(6,316)	(6,293)
Unallocated amounts: corporate expenses	(13,560)	(13,302)
EBIT from operating activities	76,242	74,301
Net financing costs	(4,813)	(5,338)
Consolidated profit before tax	<u>71,429</u>	<u>68,963</u>
Assets		
Total assets for reportable segments	483,717	460,685
Unallocated amounts: corporate assets*	52,276	57,579
Consolidated total assets	<u>535,993</u>	<u>518,264</u>
Liabilities		
Total liabilities for reportable segments	54,123	58,925
Unallocated amounts: corporate liabilities**	148,469	138,736
Consolidated total liabilities	<u>202,592</u>	<u>197,661</u>
Reconciliations of other material items		
Depreciation		
Total depreciation for reportable segments	2,858	2,876
Elimination of discontinued operations	(825)	(1,034)
Unallocated amounts: depreciation on corporate assets	379	487
Consolidated depreciation - continuing operations	<u>2,412</u>	<u>2,329</u>
Amortisation		
Total amortisation for reportable segments	304	406
Elimination of discontinued operations	(304)	(406)
Unallocated amounts: amortisation on corporate assets	1,517	1,793
Consolidated amortisation - continuing operations	<u>1,517</u>	<u>1,793</u>
Capital expenditure		
Total capital expenditure for reportable segments	10,720	3,679
Elimination of discontinued operations	(1,143)	(662)
Unallocated amounts: corporate capital expenditure	1,693	1,602
Consolidated capital expenditure - continuing operations	<u>11,270</u>	<u>4,619</u>

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

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

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section II: Results for the year (continued)

2. Operating segments (continued)

Geographical Segments

The business segments are managed on a worldwide basis, but operate mainly in one geographical area being Australia. A sales office is also operated in New Zealand. Sales revenue from geographical areas outside Australia comprised only 5% of the consolidated entity's total sales revenue for the current year (2017: 6%). In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

<i>In thousands of AUD</i>	Australia		New Zealand		Consolidated	
	2018	2017	2018	2017	2018	2017
External sales revenue	429,230	421,443	23,941	24,889	453,171	446,332
Non-current assets*	301,159	319,784	852	5,237	302,011	325,021

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

Major customers

The consolidated entity conducts business with three customers where the net revenue generated from each customer exceeds 10% of the consolidated entity's net revenue. Net revenue from these customers represent \$75,874,000 (2017: \$72,682,000), \$65,654,000 (2017: \$65,065,000) and \$65,194,000 (2017: \$60,440,000) respectively of the consolidated entity's total net revenues for the current year of \$453,171,000 (2017: \$446,332,000). The revenues from these three customers are reported in both the Bathrooms & Kitchens and discontinued (Door & Access Systems) segments.

3. 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.

The Door & Access Systems' business (comprising of Gainsborough Hardware Industries Limited and API Services and Solutions Pty Ltd) has been sold with an effective date of 3 July 2018, and is classified as held for sale at 30 June 2018. The operating activities of Door and Access Systems were not discontinued or classified as held for sale at 30 June 2017. The comparative statement of comprehensive income has therefore been re-presented to show the discontinued operations separately from continuing operations.

(a) Results of discontinued operations

<i>In thousands of AUD</i>	2018	2017
Revenue	93,890	95,895
Expenses	(85,714)	(89,602)
Profit before tax from operating activities	8,176	6,293
Tax expense on operating activities	(2,391)	(1,873)
Profit from operating activities	5,785	4,420
Disposal costs	(1,860)	-
Tax benefit on disposal costs	188	-
Profit	4,113	4,420
Basic profit per share (cents per share)	1.6	1.7
Diluted profit per share (cents per share)	1.5	1.7

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section II: Results for the year (continued)

3. Discontinued Operations (continued)

(b) Cash flows from discontinued operations

<i>In thousands of AUD</i>	2018	2017
Net cash from operating activities	12,343	5,323
Net cash used in investing activities	(1,889)	(654)
Net cash from discontinued operations	<u>10,454</u>	<u>4,669</u>

(c) Effect on the financial position of the consolidated entity

The financial position of the discontinued operation is stated at fair value less costs to sell, and comprised the following assets and liabilities at 30 June 2018. No impairment losses were required to be recognised.

<i>In thousands of AUD</i>	2018
Cash	1,210
Trade and other receivables	10,027
Inventories	17,106
Other assets	136
Property, plant and equipment	3,530
Intangible assets	26,803
Net deferred tax assets	3,100
Assets classified as held for sale	<u>61,912</u>
Trade and other payables	(6,380)
Employee benefits	(4,625)
Provisions	(1,020)
Liabilities classified as held for sale	<u>(12,025)</u>

4. Income and Expenses

(a) Sales revenue

<i>In thousands of AUD</i>	2018	2017
Sales revenue	359,281	350,437
	<u>359,281</u>	<u>350,437</u>

Sales revenue is measured at the fair value of the consideration received or receivable, net of returns, discounts and rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer which is typically when goods are delivered to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

(b) Other income

<i>In thousands of AUD</i>	2018	2017
Foreign currency gains	185	130
Other - scrap income, royalties	198	231
	<u>383</u>	<u>361</u>

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section II: Results for the year (continued)

4. Income and Expenses (continued)

(c) Cost of sales

<i>In thousands of AUD</i>	2018	2017
Cost of sales	205,212	200,381
	<u>205,212</u>	<u>200,381</u>

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

(d) Other expenses

<i>In thousands of AUD</i>	2018	2017
Foreign currency losses	253	433
Other	10	170
	<u>263</u>	<u>603</u>

(e) Personnel expenses

<i>In thousands of AUD</i>	2018	2017
Wages and salaries – including superannuation contributions, annual leave and long service leave	61,714	58,018
Equity-settled share-based payment transactions	474	1,028
	<u>62,188</u>	<u>59,046</u>

Defined contribution superannuation funds

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

The amount recognised as an expense was \$3,725,000 for the financial year ended 30 June 2018 (2017: \$3,801,000) for continuing operations.

(f) Net financing costs

<i>In thousands of AUD</i>	2018	2017
Finance income		
Interest income on call deposits	202	470
Other	172	105
	<u>374</u>	<u>575</u>
Finance expense		
Interest expense on financial liabilities	4,523	4,623
Interest expense on swaps	348	976
Fees on financial liabilities including amortisation	316	314
	<u>5,187</u>	<u>5,913</u>
Net financing costs	<u>4,813</u>	<u>5,338</u>

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

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

Section II: Results for the year (continued)

5. Income tax expenses

Recognised in profit or loss

In thousands of AUD

	2018	2017
Current tax expense / (benefit) from continuing operations		
Current year	20,743	19,130
Adjustments for prior years	(74)	(1,035)
	<u>20,669</u>	<u>18,095</u>
Deferred tax expense / (benefit) from continuing operations		
Origination and reversal of temporary differences	621	1,617
	<u>21,290</u>	<u>19,712</u>
Tax expense from continuing operations		
Tax expense / (benefit) from discontinued operations	2,203	1,873
Total tax expense for the consolidated entity	<u>23,493</u>	<u>21,585</u>

Numerical reconciliation between tax expense and pre-tax profit

In thousands of AUD

	2018	2017
Profit from continuing operations before tax	71,429	68,963
Profit from discontinued operations before tax	6,316	6,293
Profit before tax for the consolidated entity	<u>77,745</u>	<u>75,256</u>
Tax expense using the domestic rate of 30% (2017: 30%)	23,324	22,577
Tax expense / (benefit) due to:		
Non-deductible expenses	147	135
Non-deductible disposal costs	370	-
Rebateable research and development	(200)	(217)
Other items	(52)	158
	<u>23,589</u>	<u>22,653</u>
(Over) / under provided in prior years	(96)	(1,068)
Income tax expense on pre-tax profit for the consolidated entity	<u>23,493</u>	<u>21,585</u>

Deferred tax recognised directly in equity

In thousands of AUD

	2018	2017
Cash flow hedges	2,151	919
Share buy-back and capital return costs	25	25
	<u>2,176</u>	<u>944</u>

Income tax payable

In thousands of AUD

	2018	2017
Current tax liability	<u>6,532</u>	<u>7,346</u>

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section II: Results for the year (continued)

5. Income tax expenses (continued)

Income tax

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

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

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

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

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

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

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

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

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

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

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section II: Results for the year (continued)

5. Income tax expenses (continued)

Goods and Services Tax

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

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

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

6. Earnings per share

In cents

	2018	2017
Total		
- Basic	20.6	20.3
- Diluted	20.4	20.2
Continuing operations		
- Basic	19.0	18.7
- Diluted	18.9	18.6
Discontinued operations		
- Basic	1.6	1.7
- Diluted	1.5	1.7

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

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

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section II: Results for the year (continued)

6. Earnings per share (continued)

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

Profit attributable to ordinary shareholders – basic and diluted

<i>In thousands of AUD</i>	2018	2017
Profit for the year from continuing operations	50,139	49,251
Profit for the year from discontinued operations	4,113	4,420
Profit for the year	<u>54,252</u>	<u>53,671</u>

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

Weighted average number of ordinary shares (basic)

<i>In thousands of shares</i>	2018	2017
Issued ordinary shares at 1 July	263,948	263,948
Weighted average number of ordinary shares at 30 June	<u>263,948</u>	<u>263,948</u>

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

Weighted average number of ordinary shares (diluted)

<i>In thousands of shares</i>	2018	2017
Weighted average number of ordinary shares (basic)	263,948	263,948
Effect of performance rights on issue	1,515	1,512
Weighted average number of ordinary shares (diluted)	<u>265,463</u>	<u>265,460</u>

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section III: Assets and Liabilities

7. Cash and cash equivalents

(a) Balances

<i>In thousands of AUD</i>	2018	2017
Bank balances	27,860	12,872
Call deposits	-	23,488
Cash and cash equivalents	<u>27,860</u>	<u>36,360</u>

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

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

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

<i>In thousands of AUD</i>	2018	2017
Profit for the year	54,252	53,671
<i>Adjustments for:</i>		
Depreciation	3,237	3,363
Amortisation	1,821	2,199
Share-based payments	(167)	587
Unrealised foreign exchange loss / (gain)	135	65
Loss / (gain) on sale of PP&E and intangible assets	15	(142)
Cash flow hedge movements	7,172	3,098
Other non-cash movements	(1,532)	11
<i>Changes in assets and liabilities*:</i>		
(Increase) in trade and other receivables	(7,649)	(13,879)
(Increase) / decrease in inventories	(12,925)	4,042
Decrease / (increase) in prepayments	120	(510)
(Decrease) / increase in trade payables and accrued expenses	(2,972)	10,668
Decrease in deferred taxes and (increase) in taxes payable	1,934	7,661
(Decrease) in provisions and employee benefits	(4,283)	(13,663)
Net cash flows from operating activities	<u>39,158</u>	<u>57,171</u>

* Including associated assets and liabilities classified as held for sale as at 30 June 2018.

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section III: Assets and Liabilities (continued)

8. Trade and other receivables

<i>In thousands of AUD</i>	2018	2017
Net trade receivables	58,518	65,124
Forward exchange contracts used for hedging (net)	4,777	-
Other	189	738
	<u>63,484</u>	<u>65,862</u>

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

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

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

9. Inventories

<i>In thousands of AUD</i>	2018	2017
Raw materials and consumables	-	3,655
Work in progress	259	357
Finished goods	67,879	68,307
	<u>68,138</u>	<u>72,319</u>

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

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

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

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

Section III: Assets and Liabilities (continued)

10. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

<i>In thousands of AUD</i>	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Property, plant and equipment	-	-	(311)	(15)	(311)	(15)
Intangible assets	752	1,582	-	(479)	752	1,103
Inventories	2,763	3,893	-	-	2,763	3,893
Employee benefits	2,638	4,152	-	-	2,638	4,152
Provisions	3,229	4,452	-	-	3,229	4,452
Other items	2,483	2,645	(1,379)	(207)	1,104	2,438
Tax assets / (liabilities)	11,865	16,724	(1,690)	(701)	10,175	16,023
Set off of tax	(1,690)	(701)	1,690	701	-	-
Net tax assets / (liabilities)	10,175	16,023	-	-	10,175	16,023

Movement in temporary differences during the year

<i>In thousands of AUD</i>	Balance	Recognised	Recognised	Reclassified	Balance
	1 July 17	in income	in equity	to assets classified Held for Sale	30 June 18
Property, plant and equipment	(15)	(348)	-	52	(311)
Intangible assets	1,103	(107)	-	(244)	752
Inventories	3,893	31	-	(1,161)	2,763
Employee benefits	4,152	(126)	-	(1,388)	2,638
Provisions	4,452	(917)	-	(306)	3,229
Other items	2,438	895	(2,176)	(53)	1,104
	16,023	(572)	(2,176)	(3,100)	10,175

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

Unrecognised deferred tax assets

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

<i>In thousands of AUD</i>	2018	2017
Capital losses	71,337	71,352
Revenue losses from foreign jurisdictions	275	104

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

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

Section III: Assets and Liabilities (continued)

11. Property, plant and equipment

<i>In thousands of AUD</i>	Plant and equipment	Work in progress	Total
Cost			
Balance at 1 July 2017	43,080	2,281	45,361
Additions	9,849	1,421	11,270
Transferred to assets classified as held for sale	(11,148)	(1,024)	(12,172)
Disposals	(3,756)	-	(3,756)
Transfers	1,717	(1,717)	-
Exchange rate movements	(30)	-	(30)
Balance at 30 June 2018	<u>39,712</u>	<u>961</u>	<u>40,673</u>
Balance at 1 July 2016	71,817	2,408	74,225
Additions	3,804	62	3,866
Disposals - Norwood site restructuring	(27,168)	-	(27,168)
Disposals	(5,557)	-	(5,557)
Transfers	187	(187)	-
Exchange rate movements	(3)	(2)	(5)
Balance at 30 June 2017	<u>43,080</u>	<u>2,281</u>	<u>45,361</u>
Depreciation and impairment losses			
Balance at 1 July 2017	(34,868)	-	(34,868)
Depreciation	(3,237)	-	(3,237)
Transferred to assets classified as held for sale	8,642	-	8,642
Disposals	3,685	-	3,685
Exchange rate movements	11	-	11
Balance at 30 June 2018	<u>(25,767)</u>	<u>-</u>	<u>(25,767)</u>
Balance at 1 July 2016	(62,944)	-	(62,944)
Depreciation	(3,363)	-	(3,363)
Depreciation - restructuring	(102)	-	(102)
Disposals - Norwood site restructuring	26,155	-	26,155
Other disposals	5,383	-	5,383
Exchange rate movements	3	-	3
Balance at 30 June 2017	<u>(34,868)</u>	<u>-</u>	<u>(34,868)</u>
Carrying amounts			
As at 30 June 2018	<u>13,945</u>	<u>961</u>	<u>14,906</u>
As at 30 June 2017	<u>8,212</u>	<u>2,281</u>	<u>10,493</u>

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section III: Assets and Liabilities (continued)

11. Property, plant and equipment (continued)

Recognition and Measurement

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

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

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

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

Depreciation

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

- plant and equipment 3-15 years

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

Impairment

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

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

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

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

Section III: Assets and Liabilities (continued)

12. Intangible assets

<i>In thousands of AUD</i>	Software	Brand names	Trade names, designs, patents and customer relationships	Goodwill	Total
Cost					
Balance at 1 July 2017	29,642	302,800	5,580	6,006	344,028
Additions	1,205	-	-	-	1,205
Transferred to assets classified as held for sale	-	(18,602)	(5,580)	(6,006)	(30,188)
Disposals	(645)	-	-	-	(645)
Exchange rate movements	-	(17)	-	-	(17)
Balance at 30 June 2018	30,202	284,181	-	-	314,383
Balance at 1 July 2016	28,337	302,800	5,580	6,006	342,723
Additions	1,600	-	-	-	1,600
Disposals	(295)	-	-	-	(295)
Balance at 30 June 2017	29,642	302,800	5,580	6,006	344,028
Amortisation and impairment losses					
Balance at 1 July 2017	(26,706)	-	(3,080)	-	(29,786)
Amortisation	(1,516)	-	(305)	-	(1,821)
Transferred to assets classified as held for sale	-	-	3,385	-	3,385
Disposals	647	-	-	-	647
Balance at 30 June 2018	(27,575)	-	-	-	(27,575)
Balance at 1 July 2016	(25,155)	-	(2,674)	-	(27,829)
Amortisation	(1,793)	-	(406)	-	(2,199)
Disposals	242	-	-	-	242
Balance at 30 June 2017	(26,706)	-	(3,080)	-	(29,786)
Carrying amounts					
As at 30 June 2018	2,627	284,181	-	-	286,808
As at 30 June 2017	2,936	302,800	2,500	6,006	314,242

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section III: Assets and Liabilities (continued)

12. Intangible assets (continued)

Recognition and measurement

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

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

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

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

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

Amortisation

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

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

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

Impairment

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

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

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

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

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section III: Assets and Liabilities (continued)

12. Intangible assets (continued)

Impairment (continued)

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

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

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

In thousands of AUD

	2018	2017
Bathroom and Kitchens	284,181	284,198
Door & Access Systems	-	24,608
	<u>284,181</u>	<u>308,806</u>

The assets of the Door & Access Systems business, including brand names and goodwill, are classified as held for sale at 30 June 2018. Refer to Note 3 for further information.

Impairment testing for brand names

The recoverable amounts of Bathrooms & Kitchens' brand names were assessed as at 30 June 2018 based on internal value in use calculations and no impairment was identified (2017: nil).

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

- Cash flows were projected based on actual operating results and business plans of the units, 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% (2017: 2.8%) in calculating the terminal value, which does not exceed the long-term average growth rate for the industry.
- A pre-tax discount rate of 12.8% was used (2017: 12.5% - 14.1%).

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 industry 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 2018 and there are no reasonably possible changes in any of the key assumptions that would cause the cash generating units' carrying amounts to exceed their recoverable amount.

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section III: Assets and Liabilities (continued)

13. Trade and other payables

In thousands of AUD

	2018	2017
Current		
Trade payables and accrued expenses	41,384	48,232
Forward exchange contracts used for hedging (net)	-	2,188
Interest rate swaps used for hedging (net)	156	363
	<u>41,540</u>	<u>50,783</u>
Non-current		
Trade payables and accrued expenses	718	827

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

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

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

14. Employee benefits

In thousands of AUD

	2018	2017
Current		
Liability for annual leave	3,265	4,756
Liability for long service leave	1,106	1,772
	<u>4,371</u>	<u>6,528</u>
Non-current		
Liability for long service leave	4,427	7,316

Short-term employee benefits

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

Long-term employee benefits

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

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section III: Assets and Liabilities (continued)

15. Provisions

<i>In thousands of AUD</i>	Warranties	Restructuring	Site restoration	Other	Total
Balance at 1 July 2017	2,598	6,993	1,984	1,286	12,861
Additional provisions made	80	-	227	-	307
Provisions used	(510)	(3,009)	-	(650)	(4,169)
Transferred to liabilities classified as held for sale	(150)	-	(870)	-	(1,020)
Balance at 30 June 2018	2,018	3,984	1,341	636	7,979
Current	2,018	3,984	223	123	6,348
Non-current	-	-	1,118	513	1,631
	2,018	3,984	1,341	636	7,979

Recognition and Measurement

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

Warranties

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

Restructuring

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

Site restoration

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

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section IV. Funding and Risk Management

16. Loans and borrowings

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

Non-current liabilities

In thousands of AUD

	2018	2017
Unsecured cash advance facilities	125,000	112,000

Financing facilities

Facilities available

Standby letters of credit	2,000	2,000
Bank guarantees	7,000	7,000
Unsecured cash advance facilities	225,000	225,000
	234,000	234,000

Facilities utilised at reporting date

Standby letters of credit	-	-
Bank guarantees	1,799	4,116
Unsecured cash advance facilities	125,000	112,000
	126,799	116,116

Facilities not utilised at reporting date

Standby letters of credit	2,000	2,000
Bank guarantees	5,201	2,884
Unsecured cash advance facilities	100,000	113,000
	107,201	117,884

Recognition and Measurement

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

Unsecured cash advance facility

On 23 October 2017, GWA successfully completed the extension of its syndicated banking facility. The facility comprises a single revolving facility of \$225,000,000 which matures in October 2020.

Prior to 23 October 2017 and for the year ended 30 June 2017, the facility matured in October 2019.

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

Letter of credit

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

Bank guarantees

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

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section IV. Funding and Risk Management (continued)

17. Capital and reserves

Share capital

	Ordinary shares			
	Number of shares		AUD	
	(in thousands)		(in thousands)	
	2018	2017	2018	2017
On issue at 1 July – fully paid	263,948	263,948	307,838	307,877
Capital return to holders of FY15 LTI grant	-	-	(48)	(39)
On issue at 30 June – fully paid	263,948	263,948	307,790	307,838

Ordinary Shares

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

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

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

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

Translation reserve

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

Hedging reserve

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

Equity compensation reserve

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

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

Section IV. Funding and Risk Management (continued)

17. Capital and reserves (continued)

Dividends

Dividends recognised in the current year are:

	Costs per share <i>(In cents)</i>	Total amount <i>(In thousands of AUD)</i>	Franked	Date of Payment
2018				
Interim 2018 ordinary	8.5	22,436	100%	6th March 2018
Final 2017 ordinary	9.0	23,755	100%	5th September 2017
Total amount	<u>17.5</u>	<u>46,191</u>		
2017				
Interim 2017 ordinary	7.5	19,796	100%	7th March 2017
Final 2016 ordinary	8.0	21,116	100%	16th September 2016
Special 2016	1.0	2,639	100%	16th September 2016
Total amount	<u>16.5</u>	<u>43,551</u>		

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

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

	Costs per share <i>(In cents)</i>	Total amount <i>(In thousands of AUD)</i>	Franked	Date of Payment
Final 2018 ordinary	9.5	25,075	100%	6th September 2018

The financial effect of these dividends has not been brought to account in the financial statements for the financial year ended 30 June 2018 and will be recognised in subsequent financial reports.

Dividend franking account

In thousands of AUD

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

	The Company	
	2018	2017
	<u>16,936</u>	<u>14,770</u>

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

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

The above franking account balance will decrease following the payment of the final dividend declared subsequent to balance date.

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section IV. Funding and Risk Management (continued)

18. Financial instruments and financial risk management

(a) Policies

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

Risk management policy

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

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

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

Capital management policy

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

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

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

Derivative financial instruments

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

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

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

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section IV. Funding and Risk Management (continued)

18. Financial instruments and financial risk management (continued)

(a) Policies (continued)

Derivative financial instruments (continued)

Hedging

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

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

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

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

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

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

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

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

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section IV. Funding and Risk Management (continued)

18. Financial instruments and financial risk management (continued)

(b) Credit risk

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

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

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

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

The consolidated entity has three major customers which comprise 58% of the trade receivables carrying amount at 30 June 2018 (2017: 57%).

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>	2018	2017
Cash and cash equivalents	27,860	36,360
Net trade receivables	58,518	65,124
Other receivables	189	738
	<u>86,567</u>	<u>102,222</u>

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

<i>In thousands of AUD</i>	2018	2018	2017	2017
	Receivables	Impairment	Receivables	Impairment
Not yet due	49,403	-	57,174	-
Past due 0-30 days	29,224	-	26,065	-
Past due 31-60 days	325	-	611	(7)
Past due 61-120 days	99	-	40	(4)
Past due 120+ days	11	(1)	73	(9)
Less accrued rebates and credit claims	(20,543)	-	(18,819)	-
	<u>58,519</u>	<u>(1)</u>	<u>65,144</u>	<u>(20)</u>

There were no trade receivables with re-negotiated terms.

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

<i>In thousands of AUD</i>	2018	2017
Balance at 1 July	(20)	(85)
Impairment losses (recognised) / written back	3	(14)
Provisions used during the year	5	79
Reclassification to assets held for sale	11	-
Balance at 30 June	<u>(1)</u>	<u>(20)</u>

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section IV. Funding and Risk Management (continued)

18. Financial instruments and financial risk management (continued)

(c) Liquidity risk

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

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

Maturity analysis	Carrying amount	Contractual cash flows	0-6 months	6 - 12 months	1-2 years	2-5 years	5+ years
<i>In thousands of AUD</i>							
2018							
Non-derivatives financial liabilities							
Unsecured cash advance facilities	(125,000)	(135,803)	(2,357)	(2,357)	(4,714)	(126,375)	-
Trade and other payables	(42,102)	(42,606)	(41,670)	-	(117)	(351)	(468)
Derivative financial instruments							
Interest rate swaps used for hedging (net)	(156)	(156)	(39)	(40)	(54)	(23)	-
Forward exchange contracts used for hedging (net)	4,777	4,777	3,105	1,672	-	-	-
Total at 30 June 2018	(162,481)	(173,788)	(40,961)	(725)	(4,885)	(126,749)	(468)
2017							
Non-derivatives financial liabilities							
Unsecured cash advance facilities	(112,000)	(121,942)	(2,169)	(2,169)	(4,338)	(113,266)	-
Trade and other payables	(49,059)	(49,563)	(48,510)	-	(117)	(351)	(585)
Derivative financial instruments							
Interest rate swaps used for hedging (net)	(363)	(363)	(189)	(64)	(82)	(28)	-
Forward exchange contracts used for hedging (net)	(2,188)	(2,188)	(1,053)	(1,135)	-	-	-
Total at 30 June 2017	(163,610)	(174,056)	(51,921)	(3,368)	(4,537)	(113,645)	(585)

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section IV. Funding and Risk Management (continued)

18. Financial instruments and financial risk management (continued)

(d) Market risk

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

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

(i) Interest rate risk

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

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

As at 30 June 2018, the consolidated entity had interest rate swaps in operation with a notional contract amount of \$50,000,000 (2017: \$75,000,000). These swaps have fixed rates ranging from 2.20% to 2.30% (2017: 2.14% to 3.42%) and mature over two to three years. The consolidated entity classifies interest rate swaps as cash flow hedges and states them at fair value. The net fair value of swaps as at 30 June 2018 of \$156,000 was recognised as a fair value derivative liability (2017: \$363,000).

Profile

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

<i>In thousands of AUD</i>	2018 Notional value	2018 Carrying amount	2017 Notional value	2017 Carrying amount
Variable rate financial instruments				
Unsecured cash advance facilities	(125,000)	(125,000)	(112,000)	(112,000)
Bank balances	27,860	27,860	12,872	12,872
Call deposits	-	-	23,488	23,488
	<u>(97,140)</u>	<u>(97,140)</u>	<u>(75,640)</u>	<u>(75,640)</u>
Fixed rate financial instruments				
Interest rate swap derivatives	50,000	(156)	125,000	(363)
Total	<u>(47,140)</u>	<u>(97,296)</u>	<u>49,360</u>	<u>(76,003)</u>

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section IV. Funding and Risk Management (continued)

18. Financial instruments and financial risk management (continued)

(d) Market risk (continued)

(i) Interest rate risk (continued)

Sensitivity analysis

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

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

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

<i>In thousands of AUD - Higher/(Lower)</i>	2018	2017
Increase of 100 basis points (2017: 100 basis points)		
Post Tax Profit	(339)	(340)
OCI (cash flow hedges, net of tax)	579	1,035
Decrease of 50 basis points (2017: 50 basis points)		
Post Tax Profit	169	170
OCI (cash flow hedges, net of tax)	(289)	(517)

(ii) Foreign currency risk

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

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

As at 30 June 2018, the consolidated entity had forward exchange contracts covering 79% of its expected USD net transaction exposure (2017: 82%), 78% of its expected RMB net transaction exposure (2017: 80%), and 77% of its expected NZD net transaction exposure (2017: 80%) for the 12 month period after the balance date.

The consolidated entity classifies forward exchange contracts as cash flow hedges and states them at fair value. The net fair value of contracts as at 30 June 2018 of \$4,777,000 was recognised as a fair value derivative asset (2017: \$2,188,000 liability).

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section IV. Funding and Risk Management (continued)

18. Financial instruments and financial risk management (continued)

(d) Market risk (continued)

(ii) Foreign currency risk (continued)

Sensitivity analysis

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

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

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

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

<i>In thousands of AUD - Higher/(Lower)</i>	2018	2017
USD		
10% increase in USD:AUD – OCI (cash flow hedges, net of tax)	5,971	6,700
10% decrease in USD:AUD – OCI (cash flow hedges, net of tax)	(4,885)	(5,482)
RMB		
10% increase in RMB:AUD – OCI (cash flow hedges, net of tax)	1,717	1,581
10% decrease in RMB:AUD – OCI (cash flow hedges, net of tax)	(1,405)	(1,293)
NZD		
10% increase in NZD:AUD – OCI (cash flow hedges, net of tax)	(889)	(1,015)
10% decrease in NZD:AUD – OCI (cash flow hedges, net of tax)	680	835

(e) Fair values

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

<i>In thousands of AUD</i>	2018 Carrying amount	2018 Fair value	2017 Carrying amount	2017 Fair value
Cash and cash equivalents	27,860	27,860	36,360	36,360
Trade and other receivables	58,707	58,707	65,862	65,862
Interest rate swaps used for hedging	(156)	(156)	(363)	(363)
Forward contracts used for hedging	4,777	4,777	(2,188)	(2,188)
Unsecured cash advance facilities	(125,000)	(125,000)	(112,000)	(112,000)
Trade and other payables	(42,102)	(42,102)	(49,059)	(49,059)
	(75,914)	(75,914)	(61,388)	(61,388)

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section IV. Funding and Risk Management (continued)

18. Financial instruments and financial risk management (continued)

(e) Fair values (continued)

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

(i) Derivatives

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

(ii) Loans and borrowings

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

(iii) Trade and other receivables / payables

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

(iv) Interest rates used for determining fair value

The consolidated entity uses the government yield curve as at 30 June 2018 plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	2018	2017
Derivatives	2.0% - 2.1%	1.7% - 2.2%
Loans and borrowings	3.3% - 3.8%	3.2% - 3.7%

(v) Fair value hierarchy

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

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

In thousands of AUD

	Level 1	Level 2	Level 3	Total
30 June 2018				
Forward contracts used for hedging	-	4,777	-	4,777
Interest rate swaps used for hedging	-	(156)	-	(156)
	-	4,621	-	4,621
30 June 2017				
Forward contracts used for hedging	-	(2,188)	-	(2,188)
Interest rate swaps used for hedging	-	(363)	-	(363)
	-	(2,551)	-	(2,551)

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section V. Other Information

19. Share-based payments

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

The performance hurdles in relation to performance rights granted to executives in the 2017/18 year and 2016/17 year are subject to financial performance conditions which measure growth in Return on Funds Employed (ROFE) and Total Shareholder Return (TSR) compared to a peer group of companies. The performance hurdles are challenging but achievable and focus executives on sustained long term growth consistent with shareholder wealth creation.

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

For performance rights granted to executives in the 2017/18 year and 2016/17 year, the performance hurdles and vesting proportions for the ROFE performance measure and TSR performance measure are outlined in the tables below.

GWA Group Limited ROFE over three year performance period	Proportion of Performance Rights to Vest if ROFE hurdle is met
ROFE less than 16% per annum (2016/17: 15%)	0%
ROFE equal to 16% per annum (2016/17: 15%)	12.5%
ROFE between 16% and 19% per annum (2016/17: 15% and 18% per annum)	Straight line vesting between 12.5% and 50%
ROFE equal to 19% or higher per annum (2016/17: 18%)	50% (i.e. 50% of total grant)

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	12.5%
Between the 50th percentile and 75th percentile	Straight line vesting between 12.5% and 50%
75th percentile or higher	50% (i.e. 50% of total grant)

Recognition and Measurement

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

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

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section V. Other Information (continued)

19. Share-based payments (continued)

Fair Value

During the year 537,000 performance rights were granted to employees (2017: 581,500) at a weighted average fair value of \$1.43 (TSR) and \$2.38 (ROFE) (2017: \$1.28 (TSR) and \$2.11 (ROFE)).

The fair value of the performance rights granted subject to the ROFE hurdle was determined by using a Black Scholes Model. The fair value of the performance rights granted subject to the TSR hurdle for vesting was determined by using a Monte Carlo simulation. When determining the fair values it was assumed the Company would have a dividend yield of 5.50%, the risk free rate was 2.19% and annualised share price volatility was 35% for the Company and its comparator companies listed for the TSR hurdle.

The amount recognised as personnel expenses (Note 4) in the current financial year was \$473,879 (2017: \$1,028,000).

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

	Grant date	Expiry date	Balance at beginning of the year	Granted during the year	Vested during the year	Forfeited during the year	Balance at end of the year
<i>In number of performance rights</i>							
2018							
	25/02/2015	30/06/2017	423,000	-	(211,500)	(211,500)	-
	23/03/2016	30/06/2018	819,000	-	-	(51,250)	767,750
	24/02/2017	30/06/2019	581,500	-	-	(116,528)	464,972
	19/02/2018	30/06/2020	-	537,000	-	-	537,000
			<u>1,823,500</u>	<u>537,000</u>	<u>(211,500)</u>	<u>(379,278)</u>	<u>1,769,722</u>
2017							
	24/02/2014	30/06/2016	340,000	-	(170,000)	(170,000)	-
	25/02/2015	30/06/2017	430,333	-	-	(7,333)	423,000
	23/03/2016	30/06/2018	850,500	-	-	(31,500)	819,000
	24/02/2017	30/06/2019	-	581,500	-	-	581,500
			<u>1,620,833</u>	<u>581,500</u>	<u>(170,000)</u>	<u>(208,833)</u>	<u>1,823,500</u>

20. Related parties

Key management personnel compensation

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

<i>In AUD</i>	2018	2017
Short-term employee benefits	4,947,173	5,694,405
Post-employment benefits	179,468	288,899
Termination benefits	-	100,000
Share-based payments	725,436	718,960
Other long term employee benefits	6,327	6,320
	<u>5,858,404</u>	<u>6,808,584</u>

Individual directors and executives compensation disclosures

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

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section V. Other Information (continued)

21. Auditor's remuneration

<i>In AUD</i>	2018	2017
Audit services		
Auditor of the Company		
<i>KPMG Australia:</i>		
Audit and review of financial reports	393,000	405,000
Other assurance services	15,375	-
<i>Overseas KPMG Firms:</i>		
Audit and review of financial reports	17,000	17,000
	<u>425,375</u>	<u>422,000</u>
Other services		
Auditors of the Company		
<i>KPMG Australia:</i>		
Other services	-	61,592
<i>Overseas KPMG Firms:</i>		
Taxation services	29,000	34,576
	<u>29,000</u>	<u>96,168</u>

22. Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of AUD</i>	2018	2017
Less than one year	12,897	14,884
Between one and five years	27,498	26,248
More than 5 years	20,064	21,551
	<u>60,459</u>	<u>62,683</u>

The consolidated entity leases various plant and equipment, property and motor vehicles under operating leases. These leases typically run for a period of 2 to 10 years, with an option to renew the lease after that date. None of these leases include contingent rentals.

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

During the financial year ended 30 June 2018, \$15,282,000 (2017: \$15,276,000) was recognised as an expense in profit or loss in respect of operating leases.

23. Capital commitments

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

<i>In thousands of AUD</i>	2018	2017
Within one year	1,888	4,522
Between one and five years	-	-
	<u>1,888</u>	<u>4,522</u>

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section V. Other Information (continued)

24. Consolidated entities

	Parties to cross guarantee	Country of incorporation	Ownership interest	
			2018	2017
Parent entity				
GWA Group Limited	Y	Australia		
Subsidiaries				
API Services and Solutions Pty Limited**	Y	Australia	100%	100%
Austral Lock Pty Ltd	Y	Australia	100%	100%
Canereb Pty Ltd	N	Australia	100%	100%
Caroma Holdings Limited	Y	Australia	100%	100%
Caroma Industries Limited	Y	Australia	100%	100%
Caroma Industries (NZ) Limited	N	New Zealand	100%	100%
Caroma International Pty Ltd	Y	Australia	100%	100%
Corille Limited	Y	Australia	100%	100%
Dorf Clark Industries	Y	Australia	100%	100%
Dorf Industries (NZ) Ltd*	N	New Zealand	-	100%
G Subs Pty Ltd	Y	Australia	100%	100%
Gainsborough Hardware Industries Limited**	Y	Australia	100%	100%
GWA Finance Pty Limited	Y	Australia	100%	100%
GWA Group Holdings Limited	Y	Australia	100%	100%
GWAIL (NZ) Ltd	N	New Zealand	100%	100%
GWA Taps Manufacturing Limited	Y	Australia	100%	100%
GWA Trading (Shanghai) Co Ltd	N	China	100%	100%
Industrial Mowers (Australia) Limited	Y	Australia	100%	100%
McIlwraith Davey Pty Ltd	Y	Australia	100%	100%
Sebel Furniture Holdings Pty Ltd	Y	Australia	100%	100%
Starion Tapware Pty Ltd	Y	Australia	100%	100%
Stylus Pty Ltd	Y	Australia	100%	100%

* Entity liquidated and removed from NZ Companies Register on 30 April 2018.

** Entities sold subsequent to 30 June 2018. Refer to Note 3 and Note 27. These entities have been released from their obligations under the Deed by executing a Notice of Disposal.

25. Deed of cross guarantee

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

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

A consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2018, is set out in the table below.

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

Section V. Other Information (continued)

25. Deed of cross guarantee (continued)

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

<i>In thousands of AUD</i>	2018	2017
Sales revenue	340,059	329,887
Cost of sales	(192,172)	(186,207)
Gross profit	147,887	143,680
Operating expenses	(73,556)	(71,596)
Finance income	373	571
Finance expenses	(5,187)	(5,913)
Profit before tax	69,517	66,742
Tax expense	(20,710)	(19,087)
Profit from continuing operations	48,807	47,655
Profit from discontinued operations, net of tax	4,113	4,420
Net profit	52,920	52,075
Total comprehensive income, net of tax	52,920	52,075
Retained earnings / (accumulated losses) at beginning of the year	5,165	(3,161)
Dividends recognised during the year	(46,191)	(43,551)
Share-based payments, net of tax	-	(198)
Retained earnings at end of the year	11,894	5,165

Statement of financial position

<i>In thousands of AUD</i>	2018	2017
Assets		
Cash and cash equivalents	25,051	33,437
Trade and other receivables	61,108	62,900
Inventories	63,923	69,238
Other	2,398	2,626
Assets classified as held for sale	61,912	-
Total current assets	214,392	168,201
Investments	11,113	11,113
Deferred tax assets	9,922	15,846
Property, plant and equipment	14,527	9,993
Intangible assets	282,751	310,167
Other	296	286
Total non-current assets	318,609	347,405
Total assets	533,001	515,606
Liabilities		
Trade and other payables	39,919	48,997
Employee benefits	4,308	6,458
Income tax payable	6,388	7,222
Provisions	6,347	10,594
Liabilities classified as held for sale	12,025	-
Total current liabilities	68,987	73,271

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

Section V. Other Information (continued)

25. Deed of cross guarantee (continued)

Statement of financial position (continued)

<i>In thousands of AUD</i>	2018	2017
Trade and other payables	605	667
Intercompany payables	7,057	6,431
Loans and borrowings	125,000	112,000
Employee benefits	4,426	7,308
Provisions	1,630	2,267
Total non-current liabilities	138,718	128,673
Total liabilities	207,705	201,944
Net assets	325,296	313,662
Equity		
Issued capital	307,790	307,838
Reserves	5,612	659
Retained earnings	11,894	5,165
Total equity	325,296	313,662

26. Parent entity disclosures

As at, and throughout, the financial year ended 30 June 2018 the parent company of the consolidated entity was GWA Group Limited.

<i>In thousands of AUD</i>	The Company	
	2018	2017
Results of the parent entity		
Profit for the year	99,651	82,292
Other comprehensive income	-	-
Total comprehensive income for the year	99,651	82,292
Financial position of the parent entity		
Current assets	-	-
Total assets	823,035	745,407
Current liabilities	203	137
Total liabilities	418,958	394,675
Equity of the parent entity		
Share Capital	307,790	307,838
Equity compensation reserve	2,377	2,444
Retained earnings	93,910	40,450
Total equity	404,077	350,732

GWA Group Limited and its controlled entities

Notes to the consolidated financial statements

Section V. Other Information (continued)

26. Parent entity disclosures (continued)

Parent entity contingencies

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

Contingent liabilities

The directors are not aware of any contingent liabilities of the parent entity as at reporting date (2017: \$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 (2017: \$nil).

Parent entity guarantees

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

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

27. Subsequent events

On 3 July 2018, the sale of the Door & Access Systems business completed. The sale price of \$107m comprises an initial payment of \$102m received on 3 July 2018, and a \$5m contingent payment received in August 2018, and is subject to a post completion working capital adjustment. The gain on sale (after disposal costs) is expected to be approximately \$45m-\$47m.

Refer to Note 3 for further information on discontinued operations.

To the Directors' best knowledge, there are no other events that have arisen subsequent to 30 June 2018 that will, or may, significantly affect the operation or results of the consolidated entity.

GWA Group Limited and its controlled entities Directors' Declaration

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

1. The consolidated financial statements and notes, and the Remuneration Report in the Directors' Report, are in accordance with the *Corporations Act 2001* including:
 - a) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2018 and of its performance for the year ended on that date; and
 - b) complying with Australian Accounting Standards and the Corporations Regulations 2001;
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
3. There are reasonable grounds to believe that the Company and the group entities identified in Note 25 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418;
4. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Managing Director and the Chief Financial Officer for the financial year ended 30 June 2018; and
5. The directors draw attention to Note 1(a) to the consolidated financial statements which includes a statement of compliance with International Financial Reporting Standards (IFRS).

Dated at Sydney on 16 August 2018.

Signed in accordance with a resolution of the directors:



Darryl D McDonough

Director



Tim R Salt

Director



Independent Auditor's Report

To the shareholders of GWA Group Limited

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the **Group's** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated Statement of Financial Position as at 30 June 2018;
- Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statement of Cash Flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

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

Basis for opinion

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

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

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



Key Audit Matters

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

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation of Inventory \$68.1m

Refer to Note 9 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>The valuation of inventory is a key audit matter as inventory is a significant asset in the financial report and the net realisable value is impacted by the building industry cycles and changes in consumer preferences. This necessitated an additional focus on excess and discontinued inventory SKU's (stock keeping unit) and judgemental valuation assumptions.</p> <p>We focused on the following elements of the Group's estimation of the valuation of inventory:</p> <ul style="list-style-type: none"> ● Criteria for categorisation of inventory SKU's by risk, such as discontinued, excess or current range, as they attribute different values; ● Evaluation of volume of inventory, as this may influence categorisation and therefore attribute different values. This included excess inventory volumes, determined by the Group with reference to inventory with volumes greater than the last 12 months' sales; ● Expected forecast demand, and assumptions associated to the forward-looking estimation; ● Assessing the impact of inventory sold in the current year below cost. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> ● We assessed the accuracy of previous Group forecasts by inventory SKU by comparing forecast demand to actual sales in the prior period. This informed our evaluation of forecasts incorporated in the inventory provision calculation in the current year. ● We tested the completeness of inventory identified as excess or discontinued as follows: <ul style="list-style-type: none"> - We assessed the Group's calculation for identifying excess inventory. We did this by performing our own calculation based on sales data for the last 12 months and comparing the results. We considered the impact on our audit of any exceptions. Where relevant, we obtained underlying documentation from the Group to evaluate exceptions; and - We compared inventory SKU's to be discontinued to the approved discontinued inventory report used by the Group in assessing the recoverable value of inventory.



	<ul style="list-style-type: none">• We independently developed an expected inventory valuation range by considering the following:<ul style="list-style-type: none">- Inventory turnover rate by inventory SKU;- Recovery rates achieved historically when selling discontinued inventory. We considered the historical quantum recovered compared to the original cost; and- Overall recoveries achieved for sales recorded below original cost.• We compared our estimated inventory valuation range to the inventory value recorded by the Group.
--	---

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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



Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of GWA Group Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2018.

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

KPMG

KPMG

Julie Cleary

Partner

Sydney

16 August 2018



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

To the Directors of GWA Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of GWA Group Limited for the financial year ended 30 June 2018 there have been:

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

KPMG

KPMG

A handwritten signature in blue ink, appearing to read 'Julie Cleary'.

Julie Cleary

16 August 2018