2016 ANNUAL REPORT

GWA
Group Limited

FY16 PERFORMANCE HIGHLIGHTS

REVENUE

$439.7 million

Revenue from continuing operations ▲ **3% to $439.7 million** broadly in line with market growth

- Bathrooms & Kitchens revenue ▲ **4%**
- Door & Access Systems revenue ▲ **2%**

EARNINGS

Normalised earnings before interest and tax from continuing operations ▲ **8% to $78.3 million**

FINAL ORDINARY DIVIDEND

of 8 cents per share and special dividend of 1 cent per share, bringing FY16 full year dividend to 16 cents per share fully-franked

NORMALISED EARNINGS

per share from continuing operations ▲ **29%**

NET PROFIT

$51.9 million

Normalised net profit after tax from continuing operations ▲ **15% to $51.9 million**

OPERATING CASHFLOW

from continuing operations ▲ **12% to $91.7 million** with improved working capital management in 2nd half

FINANCIAL POSITION

remains strong with net debt ▼ **7%** and credit metrics improved

STRATEGY

- Good progress on strategy:
  - Successful launch of Caroma Cleanflush
  - Strengthened new product development pipeline
  - Cost base further reduced
  - Supply chain improved through Integrated Business Planning project

CONTENTS

FIVE YEAR FINANCIAL SUMMARY

Continuing operations	2011/12[1] $'000	2012/13[1] $'000	2013/14[1] $'000	2014/15[1] $'000	2015/16[1] $'000
Revenue from continuing operations	602,128	565,365	399,394	426,218	439,666
Earnings before interest, tax, depreciation, amortisation (EBITDA) and significant items[3]	94,228	87,168	76,819	81,734	84,250
EBITDA margin (%)	15.6	15.4	19.2	19.2	19.2
Depreciation and amortisation	(18,864)	(20,398)	(12,328)	(8,970)	(5,985)
Earnings before interest, tax (EBIT) and significant items[3]	75,364	66,770	64,491	72,764	78,265
EBIT margin (%)	12.5	11.8	16.1	17.1	17.8
Interest (net)	(14,247)	(13,324)	(11,201)	(7,329)	(6,508)
Normalised profit before tax[3]	61,117	53,446	53,290	65,435	71,757
(%)	10.2	9.5	13.3	15.4	16.3
Tax expense	(15,565)	(14,115)	(15,452)	(20,278)	(19,837)
Effective tax rate (%)	25.5	26.4	29.0	31.0	27.6
Normalised profit after tax[3]	**45,552**	**39,331**	**37,838**	**45,157**	**51,920**
Significant items after tax	621	(6,941)	(6,664)	(34,796)	–
Net profit after tax from continuing operations	**46,173**	**32,390**	**31,174**	**10,361**	**51,920**
Profit / (loss) from discontinued operations (net of income tax)	(6,518)	–	(12,578)	(26,544)	1,761
Net profit / (loss) after tax for the period	**39,655**	**32,390**	**18,596**	**(16,183)**	**53,681**
Net cash from operating activities	60,499	63,349	33,898	43,505	54,924
Capital expenditure	25,798	14,703	5,570	5,062	3,628
Net debt[4]	174,472	162,243	149,385	94,763	88,420
Shareholders' equity	426,984	426,742	425,989	305,894	307,698

Other Ratios and Statistics					
Interest cover (times)[7]	6.6	6.5	8.5	12.8	14.3
Gearing: net debt / (net debt + equity) (%)[4]	29.0	27.5	26.1	23.7	22.3
Return on shareholders' equity (%)	9.3	7.6	4.4	(5.3)	17.4
Dividend payout ratio (%)[6]	136.4	113.2	90.3	–	81.4
Dividend per share (cents)[8]	18.0	12.0	5.5	6.0	16.0
Franking (%)	100	100	100	76.7	100
Capital return (cents)[5]	–	–	–	22.8	–
Share price (30 June) ($)	2.10	2.40	2.63	2.28	2.09
Dividend yield at 30 June share price (%)	8.6	5.0	2.1	2.6	7.7
Number of employees	1,788	1,680	1,681	1,183	876
Basic earnings per share (cents) – Group	13.2	10.6	6.1	(5.3)	19.7
Basic earnings per share (cents) – Continuing	15.3	10.6	10.2	3.4	19.0
Normalised earnings per share (cents) – Continuing[2]	15.1	12.9	12.4	14.8	19.0

(1) During the year ended 30 June 2016, the Gliderol business was sold with an effective date of 31 July 2015. During the year ended 30 June 2015, the Dux Hot Water Business was sold with an effective date of 19 December 2014 and the Brivis Heating & Cooling business was sold with an effective date of 2 February 2015. Accordingly, the operating activities of Gliderol, Dux and Brivis were classified as discontinued operations in FY16 and FY15 and presented separately from the results of continuing operations. The FY14 results have been re-presented to be comparable with FY16 and FY15. FY12 to FY13 have not been re-presented and include the operating activities of Gliderol, Dux and Brivis as part of continuing operations. In addition, Sebel Furniture and Caroma North America were divested during FY12 and were disclosed as discontinued operations in FY12.

(2) Excludes significant items.

(3) Normalised profit before significant items is a non-IFRS financial measure reported to provide a greater understanding of the underlying business performance of the Group. The disclosures are extracted or derived from the financial report for the years FY12 to FY15 and have not been subject to review or audit. The non-IFRS financial measures included in this table exclude significant items that are detailed in the financial report for the years FY12 to FY15.

(4) Net debt reflects the Group's borrowings and bank guarantees less cash (including cash classified within assets held for sale at 30 June 15).

(5) A capital return of 22.8 cents per share and a special dividend of 6.0 cents per share from the Brivis and Dux net sale proceeds were paid to shareholders on 15 June 2015.

(6) Dividend payout ratio is calculated as Dividend per share (cents) divided by the Basic EPS for the Group (cents). Basic EPS is calculated using the weighted average number of ordinary shares at 30 June.

(7) Interest cover (times) is calculated using EBITDA excluding non-recurring other significant items divided by net interest expense.

(8) Dividend per share includes ordinary and special dividends.

COMPANY PROFILE

GWA Group Limited (GWA) listed on the Australian Securities Exchange in May 1993 and is a leading Australian supplier of building fixtures and fittings to households and commercial premises. The Group has sales and distribution facilities located across Australia and a branch office in New Zealand. GWA is a member of the ASX 200 index of listed Australian companies.

GWA operates a central-led business with corporate functions supporting two business divisions focused on customers in their target market segments. GWA's business divisions currently comprise:

GWA Group Limited

GWA Bathrooms & Kitchens

GWA Door & Access Systems

GWA Bathrooms & Kitchens is Australia's foremost designer, importer and distributor of iconic brands and products, servicing and enhancing residential and commercial bathrooms and kitchens across Australia and New Zealand. The product range is distributed under Australian brands including Caroma, Clark, Dorf, Fowler, Stylus and international brands including Cristina, Schell, EMCO, Virtu and Sanitron.

GWA Door & Access Systems is a leading Australian designer, manufacturer, importer and distributor of a comprehensive range of access and security systems and door hardware for use in residential and commercial premises. The product range is distributed under Australian brands including Gainsborough, Trilock, TradePro, Austral Lock and international brands including Salto, Lorient and Eco Schulte.

GWA Door & Access Systems was expanded in 2012 to include API Locksmiths which is an Australian supplier of security and access control systems and locksmithing services to major commercial enterprises.

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

Caroma inspire | Gainsborough ENTER WITH STYLE | dorf | TRILOCK BY GAINSBOROUGH | FOWLER SINCE 1837

Austral Lock | stylus | CLARK | API Locksmiths

STRATEGIC SUMMARY

OUR MISSION
To build GWA as the most trusted and respected company in the building sector

OUR PURPOSE
Making life better

with simple, superior water solutions **Bathrooms & Kitchens**	with a superior range of access and security systems **Door & Access Systems**

GWA OPERATIONAL MEASURES
Market share, NSV, EBIT, ROFE, DIFOT, NPS, Safety, Engagement

CORPORATE PRIORITIES

- Drive cost out in SG&A and Supply Chain to improve profitability and allow selective reinvestment
- Build an advantaged Supply Chain to deliver superior NPD, Quality and Service at best cost
- Build “fit for future” culture, engagement and capability
- Add value to customers through improved insights, analytics and processes
- Leverage and build on core assets & brands to drive revenue and market share growth

MAXIMISE SHAREHOLDER VALUE CREATION
Key Financial Measures – NPAT Growth, TSR, ROFE

CHAIRMAN'S REVIEW

GWA's FY16 focus has been on growing our core Bathrooms & Kitchens and Door & Access Systems divisions following the divestment of the non-core Dux, Brivis and Gliderol businesses.

It is pleasing to report GWA improved its earnings and profitability compared to the prior year.

The group resumed the payment of ordinary dividends to shareholders with a full year ordinary dividend of 15 cents per share, together with a special dividend of 1 cent per share, both fully franked.

GWA's financial position continues to be strong and your Board believes GWA is well positioned to capitalise on its market-leading presence in core markets to continue to deliver value for shareholders.

FINANCIAL OVERVIEW[1]

Net sales revenue increased by 3 per cent to $439.7 million on the prior year.

Earnings Before Interest and Tax (EBIT) of $78.3 million, increased by 8 per cent on FY15, from improved earnings in our Bathrooms & Kitchens division and a reduction in costs.

GWA's net profit after tax of $51.9 million was 15 per cent higher than the prior year. Earnings per share of 19 cents increased by 29 per cent as a result of improved profitability and the reduced weighted average number of shares on issue following the completion of the on-market share buyback program.

Return on Funds Employed improved by 2.6 percentage points to 19.3 per cent as we continued our focus on effective use of capital across the business.

On 14 June 2016, GWA announced the resolution of the dispute with the Carrier companies regarding losses incurred by GWA in relation to the Brivis business. Brivis was acquired by GWA in March 2010 and subsequently divested in February 2015. As part of the resolution, GWA received a net payment of $2.8 million which was classified as a significant item from Discontinued Operations in the FY16 accounts.

On a reported basis, including the net proceeds from the resolution of the Carrier dispute, GWA reported an after tax net profit of $53.7 million compared to a net loss of $16.2 million in the prior year.

DIVIDENDS / CAPITAL MANAGEMENT

The Board has adopted a policy to pay 65-85 per cent of net profit after tax as ordinary dividends.

Consistent with this policy, the Board resolved to pay a final ordinary dividend of 8 cents per share fully franked. This brings the full-year ordinary dividend to 15 cents per share fully franked.

Having resolved the Carrier dispute, your Board considered it appropriate that the net proceeds should be returned to shareholders, consistent with its previous practice of returning the proceeds of business divestments to shareholders.

As a result, the Board has declared a special fully franked dividend of 1 cent per share. This brings the total dividends for the year to 16 cents per share which represents a dividend pay out ratio of 81 per cent.

The record date for entitlement to receive the final ordinary and special dividend will be 2 September 2016 with the dividend being paid on 16 September 2016. The Dividend Reinvestment Plan will not be offered to shareholders for the final ordinary and special dividend.

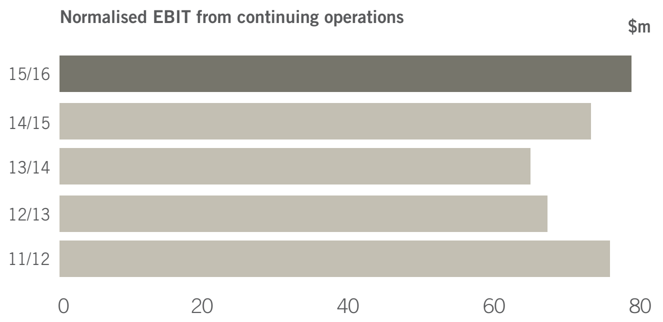
On 1 December 2015, GWA commenced an on-market share buy-back of its ordinary shares which was completed on 20 June 2016. The buyback was an efficient and flexible capital management initiative to the benefit of all shareholders; importantly it is accretive to earnings per share, assisting in an increase of 29 per cent on the prior year.

The company bought back 15 million shares representing approximately 5.4 per cent of the shares on issue; as at 30 June 2016 GWA had 263,947,630 shares on issue.

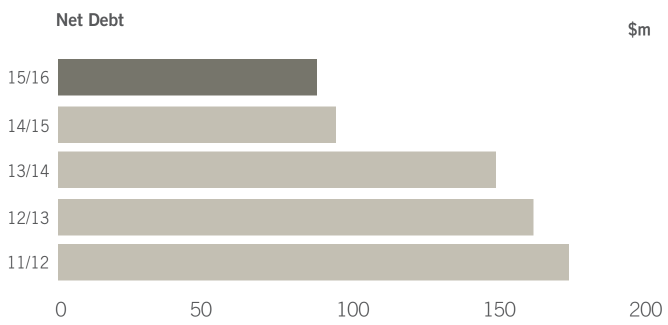
GWA's financial position remains strong. Notwithstanding the $30m share buyback, net debt at 30 June 2016, was $88.4 million, compared to $94.8 million in the previous year.

Our financial metrics, comprising leverage, gearing, and interest cover ratios remain consistent with investment grade and GWA has significant headroom within its banking facilities, providing significant financial flexibility for the group.

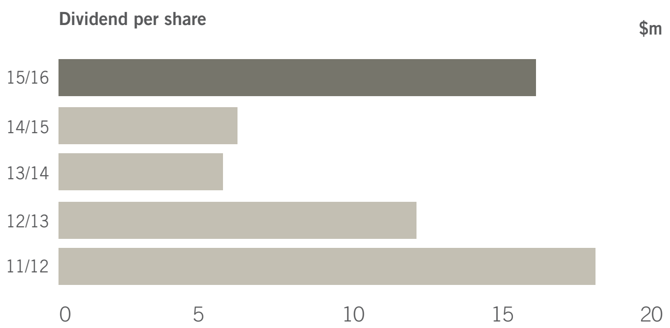
[1] Unless specified, all amounts and comparisons are based on normalised results (before significant items) in respect of Continuing Operations which exclude the Brivis Climate Systems and Dux Hot Water businesses which were divested in FY15 and the Gliderol Garage Doors business which was divested on 31 July 2015.



Normalised EBIT from continuing operations of $78.3 million, increased by 8 per cent on FY15, from improved earnings in the Bathrooms & Kitchens division and a reduction in costs.



GWA's financial position remains strong. Notwithstanding the $30m share buyback, net debt at 30 June 2016, was $88.4 million, compared to $94.8 million in the previous year.



The Board declared a final ordinary dividend for FY16 of 8 cents per share fully franked and special dividend of 1 cent per share fully franked, bringing the full-year dividend to 16 cents per share fully franked.

STRATEGY

Having divested non-core businesses in FY15 and early FY16, and returned proceeds to shareholders, GWA has a clear focus on our core Bathrooms & Kitchens and Door & Access Systems businesses where we believe shareholder returns can be maximised.

In FY16, we continued the restructure of group operations to drive greater focus and accountability and to further reduce our cost base. We have centralised critical functions such as supply chain and safety to ensure we can maximise efficiencies to support our core businesses.

During the year, GWA outlined its objectives to build our competitive position further and maximise returns for shareholders.

In summary, the core elements of the strategy are to:

- Leverage and build on our core assets and brands and investment in new product development to drive revenue and market share growth;
- Improve market share through further value-added service solutions; and
- Drive further efficiencies in overhead costs and supply chain to enable reinvestment in the business and maintain margins through the cycle.

The Managing Director's Review of Operations provides shareholders with important detail on our strategy and the group's progress against these specific strategic objectives.

BOARD RENEWAL

We were pleased to announce that Tim Salt, who was appointed Chief Executive Officer on 1 January 2016, has joined the Board as Managing Director and Chief Executive Officer with effect from 1 July 2016. Tim has already made a significant impact since joining GWA and we look forward to his ongoing contribution to the group.

Robert Anderson and Bill Bartlett have announced their retirements as Non-Executive Directors from the Board at the conclusion of the 2016 and 2017 Annual General Meetings respectively. On behalf of GWA, I acknowledge and thank Robert and Bill for their contributions to the Board over many years.

Following a comprehensive Board succession process, I am pleased to welcome the appointments of Jane McKellar and Stephen Goddard as Non-Executive Directors effective from the conclusion of the 2016 Annual General Meeting.

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

DIVERSITY

The Board acknowledges the significant benefits that arise from a diverse workforce and has a Diversity Policy which is available on the Group's website at www.gwagroup.com.au.

A number of measurable objectives have been approved by the Board to promote and encourage diversity, particularly the improvement of female representation within the workforce. This has led to an increase in the overall percentage of female employees from the prior year and also an increase of females in senior management roles.

We have also been mindful of the need to increase gender diversity of the Board and we are pleased to welcome the appointment of Jane McKellar as Non-Executive Director to the Board from the conclusion of the 2016 Annual General Meeting.

The Board supports the recommendations of the ASX Corporate Governance Council on diversity and has provided the required diversity disclosures in its Corporate Governance Statement. The Group lodged its Workplace Gender Equality Report with the Workplace Gender Equality Agency in May 2016 and the report is available on the Group's website at www.gwagroup.com.au under Gender Equality Reporting.

EXECUTIVE REMUNERATION

GWA's remuneration policies continue to be assessed with the independent advice of Guerdon Associates who were engaged by the Board for the FY17 executive remuneration review. We aim 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 following the provision of market data from Guerdon Associates. The fixed remuneration and incentive opportunity for Mr Salt has been aligned with the market median in relation to a group of comparable companies to GWA. Executive fixed remuneration was frozen for FY16 and the short term incentive payments to Mr Salt and other GWA executives for FY16 reflect the improved group performance and profitability.

SAFETY

We continue to focus on providing a safe workplace for our employees, contractors, visitors and customers while driving a positive safety culture across our business.

Our safety performance in FY16 was mixed. We recorded fewer total injuries with less lost time and medically treated injuries compared to the prior year. However, when measured in terms of frequency (number of injuries / hours worked) GWA's Total Injury Frequency Rate (TIFR) deteriorated on the prior year. The main driver in this deterioration was the reduction in total hours worked compared to the prior year as a result of the decline in headcount following business divestments and our corporate restructure.

While GWA will continue to monitor and report safety frequency rates, we will also report raw data which we believe is a more accurate metric to measure relative safety performance.

We have taken additional steps to ensure accountability for safety at all levels of the organisation. To assist this process, individual senior managers are sponsoring key safety elements such as incident management, chain of responsibility and contractor management to drive an improved safety culture and employee engagement.

CARBON EMISSIONS

The Board is committed to reducing energy, carbon emissions, water and waste across the GWA Group operations. GWA has deregistered from reporting the Group's carbon emissions under the Federal Government's NGER scheme as its energy and emissions are below reporting thresholds from FY15. GWA is a low emissions intensity entity but will continue to report its carbon emissions on the GWA website at www.gwagroup.com.au under Carbon Reporting.

The FY16 total carbon emissions from GWA's controlled facilities are expected to be approximately 58 per cent below the previous financial year and have been impacted by a combination of factors including the Dux, Brivis and Gliderol business divestments, factory closure at Wetherill Park and phased exit from Norwood and the implementation of energy efficiency measures.

CONCLUSION

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

We continue to make progress in strengthening our competitive position; we have a clear strategy and focus to build on the current position to deliver improved returns to shareholders.

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

I am pleased to present my first review of operations as Managing Director of GWA.

Since joining the company in September 2015, I have been impressed by the calibre and passion of our people, the quality and reputation of our market-leading brands, the strength of our customer relationships and the expertise and value-add of our long term supply agreements with our manufacturing partners.

This provides a strong growth platform for GWA and we remain focused on developing and implementing our strategy to build this position further.

MARKET CONDITIONS[1]

While construction activity in Australia increased in FY16, the key renovations and replacements segment, which represents over half of GWA's revenue, continued to remain relatively flat.

In total, GWA estimates that the increase in market activity weighted across its end markets[2] was approximately 4 per cent for the year ended 30 June 2016.

- Detached house completions (representing approximately 23 per cent of GWA revenue) increased by 5 per cent.
- Medium and high-density dwelling completions (approximately 10 per cent of GWA revenue) increased by 7 per cent.
- On a value of work done basis, non-residential building activity (approximately 15% of GWA revenue) is forecast to have declined by 3 per cent (MAT).
- Market activity for home renovations and replacements, (approximately 52% of GWA revenue) is forecast to have increased by 2 per cent (MAT).

Results Overview[3] – Continuing Operations

A$ million	FY15	FY16	% change
Sales Revenue	426.2	439.7	+3%
EBITDA	81.7	84.3	+3%
EBIT	**72.8**	**78.3**	**+8%**
EBIT margin (%)	17.1%	17.8%	+7ppts
NPAT (pre sig. items)	**45.2**	**51.9**	**+15%**
NPAT (after sig. items)	10.4	51.9	+399%

Revenue increased by 3 per cent to $439.7 million, reflecting an improvement in Bathrooms & Kitchens' sales of 4 per cent and an increase in revenue from Door & Access Systems of 2 per cent compared to the prior year.

EBITDA increased by 3 per cent to $84.3 million while Group EBIT improved by 8 per cent to $78.3 million. Improvements in price and mix were offset by the decline in the Australian dollar which was not fully recovered through price increases implemented during the year.

The GWA restructure contributed to a reduction in costs which assisted in improved earnings and also an increase in Group EBIT margin to 17.8 per cent from 17.1 per cent in the prior year.

Further information on segment earnings is provided on the following page.

Net profit after tax increased by 15 per cent to $51.9 million due to improved earnings and lower interest and tax expense compared to the prior year.

The effective tax rate for the year was 28 per cent.

Earnings per share of 19 cents were significantly ahead of the prior year of 14.8 cents from increased profitability and the reduced weighted average number of shares on issue following the completion of the accretive on-market share buyback program during the year.

On a reported basis, including $2.8 million in proceeds from the settlement of the Carrier dispute classified as a significant item from Discontinued Operations, GWA reported a net profit after tax of $53.7 million compared to a net loss of $16.2 million in the prior year.

Results Overview – Continuing <u>and</u> Discontinued Operations

A$ million	FY15	FY16	% change
EBITDA	86.8	83.8	(3%)
EBIT	74.3	77.7	+5%
NPAT (pre sig. items)	46.2	51.7	+12%
Reported NPAT (after sig. items)	(16.2)	53.7	n/m

1 Source for Dwelling Commencements, Completions, Renovations and Replacements and Non-residential Building Activity is BIS Shrapnel

2 Based on GWA estimates Australia market B&K (FY16) only

3 Unless specified, all amounts and comparisons are based on normalised results (before significant items) in respect of Continuing Operations which exclude the Brivis Climate Systems and Dux Hot Water businesses which were divested in FY15 and the Gliderol Garage Doors business which was divested on 31 July 2015.

The Board resolved to pay a final ordinary dividend of 8 cents per share fully-franked, bringing the full-year ordinary dividend to 15 cents per share fully-franked.

In addition, the Board declared a special dividend of 1 cent per share, fully-franked which represents the net proceeds from the resolution of the dispute with the Carrier companies.

The record date for entitlement to receive the final ordinary and special dividend will be 2 September 2016 with the dividend being paid on 16 September 2016. The Dividend Reinvestment Plan will not be offered to shareholders for the final ordinary and special dividend.

For the full year, cashflow from operations was $91.7 million compared to $81.7 million in the prior year.

Cashflow from operations improved significantly in the second half from lower inventory and effective working capital utilisation driving an overall reduction in working capital compared to the first half.

Capital expenditure of $3.5 million was consistent with the prior year, but slightly below forecasts primarily reflecting the timing of some projects which are now expected to be implemented in FY17.

GWA continues its focus on generating strong returns on capital employed in the business with Return on Funds Employed up 2.6 percentage points on the prior year to 19.3 per cent.

FINANCIAL POSITION AND CAPITAL MANAGEMENT

GWA remains in a solid financial position with net debt of $88.4 million at 30 June 2016 compared to $94.8 million in the prior year. This net debt position is after outlaying approximately $30 million to acquire 15 million shares on issue through the on-market share buy-back programme which concluded on 20 June 2016.

Credit metrics remain consistent with investment grade with the company's gearing ratio (net debt / net debt plus equity) of 22 per cent compared to 24 per cent at 30 June 2015 and leverage ratio (net debt / EBITDA) of 1.1 times steady on the prior year.

The company's strong financial position continues to be reflected in the improved interest cover ratio (EBITDA / net interest) which at 30 June 2016 was 14.3 times compared to 12.8 times last year.

GWA's syndicated banking facility was extended in October 2015 to a three-year revolving $225 million facility which matures in October 2018. The company maintains significant headroom within its banking facilities which provides ongoing financial flexibility.

SEGMENT RESULTS

Bathrooms & Kitchens

The Bathrooms & Kitchens division delivered a solid top line result with earnings improvement from price / mix offset by the decline in the Australian dollar. EBIT margin was down slightly on the prior year, however disciplined cost management and focus on higher margin product sales resulted in improved EBIT margin in the second half.

A$ million	FY15	FY16	% change
Sales Revenue	330.0	342.0	+4%
EBIT	83.3	84.6	+2%
EBIT Margin	25.2%	24.7%	(0.5 pp)
Return on Funds Employed (ROFE)	22.5%	24.1%	+1.6pp

Revenue in the Bathrooms & Kitchens division increased by 4 per cent to $342.0 million, reflecting increased pricing and improved mix, across all categories but particularly in sanitaryware driven by a shift to the Urbane product range.

Revenue growth was broadly in line with end market growth of approximately 4 per cent. Sales growth was particularly strong in QLD (up 12 per cent), NSW and Victoria (up 6 per cent), partially offset by declines in WA and SA, where construction activity was considerably weaker than the prior year and where GWA has strong market positions.

EBIT of $84.6 million was 2 per cent higher than the prior year's earnings of $83.3 million.

Improvements in earnings from mix and price were more than offset by the decline in the Australian dollar and the anticipated lag in recovering the impact of higher product costs through price increases.

The average A$ / US$ exchange rate for FY16 was 13 per cent lower than the prior year.

In response to the lower Australian dollar, effective price increases of approximately 5 per cent were implemented in September 2015 and 4 per cent in March 2016.

While the lower Australian dollar resulted in lower EBIT margin compared to the prior year, EBIT margin was slightly higher in the second half than the first half of FY16 from continued cost discipline and focus on higher margin products.

While there has been a market shift in some segments towards lower margin, cheaper products, GWA's primary focus remains on higher margin products which are accretive to earnings.

GWA has progressed its strategy to deliver market-leading innovation with the launch of the new Caroma Cleanflush rimless toilet range to the market in the fourth quarter.

Market feedback and initial sales results have been encouraging with the product also ranged in over 200 Reece showrooms across Australia.

Caroma Cleanflush was recently awarded the prestigious 2016 Good Design Award for Best in Category, Product Design – Hardware and Building.

Door & Access Systems

Revenue in the Door & Access Systems division increased by 2 per cent while earnings were marginally ahead of the prior year despite the impact of the lower currency.

A$ million	FY15	FY16	% change
Sales Revenue	96.2	97.7	+2%
EBIT	7.2	7.3	+1%
EBIT Margin	7.5%	7.5%	0.0pp
Return on Funds Employed (ROFE)	13.2%	13.7%	+0.5pp

Revenue in Door & Access Systems increased by 2 per cent to $97.7 million. Sales were stronger, particularly in NSW (up 7 per cent) and Victoria (up 12 per cent), partially offset by Western Australia where GWA has a strong market position and construction activity was considerably weaker.

EBIT of $7.3 million was marginally ahead of the prior year impacted by the 13 per cent decline in the Australian dollar compared to FY15. In response, a price increase was implemented in November 2015 while continued cost savings in SG&A assisted in maintaining earnings.

Return on Funds Employed of 13.7 per cent was 0.5 percentage points higher than the prior year.

During the year, the Door & Access Systems division reorganised its sales team to dedicate part of the team to drive sales growth in multi-residential and commercial segments. The new team has now been established which provides a stronger platform into FY17.

STRATEGY

The company's strategic priority for the past two years has been to divest non-core businesses to focus on its core operations in Bathrooms & Kitchens and Door & Access Systems and exit local manufacturing to source products from offshore supply partners.

As a result, GWA now has a clear focus on its core markets, which together represent a $2 billion addressable market opportunity.

We own and distribute market-leading brands and maintain cost efficient, long term supply agreements with selected, mostly exclusive partners with global expertise in manufacturing of bathrooms and kitchens and access and security products.

Our focus now is to capitalise on those strengths to maximise value creation for our shareholders.

GWA's strategy is centered around five priorities:

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

During FY16, the company has made progress against these strategic priorities.

We have successfully reduced corporate costs which is part of our overall programme to generate $13-15 million in cost savings progressively from FY16 to FY19 through a combination of SG&A and supply chain efficiencies.

These savings will be used to reinvest in growth initiatives as well as providing margin resilience and to offset cost inflation.

We have implemented an Integrated Business Planning project across the business to better align sales and operational processes to enhance working capital utilisation, reduce inventory and improve service delivery to our customers.

Our focus on key customers is being enhanced through the appointment of a new Executive General Manager of Sales in the Bathrooms & Kitchens division and the reorganisation and capability improvement of our sales team in the Door & Access Systems division.

The successful launch of the Caroma Cleanflush toilet range demonstrates our commitment to driving revenue and market share growth through new product development.

We have strengthened our new product development pipeline with a key focus on improving share in the renovations and replacement market which is the largest category opportunity for GWA.

Finally, we are implementing leadership development programmes to build capability and to drive greater accountability and agility across the organisation.

While we recognise we have significant work to do in terms of reaching our strategic goals, I am encouraged by the progress we have made over the past year in creating a platform to deliver on each of these priorities.

FUTURE PROSPECTS AND RISKS

The renovation and replacements segment, the market's largest segment accounting for just over half of GWA's group revenue, is expected to remain relatively stable, assisted modestly by recent cuts to interest rates.

While recent lead market indicators point to an expected slow-down in housing construction, new building activity remains at historically high levels.

GWA's products are typically sold at the completions stage of the building cycle and therefore the lag between approvals flowing through to completions and the significant pipeline of work to be completed should support continued activity and demand for our products and brands into FY17.

GWA monitors exchange rates closely and adopts appropriate mitigation strategies as appropriate. As at 30 June 2016, approximately 70 per cent of foreign exchange exposure is hedged for FY17.

The company is pursuing initiatives to selectively improve market share across its core product categories through the launch of new products and services and working collaboratively with key customers.

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

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

The risks to this outlook include:

- a significant slow-down in the renovations and replacements market impacting sales growth;
- a significant deterioration in dwelling commencements flowing through to completions activity;
- a significant reduction in the Australian dollar impacting the price of imported products not able to be recovered through price increases; and
- unforeseen disruptions impacting product supply from offshore suppliers leading to lower sales and loss of market share.

GWA expects to provide a further update at the company's Annual General Meeting on 28 October 2016.

HEALTH AND SAFETY

GWA continues to ensure that it provides a safe workplace for its employees, contractors, visitors and customers whilst driving a positive safety culture, to ensure everyone is safe... every day.

To highlight the importance placed by GWA on the proactive management of workplace health and safety (WHS) and positive safety culture development, the National Safety Manager prepares a monthly report and attends Executive Leadership Team (ELT) meetings for a joint discussion on WHS matters and to develop plans and strategy.

The ELT discussions include Group WHS performance, improvement plans and strategy updates. As an important safety initiative for FY17 each ELT member will sponsor and report on key safety topics including incident management, risk management, traffic management, chain of responsibility, product and packaging, health and wellbeing and contractor management.

There were a number of WHS undertakings during FY16, including the development and implementation of the three year safety strategic plan, a Group wide safety culture review, and the introduction of the integrated GWA WHS management system called SafetyOne. SafetyOne integrates 10 key elements of WHS and will continue to be embedded throughout FY17 with business unit specific safety plans developed.

The management structure of Group WHS also transitioned from the business units to a GWA central-led structure with a National WHS Manager.

GWA measures a range of balanced safety performance indicators. Proactive 'LEAD' indicators such as number of hazards reported and actions closed were measured during FY16, as were four 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) as frequency rates. Total Injury Frequency Rate (TIFR) is our main LAG measure for FY16.

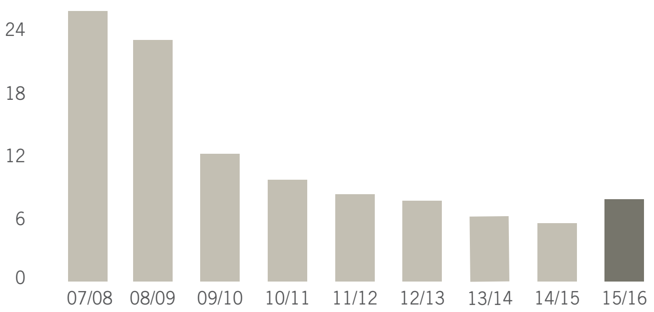
In FY16 GWA delivered on a reduction of total injuries with less lost time and medically treated injuries than the year prior, as well as a reduction of total hours lost due to injury than the prior year. Overall these are positive results for GWA. However, as the FY16 LAG measures are frequency rate based (calculated based on labour hours worked) the GWA TIFR presents as negative.

The TIFR performance for FY16 is attributed to the significant reduction in head count, which in turn has significantly reduced the labour hours worked (total labour hours worked during FY16 was a little over a million less than the year prior). This was driven by the divestment of non-core businesses in FY15 and GWA's transition from a domestic manufacturing business to a supply chain organisation following the business restructure.

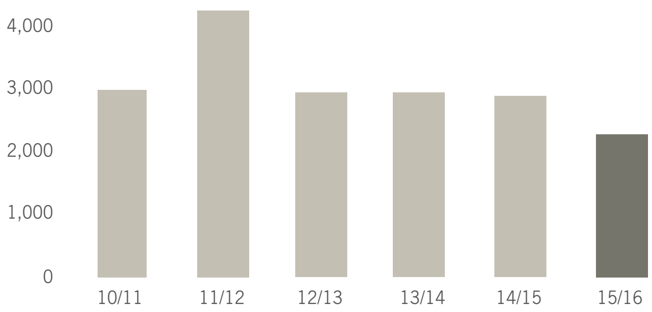
Given the significant reduction in head count and labour hours worked, this has led to a review of the structure in which we measure safety and the parameters. Moving forward, GWA will continue to monitor and report on 'frequency rates', however as they are affected by labour hours worked, GWA will also report on the raw data which is a better measure to demonstrate year on year performance.

Further, a commitment from the ELT is to remove any GWA safety based incentives for managers, particularly around incident and injury reporting, as they can drive an adverse effect. We will however include individual key performance indicators for selected ELT and Senior Leadership Team members to participate in the Safety Interaction Program, which is aimed at driving a positive safety culture and employee engagement.

GWA Total Injury Frequency Rate (TIFR)



GWA Injury Severity Rate (ISR)



SEGMENT PERFORMANCE

Continuing Operations A$M	FY15	FY16	% Change
Revenue	330.0	342.0	3.6%
EBITDA	87.7	86.6	-1.3%
EBIT	83.3	84.6	1.6%
EBIT Margin %	25.2%	24.7%	
Return on Funds Employed %	22.5%	24.1%	

BUSINESS DESCRIPTION

GWA Bathrooms and Kitchens is Australia's foremost designer, importer and distributor of iconic brands and products, servicing and enhancing residential and commercial bathrooms and kitchens across Australia and New Zealand. With a strong Australian heritage and a commitment to local design and engineering, GWA Bathrooms & Kitchens is at the forefront of delivering brilliantly designed and innovative market leading solutions to meet our customer needs. GWA Bathrooms & Kitchens is at the forefront of product innovation incorporating water saving technology and is the market leader in water efficient sanitaryware, showers and tapware.

MAIN PRODUCTS AND SERVICES

- Vitreous china toilet suites, plastic cisterns, seats, urinals and basins
- Acrylic, pressed steel and solid surface baths
- Tapware, showers, accessories and thermostatic mixing valves
- Stainless steel sinks and laundry tubs
- Solutions for aged care and commercial applications

MAJOR BRANDS

Owned: Caroma, Clark, Dorf, Fowler, Stylus

Distributed: Cristina, Schell, EMCO, Virtu, Sanitron

OPERATING LOCATIONS

Australia, New Zealand, export markets

MAJOR MARKETS

- Renovation and replacement
- New residential builds
- New and refurbished commercial projects
- New multi residential developments

STRATEGIC DIRECTION

With innovation at its core, GWA Bathrooms & Kitchens will drive category leadership by providing market leading solutions that create long term value for customers across the commercial, residential, renovation and replacement segments. GWA Bathroom & Kitchens will continue to invest in its strong portfolio of brands and deliver innovative and high quality products incorporating advanced water saving technology, supported by an outstanding level of service to enhance the experience of our customers. GWA Bathrooms & Kitchens are committed to continuous process improvements in its Australian supply chain operations.

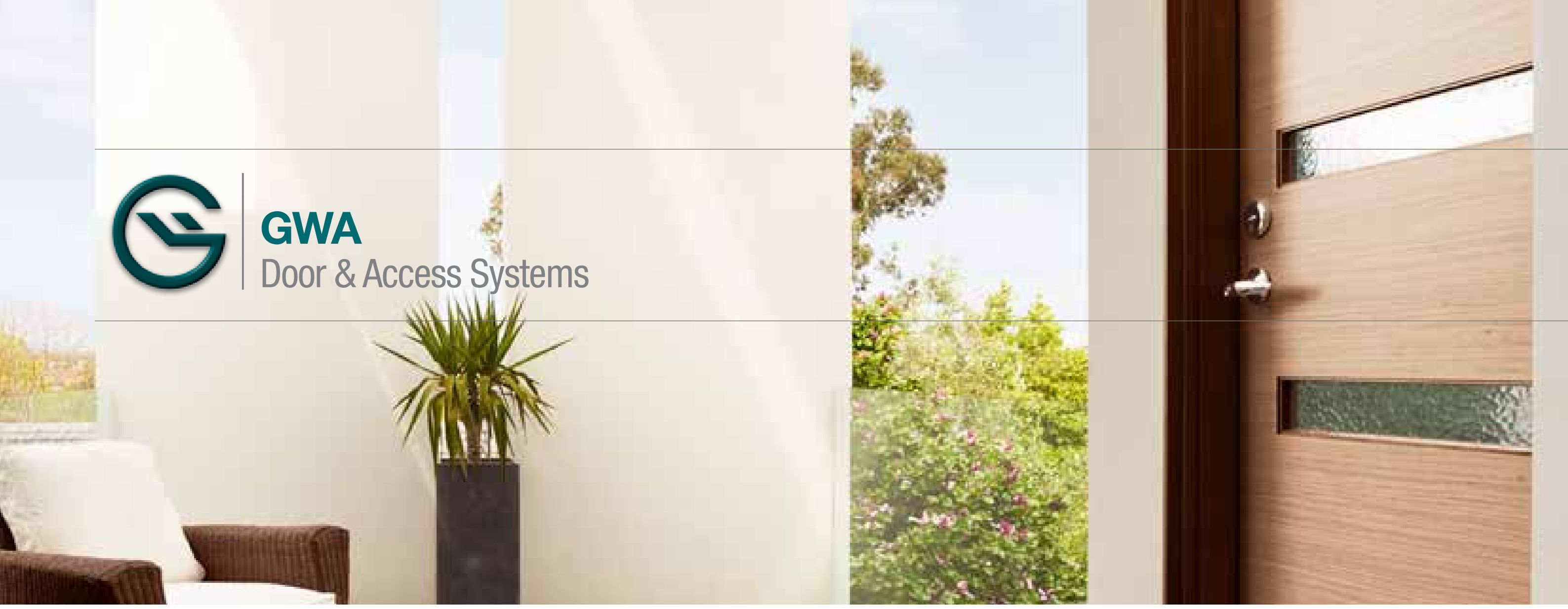
HEAD OFFICE LOCATION

GWA Bathrooms & Kitchens

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

Telephone 61 2 8825 4400
Facsimile 61 2 8825 4567

www.caroma.com.au
www.caroma.co.nz
specify.caroma.com.au
www.dorf.com.au
www.stylus.com.au
www.clark.com.au
www.fowler.com.au
www.cristinataps.com.au



GWA
Door & Access Systems

SEGMENT PERFORMANCE

Continuing Operations A$M	FY15	FY16	% Change
Revenue	96.2	97.7	1.6%
EBITDA	8.6	8.7	1.2%
EBIT	7.2	7.3	1.4%
EBIT Margin %	7.5%	7.5%	
Return on Funds Employed %	13.2%	13.7%	

BUSINESS DESCRIPTION

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

- Gainsborough Hardware has achieved a superlative position in the Australian market for more than 40 years, supplying first class door furniture and developing a succession of innovative products. Gainsborough Hardware is a leading Australian designer, manufacturer, importer and distributor of a comprehensive range of residential and commercial door hardware and fittings, including security products and electronic access solutions
- API has long been Australia's pre-eminent national locksmith providing installation and service of electronic and mechanical locking systems to major corporations, governments, educational and infrastructure facilities. They have recently made inroads in the architectural hardware supply segment focusing on multi residential and commercial developments and in the electronic home services segments

MAIN PRODUCTS AND SERVICES

- A comprehensive range of door hardware and access systems comprising door handles (knobs and levers), door closers, hinges and other door accessories
- Commercial locksmithing services for security systems and safes
- Supply and installation of electronic access control systems and associated products including CCTV, alarms and intercoms.

MAJOR BRANDS

Owned: Gainsborough, Trilock, TradePro, Austral Lock, API Locksmiths

Distributed: Salto, Lorient, Eco Schulte

OPERATING LOCATIONS

Australia, export markets

MAJOR MARKETS

- Residential new home builders
- Renovation and replacement
- Commercial and multi-residential developments
- Commercial locksmithing services

STRATEGIC DIRECTION

GWA Door & Access Systems' strategic direction encompasses the development of new and innovative door hardware and access system solutions to suit residential buildings and commercial projects. GWA Door & Access Systems will continue to focus on its key customer relationships through the supply of market leading product innovation and design, and high levels of customer service. Its key strategic growth drivers include specific innovation in electronic access products for the residential and commercial markets as well as a continued push into project opportunities in commercial building and multi-residential developments.

HEAD OFFICE LOCATIONS

GWA Door & Access Systems

Gainsborough Hardware Industries Limited

31-33 Alfred Street
Blackburn VIC 3130
AUSTRALIA

Telephone 61 3 9877 1555
Facsimile 61 3 9894 1599

www.gainsboroughhardware.com.au
www.ausloc.com

API Services and Solutions Pty Limited

248 Normanby Road
South Melbourne VIC 3205
AUSTRALIA

Telephone 131KEY(539)
Facsimile 61 3 9644 5882

www.apisec.com.au

BOARD OF DIRECTORS

DARRYL McDONOUGH BBUS (ACTY), LLB (HONS), SJD, FCPA, FAICD
Independent Chairman and Non-Executive Director

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

Mr McDonough was appointed Deputy Chairman and Non-Executive Director of GWA Group Limited in 2009 and Chairman effective 31 October 2013. He has over 30 years of corporate experience as a director and corporate lawyer. He has served as a director of a number of public companies in the past, including Bank of Queensland Limited and Super Retail Group Limited, is currently Chairman of unlisted QInsure Limited and is a Past-President of The Australian Institute of Company Directors, Queensland Division.

JOHN MULCAHY PHD (CIVIL ENGINEERING), FIE AUST
Independent Deputy Chairman and Non-Executive Director

- Expertise: Engineer, banker and experienced public company director
- Special Responsibilities: Chairman of Nomination and Remuneration Committee

Mr Mulcahy was appointed a Non-Executive Director of GWA Group Limited in 2010 and Deputy Chairman effective 1 November 2013. He is a Fellow of the Institute of Engineers and is Chairman of Mirvac Group Limited and a Non-Executive Director of ALS Limited. He is the former Managing Director and Chief Executive Officer of Suncorp Group Limited ("Suncorp"). Prior to joining Suncorp, he held a number of senior executive roles at the Commonwealth Bank and Lend Lease Corporation.

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

- Mirvac Group Limited since 2009*
- ALS Limited since 2012*
- Coffey International Limited 2009 to 2016

*denotes current directorship

ROBERT ANDERSON
Independent Non-Executive Director

- Expertise: Property investment and transport logistics

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

BILL BARTLETT FCA, CPA, FCMA, CA (SA)
Independent Non-Executive Director

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

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

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

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

*denotes current directorship

PETER BIRTLES BSC, ACA

Independent Non-Executive Director

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

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

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

- Super Retail Group Limited since 2006*

*denotes current directorship

TIM SALT BSC

Managing Director and Chief Executive Officer

- Expertise: Extensive global experience in managing market leading branded portfolios

Mr Salt was appointed Managing Director and Chief Executive Officer of GWA Group Limited on 1 July 2016. He was appointed Executive General Manager of GWA Bathrooms & Kitchens in September 2015 and Chief Executive Officer of GWA Group Limited on 1 January 2016.

Originally from the UK, Mr Salt was appointed Managing Director at Diageo Australasia in July 2008. As Managing Director for Diageo Australasia, he was responsible for all aspects of Diageo's business in Australia, New Zealand and the South Pacific Islands, including product supply, marketing, sales, innovation and company reputation.

Mr Salt was until recently Chair of the Distilled Spirits Industry Council of Australia and represented the spirits industry on the DrinkWise Board in Australia.

After commencing at Unilever, Mr Salt spent much of his career in beverage companies including Tetley Tea in the UK, Pepsi in Australia and USA, and brewer Lion Nathan in Australia. In March 2004 he joined Campbell Arnott's and was General Manager Arnott's Australasia prior to his move to Diageo in 2008.

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

Executive Director and Company Secretary

- Expertise: Chartered Accountant, taxation and finance

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

DIRECTORS' REPORT
AS AT 30 JUNE 2016

Your directors present their report on the consolidated entity of GWA Group Limited (the Group) and the entities it controlled during FY16.

DIRECTORS

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

D D McDonough, Chairman and Non-Executive Director

J F Mulcahy, Deputy Chairman and Non-Executive Director

T R Salt, Managing Director and Chief Executive Officer (appointed 1 July 2016)

R M Anderson, Non-Executive Director

W J Bartlett, Non-Executive Director

P A Birtles, Non-Executive Director

R J Thornton, Executive Director

P C Crowley, Managing Director (retired 31 December 2015)

On 14 July 2016, the Chairman announced the retirements of R M Anderson and W J Bartlett from the Board at the 2016 and 2017 Annual General Meetings respectively. The Chairman also announced the appointments of Jane McKellar and Stephen Goddard as Non-Executive Directors effective from the conclusion of the 2016 Annual General Meeting.

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 FY16, 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	118,300
J F Mulcahy	40,950
T R Salt*	11,900
R M Anderson	7,387,783
W J Bartlett	30,207
P A Birtles	13,650
R J Thornton*	81,902
Total**	**7,684,692**

Notes:

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

** Section 5.3.3 of the Remuneration Report sets out the number of shares held directly, indirectly or beneficially by directors or their related entities at balance date as prescribed in Accounting Standard AASB 124, this being 16,732,241 shares (last year 17,234,489 shares).

DIRECTORS' REPORT CONTINUED
AS AT 30 JUNE 2016

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of Committees of directors) held during FY16 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[(3)]	
	A	B	A	B	A	B
D D McDonough	10	10	4	4	2	2
J F Mulcahy	10	10	–	–	2	2
R M Anderson	10	10	–	–	–	–
W J Bartlett	10	10	4	4	2	2
P A Birtles	10	10	4	4	–	–
R J Thornton[(1)]	10	10	–	–	–	–
P C Crowley[(2)]	6	6	–	–	–	–

Notes:

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

B – Number of meetings attended

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

(2) P C Crowley retired as Managing Director on 31 December 2015

(3) The Nomination and Remuneration Committees were combined in FY16

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.

The consolidated entity completed the divestment of non-core businesses in FY16 through finalisation of the sale of Gliderol International Pty Ltd on 31 July 2015. There have been no other significant changes in the nature of the activities of the consolidated entity during the year.

OPERATING AND FINANCIAL REVIEW

The Operating and Financial Review for the consolidated entity during the financial year ended 30 June 2016 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 FY16

Dividend	Cents per share	Total Amount $'000	Franked	Date of Payment
Interim 2015/16 Ordinary	7.0	18,718	Fully Franked	5 April 2016

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

Declared after end of FY16

After the balance date the following dividends were approved by the directors. The dividends have not been provided and there are no income tax consequences.

Dividends	Cents per share	Total Amount $'000	Franked	Date of Payment
Final 2015/16 Ordinary	8.0	21,116	Fully Franked	16 September 2016
Special 2015/16	1.0	2,639	Fully Franked	16 September 2016

The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2016 and will be recognised in subsequent financial reports.

The record date for the final ordinary and special dividend is 2 September 2016 and the dividend payment date is 16 September 2016. The Dividend Reinvestment Plan will not be offered to shareholders for the final and special dividend.

EVENTS SUBSEQUENT TO REPORTING DATE

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

LIKELY DEVELOPMENTS

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

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

ENVIRONMENTAL REGULATION

Environmental Licenses

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

The consolidated entity, in conjunction with external advisers, monitors storage and treatment of hazardous materials within particular operations. Prior to any discharge to sewers, effluent is treated and monitored to ensure strict observance with license conditions. The directors are not aware of any breaches of the consolidated entity's license conditions during FY16.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Indemnification

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

Insurance Premiums

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

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

NON-AUDIT SERVICES

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

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

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

Details of the amounts paid to the auditor of the consolidated entity, KPMG, and its network firms for audit and non-audit services provided during the year are outlined in Note 8 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 FY16.

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 off in accordance with that Instrument to the nearest thousand dollars, unless otherwise stated.

REMUNERATION REPORT –– AUDITED

INTRODUCTION

The report covers the following matters for FY16:

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

1. BOARD ROLE IN SETTING REMUNERATION STRATEGY AND PRINCIPLES

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

The Board also engages with shareholders, management and other stakeholders to continuously refine and improve executive and director remuneration policies and practices.

The Board delegates some aspects of the review and monitoring process to the Nomination and Remuneration Committee. The Board's Nomination and Remuneration Committees were combined during FY16. The Committee's role and responsibilities include:

- Review of Board size and composition;
- Assessment of the necessary and desirable 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 the 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 the reporting period, the Nomination and Remuneration Committee obtained market data from Guerdon Associates for the FY17 executive remuneration review and for determining the incoming Managing Director's salary package. Guerdon Associates does not provide other services to the Group and is otherwise independent. No remuneration recommendations as defined under Division 1, Part 1.2.98 (1) of the *Corporations Act 2001*, were made by Guerdon Associates.

1.1 Managing Director Succession

On 27 November 2015, the Group announced the retirement of the Managing Director, Mr Peter Crowley effective on 31 December 2015. Mr Tim Salt joined the Group on 7 September 2015 as Executive General Manager of GWA's Bathrooms & Kitchens business and transitioned to the roles of Chief Executive Officer and Managing Director from 1 January 2016 and 1 July 2016 respectively.

The termination arrangements for Mr Crowley were determined by the Nomination and Remuneration Committee and were advised to the market on 27 November 2015.

The following is a summary of Mr Crowley's termination entitlements and other arrangements:

- 6 months Total Fixed Remuneration (TFR) equating to a cash payment of $780,000 being the notice period previously provided;
- Payment for accrued entitlements to annual and long service leave;
- Mr Crowley agreed to provide consultancy services to GWA for the period 1 January 2016 to 31 December 2016 in particular to assist Mr Salt transition to his role as Chief Executive Officer for a fee of $250,000. Mr Crowley has agreed not to compete with GWA or any of its businesses for the period 1 January 2016 to 30 June 2017;
- Mr Crowley did not participate in the FY16 Short Term Incentive (STI) Plan;
- Mr Crowley retains 200,000 unvested Performance Rights granted in 2014 under the Long Term Incentive (LTI) Plan which are subject to testing in August 2016, and 153,333 unvested Performance Rights granted in 2015 which are subject to testing in August 2017 in accordance with the LTI Plan Rules; that latter number represents an apportionment of the 2015 grant;
- All other Performance Rights granted to Mr Crowley under the LTI Plan lapsed.

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

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

- TFR comprising salary, superannuation and all other benefits other than incentive plans of $1,000,000;
- Payment of $300,000 at the end of FY16 as agreed compensation for loss of income and benefits as a result of Mr Salt accepting the role as Executive General Manager of GWA's Bathrooms & Kitchens business;
- Short term incentive opportunity of $200,000 subject to GWA Bathrooms & Kitchens achieving financial performance targets for FY16;
- Participation in GWA's STI Plan from FY17;
  - 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 LTI Plan from FY16:
  - 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 Returns (TSR). The number of rights granted to Mr Salt in March 2016 were calculated based on the volume weighted average closing price of GWA shares over 20 trading days after the release of the Company's results to 31 December 2015.

1.2 FY16 and FY17 Remuneration

As outlined in the 2015 Remuneration Report, the Board approved a reduction in non-executive director remuneration effective from 1 July 2015. The changes are within the annual aggregate maximum amount approved by shareholders and ensure non-executive director remuneration is in line with peer companies. The changes are outlined in further detail in section 3.1. The Board also determined that the fixed remuneration for the outgoing Managing Director and other executives was to be frozen for FY16 as reflected in the executive salaries included in the Remuneration Tables in section 5.1.

In August 2016, the Board determined that the fixed remuneration for the Managing Director and other executives will be frozen for FY17. This will be reflected in the Remuneration Tables included in the 2017 Remuneration Report.

2. RELATIONSHIP BETWEEN REMUNERATION POLICY AND GROUP PERFORMANCE

Remuneration is linked to performance by:

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

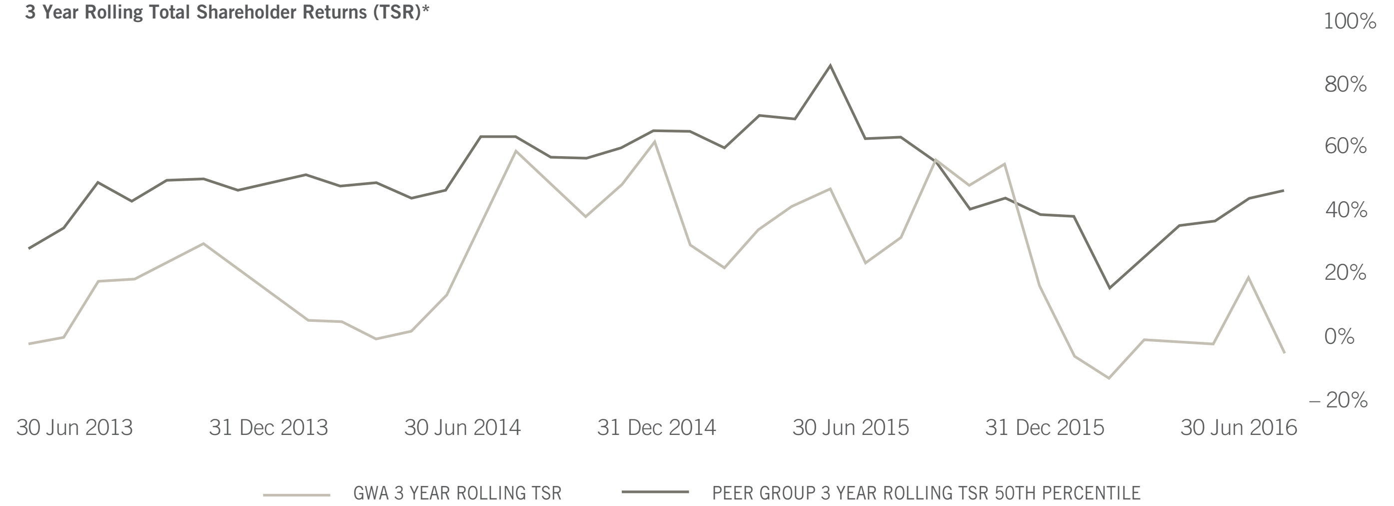
GWA measures performance on the following key corporate measures:

- Normalised earnings before interest and tax (EBIT);
- Return on funds employed (ROFE); and
- Total shareholder returns (TSR).

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

The following graph shows the Group's relative performance over a rolling 3 year period to 30 June 2016 compared to the peer group companies used for the FY16 grant of Performance Rights to executives being James Hardie Industries PLC, Fletcher Building Ltd, Boral Ltd, Adelaide Brighton Ltd, DuluxGroup Ltd, Brickworks Ltd, Super Retail Group Ltd, CSR Ltd, ARB Corp Ltd, Burson Group Ltd, Breville Group Ltd, Asaleo Care Ltd, GUD Holdings Ltd, Cedar Woods Properties Ltd, Villa World Ltd, Decmil Group Ltd, Simonds Group Ltd, Hills Ltd and Fleetwood Corp Ltd.

3 Year Rolling Total Shareholder Returns (TSR)*



*Assuming 36 months in each rolling year

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

Financial Year	Normalised EBIT[a] ($m)	Normalised EPS[a] (cents)	Total DPS (cents)[e]	Capital Return[d] (cents)	Share Price (30 June) ($)
2011/12[b]	75.4	15.1	18.0	–	2.10
2012/13	66.8	12.9	12.0	–	2.40
2013/14[c]	64.5	12.4	5.5	–	2.63
2014/15[b]	72.8	14.8	6.0	22.8	2.28
2015/16[b]	78.3	19.0	16.0	–	2.09

Notes:
(a) excludes significant items
(b) excludes discontinued operations
(c) FY14 performance has been restated to exclude the discontinued operations in FY15
(d) a capital return of 22.8 cents per share and a special dividend of 6 cents per share from the Brivis and Dux net sale proceeds was paid to shareholders on 15 June 2015
(e) includes ordinary and special dividends

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

Following the divestment of non-core businesses and significant restructuring activities in FY15, the Group focused on its core operations in Bathrooms & Kitchens and Door & Access Systems to deliver another improved profit performance in FY16. This enabled the Board to declare higher dividend payments to shareholders in FY16 including a special dividend.

The Group has made significant progress against its strategic priorities in FY16 to enhance the operating performance of the business and to maximise returns to shareholders over time. The progress against the strategic priorities is outlined in the Managing Director's Review of Operations in the Annual Report. The successful execution of the Group's strategic priorities were included as performance objectives and reflected in the financial performance targets for the executives under the STI Plan for FY16; refer Section 4.3 Short Term Incentive.

The remuneration and incentive framework has allowed the Group to respond to higher levels of dwelling construction activity. STI payments related to performance improvement, strategy implementation and restructuring has encouraged management to respond quickly and make long term decisions to sustain competitiveness and improve profitability. This has placed the Group in a strong position to take advantage of the upswing in market activity in FY16 and ensures the Group is well placed to maximize returns as market activity slows.

3. DESCRIPTION OF NON-EXECUTIVE DIRECTOR REMUNERATION

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

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

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

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

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

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

3.1 FY16 Remuneration

The Board approved a reduction in non-executive director remuneration effective from 1 July 2015 as follows:

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

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

Following the changes, total non-executive director remuneration reduced to $780,000 (including statutory superannuation) for FY16 representing a 16% reduction from the prior year; please refer to the Remuneration Tables in section 5.1 for FY16 non-executive director remuneration.

4. DESCRIPTION OF EXECUTIVE REMUNERATION

4.1 Executive remuneration structure

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

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

4.1.1 Managing Director remuneration structure

The outgoing Managing Director, Mr Peter Crowley, did not participate in the GWA STI Plan in FY16 and no STI payments were paid for FY16 service; refer Section 1.1 Managing Director Succession.

The Managing Director, Mr Tim Salt, did not participate in the GWA STI Plan in FY16. Mr Salt was eligible for an STI payment of $200,000 subject to GWA Bathrooms & Kitchens achieving financial performance targets for FY16. Mr Salt will participate in the Managing Director STI Plan from FY17; refer Section 1.1 Managing Director Succession.

The FY17 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
FY17	50	60	**110**

The FY17 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
FY17	30	20	**50**

4.1.2 Other Executives' remuneration structure

The FY16 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
FY16	50	30	**80**

The FY16 STI components for the 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
FY16	30	20	**50**

4.1.3 Actual remuneration received by executives for FY16

The table on the following page sets out the actual value of remuneration received by the executives for FY16, derived from the various components of their remuneration during FY16. This table differs from the more detailed remuneration disclosures in the Remuneration Tables in Section 5.1 due to the exclusion of LTI amounts not vested or reversal of accounting expenses associated with LTI grants.

Executives FY16	Fixed Remuneration $[a]	Short Term Incentive $[b]	Long Term Incentive (Earned) $[c]	Termination Benefits $	Total $
T Salt, Managing Director[d]	1,039,421	100,000	–	–	1,139,421
R Thornton, Executive Director	411,553	81,908	44,763	–	538,224
P Gibson, Group Chief Financial Officer	749,999	150,000	–	–	899,999
S Mitchell, Group General Manager – Supply Chain	376,923	80,000	–	–	456,923
S Ralphsmith, Executive General Manager – GWA Door & Access Systems	399,999	16,000	–	–	415,999
K Veitch, Group General Manager – People, Culture & Communications	381,538	76,000	–	–	457,538
C Norwell, General Manager Sales – GWA Bathrooms & Kitchens[e]	92,819	88,235	–	–	181,054
P Crowley, Managing Director[f]	1,204,285	–	237,581	780,000	2,221,866
Total	**4,656,537**	**592,143**	**282,344**	**780,000**	**6,311,024**

Notes:

(a) Fixed remuneration includes base salary, non-monetary benefits and superannuation.

(b) Represents the STI payments awarded for FY16 inclusive of deferred amounts. These amounts, exclusive of the deferred amounts, will be paid in FY17. The amount awarded to Mr Craig Norwell represents a payment for FY16 benefits forgone on recruitment.

(c) The performance hurdles for the 2013 LTI grant were tested in FY16 and partially achieved; refer section 5.2.1 Performance Rights. Excludes the value of any unvested LTI grants expensed or reversed during FY16.

(d) Mr Tim Salt was appointed Managing Director effective 1 July 2016. He was previously Executive General Manager of GWA's Bathrooms & Kitchens business from 7 September 2015 and Chief Executive Officer from 1 January 2016. For details of Mr Salt's remuneration arrangements as Managing Director please refer to Section 1.1 Managing Director Succession.

(e) Mr Craig Norwell commenced employment on 7 April 2016.

(f) The outgoing Managing Director, Mr Peter Crowley ceased employment on 31 December 2015. For details of Mr Crowley's termination arrangements and other entitlements please refer to Section 1.1 Managing Director Succession.

4.2 Fixed remuneration

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

The level of fixed remuneration is set:

- to retain proven performers with difficult to source experience;
- 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 and industrial sectors.

Based on an independent survey by Guerdon Associates for the FY17 executive remuneration review, the fixed remuneration for the executive positions at GWA are at or above market benchmark levels for companies of comparable operational scope and size to GWA.

The 16 listed companies included in the survey provided reliable and robust statistical remuneration benchmarking and shared some common attributes with GWA, but few direct competitors and good position matches exist for precise remuneration positioning. The Nomination and Remuneration Committee therefore exercised judgment 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 FY16, the Board froze the fixed remuneration for the outgoing Managing Director and other executives. This is reflected in the executive salaries included in the Remuneration Tables in Section 5.1. The Board has also determined that the fixed remuneration for the Managing Director and other executives will be frozen for FY17.

4.3 Short-term incentive (STI)

4.3.1 STI overview

The STI plan provides for an annual payment that varies with performance measured over the Group's financial year to 30 June 2016. The STI is aligned to shareholder interests as executives will only become entitled to the majority of payments if profitability improves (allowing for the building cycle), with maximum incentive payments above the reasonably achievable level linked directly to shareholder wealth creation. As noted in section 4.1, the maximum STI that can be earned is capped to minimise excessive risk taking.

The STI payment is made in cash after finalisation of the annual audited financial statements. As outlined in the Remuneration Tables in Section 5.1, 50% of the financial target component of the STI has been deferred for the executives that achieved their STI financial targets for FY16. The deferred component will be subject to further testing by the Board to confirm the integrity of the achievement of the STI financial targets following finalisation of the FY17 audited financial statements. If the Board is satisfied then the deferred component will be paid to the executives in September 2017 together with interest at market rates. However, if the Board is not satisfied then the STI payment will be subject to forfeiture.

4.3.2 STI performance requirements

4.3.2.1 Financial Performance Targets

For FY16, STI financial performance targets are based on normalised Earnings Before Interest and Tax (EBIT) and Return On Funds Employed (ROFE) targets as determined by the Nomination and Remuneration Committee. The use of normalised EBIT and ROFE as the basis of STI financial targets is aimed at ensuring executives are accountable for delivering both profit and working capital improvements.

The Board is of the view that a combination of normalised EBIT and ROFE targets are an effective basis for STI targets as they are currently key metrics used in the business.

The normalised EBIT and ROFE targets are weighted equally and assessed separately and on an aggregated basis for divisional and corporate executives. Normalised is before significant items and ensures the STI targets are reflective of underlying trading performance.

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 were no variations from policy during FY16.

For FY16, GWA Corporate and Bathrooms & Kitchens partially achieved their EBIT and ROFE STI financial targets reflecting the strong performance of the business. Door & Access Systems did not achieve their STI financial targets in FY16. 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 2017 under the STI Plan rules. The full amount of the STI cash bonuses (including the deferred component) is reflected in the Remuneration Tables in Section 5.1.

The deferred component of the STI incentive payment for FY15 for Bathrooms & Kitchens executives was tested by the Board in August 2016 to confirm the integrity of the achievement of the STI financial targets in FY15. Following satisfaction with the testing, the Board approved the payment of the deferred component to Bathrooms & Kitchens executives together with interest at market rates.

4.3.2.2 Personal Goals

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

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

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

Assessment of the personal goals STI component for FY16 has been determined following a formal performance review process conducted for the executives. The performance reviews for the executives are conducted semi-annually by the Managing Director with the outcomes approved by the 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 approved by the Nomination and Remuneration Committee. The personal goals of the executives for FY17 were established at the performance reviews.

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

4.4 Long-term incentive (LTI)

4.4.1 LTI overview

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

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

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

The performance hurdles for the LTI are selected by the 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.

A participant may not dispose of the ordinary shares issued under the LTI until the fifteenth anniversary of the grant date (for the FY16 LTI grant) and the shares are subject to a holding lock upon issue. This ensures that executives retain a suitable shareholding in the Group. There are limited circumstances where a participant may dispose of the shares before the end of the fifteen year period, including cessation of employment with the Group or where the Board grants approval. In considering an application from a participant to dispose of the shares, the Board will consider whether the sale is in the best interests of the Group, relevant policies and regulations, the extent of the executives Group shareholdings as a multiple of fixed remuneration and other factors.

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

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

For the FY16 LTI grant, the proportion of Performance Rights that can vest will be calculated and the shares will vest in August 2018 subject to achieving the performance hurdles. If the performance hurdles are not met then the Performance Rights are cancelled.

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

The maximum number of outstanding Performance Rights granted to executives must not exceed 5% of the total number of shares on issue by the Group. The total number of outstanding Performance Rights granted to executives at 30 June 2016 was 1,620,833 which represents 0.6% of the Group's total issued shares.

4.4.2 LTI performance requirements

For the FY16 LTI grant, the performance hurdles continue to provide for vesting scales graduated with performance and demanding performance hurdles.

4.4.2.1 TSR Hurdle

The performance hurdles and vesting proportions for the TSR performance measure that applied to the FY16 LTI grant is outlined in the following table:

TSR of GWA Group Limited relative to TSRs of Comparator Companies	Proportion of Performance Rights to Vest if TSR hurdle is met
Less than the 50th percentile	0%
50th percentile	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)

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

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

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

4.4.2.2 ROFE Hurdle

The performance hurdles and vesting proportions for the ROFE performance measure that applied to the FY16 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 15% per annum	0%
ROFE equal to 15% per annum	12.5%
ROFE between 15% and 18% per annum	Straight line vesting between 12.5% and 50%
ROFE equal to 18% or higher per annum	50% (i.e. 50% of total grant)

The ROFE hurdle is calculated as earnings before interest and tax (EBIT) divided by funds employed. Funds employed is calculated as net assets minus cash plus borrowings. The Board has discretion to make reasonable adjustments to the EBIT figure where it is unduly distorted by significant or abnormal events. The use of any discretion and the reasons for it will be disclosed.

5. DETAILS OF DIRECTOR AND EXECUTIVE REMUNERATION

5.1 Remuneration Tables

Details of the nature and amount of each element of remuneration for each director of the Group and other key management personnel (KMP) for the year ended 30 June 2016 are provided in the Remuneration Tables on the following page.

		Short-term			Long-term		Post-employment					
		Salary & Fees $[a]	STI Cash Bonus $[b]	Non-Monetary $[c]	Value of Share-Based Awards $[d]	Long Service Leave $	Superannuation Benefits $	Termination Benefits $	Total $	Proportion of remuneration performance based %	STI Cash Bonus vested in year %	STI Cash Bonus forfeited in year %
Non-Executive Directors												
D McDonough, Chairman	2016	254,800	–	–	–	–	25,199	–	279,999	–	–	–
	2015	319,221	–	–	–	–	35,000	–	354,221	–	–	–
J Mulcahy, Deputy Chairman	2016	117,649	–	–	–	–	12,350	–	129,999	–	–	–
	2015	150,010	–	–	–	–	15,746	–	165,756	–	–	–
R Anderson,	2016	109,589	–	–	–	–	10,410	–	119,999	–	–	–
Non-Executive Director	2015	107,829	–	–	–	–	10,243	–	118,072	–	–	–
W Bartlett,	2016	117,649	–	–	–	–	12,350	–	129,999	–	–	–
Non-Executive Director	2015	142,918	–	–	–	–	15,002	–	157,920	–	–	–
P Birtles,	2016	108,599	–	–	–	–	11,400	–	119,999	–	–	–
Non-Executive Director	2015	123,500	–	–	–	–	12,964	–	136,464	–	–	–
Total – Non-Executive Directors[h]	**2016**	**708,286**	**–**	**–**	**–**	**–**	**71,709**	**–**	**779,995**			
	2015	**843,478**	**–**	**–**	**–**	**–**	**88,955**	**–**	**932,433**			
Executive Directors												
T Salt, Managing Director[e]	2016	1,062,845	100,000	–	135,760	–	16,089	–	1,314,694	17.9	50	50
(Appointed 1 July 2016)	2015	–	–	–	–	–	–	–	–	–	–	–
R Thornton, Executive Director	2016	393,152	81,908	2,014	22,160	6,343	19,307	–	524,883	19.8	40	60
	2015	387,059	77,813	1,825	97,007	8,746	18,783	–	591,234	29.6	38	62
P Crowley, Managing Director[f]	2016	1,088,983	–	82,542	(201,381)	(323,040)	25,000	780,000	1,452,103	–	–	–
(Retired 31 December 2015)	2015	1,389,031	–	130,334	501,407	26,114	50,000	–	2,096,886	23.9	–	100
Total – Directors Remuneration	**2016**	**3,253,266**	**181,908**	**84,555**	**(43,462)**	**(316,697)**	**132,105**	**780,000**	**4,071,675**			
	2015	**2,619,568**	**77,813**	**132,159**	**598,414**	**34,860**	**157,738**	**–**	**3,620,552**			
Executives												
P Gibson, Group Chief Financial Officer	2016	738,076	150,000	–	61,662	–	34,999	–	984,737	21.5	40	60
(Appointed 27 April 2015)	2015	142,426	–	–	–	–	4,226	–	146,652	–	–	–
S Mitchell, Group General Manager – Supply Chain	2016	351,623	80,000	–	61,724	–	30,000	–	523,347	27.1	40	60
(Appointed 16 February 2015)	2015	145,474	60,000	–	29,080	–	11,461	–	246,015	36.2	100	–
S Ralphsmith, Executive General Manager – GWA Door & Access Systems	2016	375,928	16,000	–	61,724	–	38,000	–	491,652	15.8	12	88
(Appointed 5 November 2014)	2015	245,437	106,666	–	29,080	–	24,797	–	405,980	33.4	100	–
K Veitch, Group General Manager – People, Culture & Communications	2016	349,161	76,000	–	61,724	–	34,000	–	520,886	26.4	38	62
(Appointed 1 July 2014)	2015	365,746	80,000	–	29,080	–	18,783	–	493,609	22.1	40	60
C Norwell, General Manager Sales – GWA Bathrooms & Kitchens[g]	2016	92,400	88,235	–	32,645	–	7,500	–	220,779	54.8	100	–
(Appointed 7 April 2016)	2015	–	–	–	–	–	–	–	–	–	–	–
Total – Executives Remuneration[i]	**2016**	**1,907,189**	**410,235**	**–**	**279,479**	**–**	**144,499**	**–**	**2,741,402**			
	2015	**899,083**	**246,666**	**–**	**87,240**	**–**	**59,267**	**–**	**1,292,256**			
Total – Directors and Executives[j] Remuneration	**2016**	**5,160,455**	**592,143**	**84,555**	**236,017**	**(316,697)**	**276,604**	**780,000**	**6,813,077**			
	2015	**3,518,651**	**324,479**	**132,159**	**685,654**	**34,860**	**217,005**	**–**	**4,912,808**			

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 outgoing Managing Director and other executives was frozen by the Board for FY16; refer Section 4.2.

(b) The Short Term Incentive (STI) Plan cash bonuses include the deferred component and relates to performance during FY16 based on the achievement of personal goals and financial performance targets. GWA Corporate and Bathrooms & Kitchens partially achieved their STI financial performance targets in FY16 and in accordance with the STI Plan rules, 50% of the amount has been deferred and will be subject to further testing in August 2017. Door & Access Systems did not achieve their STI financial performance targets in FY16. The STI cash bonuses will be paid in FY17, 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 the provision of motor vehicles, salary continuance and life insurance and 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 2016 were granted to executives in each of the years 30 June 2014, 2015 and 2016 (as applicable) and are subject to vesting conditions and the achievement of specified performance hurdles over the three year performance periods. During FY16, 73% of the Performance Rights in respect of the 2013 LTI grant lapsed as the EPS hurdle was not achieved and 27% of the Performance Rights vested as the TSR hurdle was partially achieved. The fair value of the Performance Rights granted in 30 June 2014 were calculated using Binomial Option Pricing Model (EPS hurdle) and Monte Carlo Simulation (TSR hurdle) valuation methodologies and allocated to each financial year evenly over the three year performance period. The fair value of the Performance Rights granted in 30 June 2015 and 2016 were calculated using Black Scholes Model (ROFE and EPS hurdles) and Monte Carlo Simulation (TSR hurdle) valuation methodologies and allocated to each financial year evenly over the three year performance period. If the specified performance hurdles are not achieved, then no benefits will be received by the executives under the LTI Plan and the Performance Rights are cancelled.

(e) Mr Tim Salt was appointed Managing Director effective 1 July 2016. He was previously Executive General Manager of GWA's Bathrooms & Kitchens business from
7 September 2015 and Chief Executive Officer from 1 January 2016. In line with Mr Salt's remuneration package, the base salary amount for Mr Salt included in the Remuneration Tables includes the payment of $300,000 at the end of FY16 as agreed compensation for loss of income and benefits as a result of Mr Salt accepting the role as Executive General Manager of GWA's Bathrooms & Kitchens business. Mr Salt did not participate in the Group STI Plan for FY16. The STI amount included in the Remuneration Tables represents Mr Salt's award based on Bathrooms & Kitchens partially achieving their STI financial performance targets for FY16. Mr Salt will participate in the Group STI Plan from FY17. For details of Mr Salt's remuneration arrangements as Managing Director please refer to Section 1.1 Managing Director Succession.

(f) Mr Peter Crowley retired as Managing Director on 31 December 2015 and received a termination payment of $780,000 representing 6 months salary. Mr Crowley did not participate in the GWA STI Plan in FY16 and no STI payments were paid for FY16 service. For details of Mr Crowley's termination arrangements and other entitlements please refer to Section 1.1 Managing Director Succession.

(g) Mr Craig Norwell commenced employment on 7 April 2016 as General Manager Sales – GWA Bathrooms & Kitchens and as part of his employment package was entitled to a payment of $88,235 representing FY16 benefits forgone on recruitment.

(h) The Board approved a reduction in non-executive director remuneration effective from FY16. The changes are within the annual aggregate maximum amount approved by shareholders. The changes are outlined in further detail in Section 3.1.

(i) The fixed remuneration for the outgoing Managing Director and other executives was frozen by the Board for FY16; refer Section 4.2. For the actual remuneration received by the executives for FY16 please refer to the table in Section 4.1.3.

(j) Totals in FY16 are higher than FY15 due to a combination of factors, including a number of KMP commencing employment in FY15, the inclusion in FY16 of the termination entitlements of the outgoing Managing Director and the impact of the re-organisation in FY15 to align with the new Group strategy approved by the Board. The changes resulted in new executive KMP positions and incumbents with greater responsibility, with higher market rates than executive positions and their incumbents in the prior structure.

5.2 Share based payments

5.2.1 Performance Rights

The following table shows details of the Performance Rights granted to key management personnel during the year ended 30 June 2016 and in prior years that affects compensation in this or future reporting periods.

		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 (Appointed 1 July 2016)	2016	262,000	23 March 2016	–	–	407,279	2.29
	2015	–	–	–	–	–	–
	2014	–	–	–	–	–	–
	2013	–	–	–	–	–	–
R Thornton, Executive Director	2016	65,000	23 March 2016	–	–	115,408	1.89
	2015	45,000	25 February 2015	–	–	89,222	2.72
	2014	40,000	24 February 2014	–	–	74,400	3.12
	2013	65,000	25 February 2013	27	73	127,400	1.70
P Crowley, Managing Director (Retired 31 December 2015)	2016	–	–	–	–	–	–
	2015	230,000	25 February 2015	–	33	456,021	2.72
	2014	200,000	24 February 2014	–	–	372,000	3.12
	2013	345,000	25 February 2013	27	73	676,200	1.70
Executives							
P Gibson, Group Chief Financial Officer (Appointed 27 April 2015)	2016	119,000	23 March 2016	–	–	184,986	1.89
	2015	–	–	–	–	–	–
	2014	–	–	–	–	–	–
	2013	–	–	–	–	–	–
S Mitchell, Group General Manager – Supply Chain (Appointed 16 February 2015)	2016	63,000	23 March 2016			97,934	1.89
	2015	44,000	25 February 2015	–	–	87,239	2.72
	2014	–	–	–	–	–	–
	2013	–	–	–	–	–	–
S Ralphsmith, Executive General Manager – GWA Door & Access Systems (Appointed 5 November 2014)	2016	63,000	23 March 2016	–	–	97,934	1.89
	2015	44,000	25 February 2015	–	–	87,239	2.72
	2014	–	–	–	–	–	–
	2013	–	–	–	–	–	–
K Veitch, Group General Manager – People, Culture & Communications (Appointed 1 July 2014)	2016	63,000	23 March 2016			97,934	1.89
	2015	44,000	25 February 2015	–	–	87,239	2.72
	2014	–	–	–	–	–	–
	2013	–	–	–	–	–	–
C Norwell, General Manager Sales – GWA Bathrooms & Kitchens (Appointed 7 April 2016)	2016	63,000	23 March 2016	–	–	97,934	1.89
	2015	–	–	–	–	–	–
	2014	–	–	–	–	–	–
	2013	–	–	–	–	–	–

Note:

* The issue price used to determine the number of Performance Rights offered to key management personnel during FY16, excluding Mr Salt, was $1.89 being the volume weighted average price of the Group's shares calculated over the 20 trading days after the Group's Annual General Meeting on 30 October 2015. The issue price used to determine the number of Performance Rights offered to Mr Salt was $2.29 per right being the volume weighted average price of the Group's shares calculated over the 20 trading days after the Group's half year results on 16 February 2016. The grant dates and corresponding fair values per right in the table have been determined in accordance with Australian Accounting Standards. Fair values have been calculated using the Black Scholes Model valuation methodology for the ROFE hurdle and Monte Carlo simulation for the TSR hurdle. The fair value of rights issued during the year under the ROFE hurdle was $1.78 per right and TSR hurdle was $1.33 per right.

All of the rights carry an exercise price of nil. The rights granted on 24 February 2014 and 25 February 2015 and 23 March 2016 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 2016, 2017 and 2018 respectively, subject to the achievement of the performance hurdles. The rights granted to Mr Thornton were approved by shareholders at the 2013, 2014 and 2015 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.

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 2013, the Group did not achieve the EPS hurdle and partially achieved the TSR hurdle for the performance period of 1 July 2012 to 30 June 2015. The rights subject to the EPS hurdle lapsed in FY16 resulting in the forfeiture of 363,000 rights with a value of $791,340. The rights subject to the TSR hurdle partially vested in FY16 resulting in the exercise of 177,887 shares (adjusted for the share consolidation effective on 9 June 2015) with a value of $340,127 and forfeiture of 167,525 rights with a value of $291,493.

The number of rights outstanding at 30 June 2016 also represents the balance yet to vest.

5.3 Key management personnel transactions

5.3.1 Loans to key management personnel and their related parties

No loans were made to key management personnel or their related parties during the year ended 30 June 2016 (2015: nil).

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

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

The Chairman, Mr Darryl McDonough, retired as an equity partner of Clayton Utz effective on 31 December 2015. Accordingly, legal services provided by Clayton Utz to the Group in FY16 are not considered other key management personnel transactions with the Group or its controlled entities (2015: $1,924,342).

There were no transactions with Great Western Corporation Pty Ltd in FY16, a company of which Mr Richard Thornton is a Non-Exectutive Director (2015: $46,326).

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

5.3.3 Movements in shares

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

	Held at 1 July 2015	Granted as compensation	Purchases	Sales	Held at 30 June 2016
Non-Executive Directors					
D McDonough	118,300	–	–	–	118,300
J Mulcahy	40,950	–	–	–	40,950
R Anderson	16,435,332	–	–	–	16,435,332
W Bartlett	30,207	–	–	–	30,207
P Birtles	13,650	–	–	–	13,650
Executive Directors					
T Salt (Appointed 1 July 2016)	n/a	–	11,900	–	11,900
R Thornton	65,975	15,927	–	–	81,902
P Crowley (Retired 31 December 2015)	459,550	84,532	–	–	n/a
Executives					
P Gibson (Appointed 27 April 2015)	–	–	–	–	–
S Mitchell (Appointed 16 February 2015)	–	–	–	–	–
S Ralphsmith (Appointed 5 November 2014)	–	–	–	–	–
K Veitch (Appointed 1 July 2014)	–	–	–	–	–
C Norwell (Appointed 7 April 2016)	n/a	–	–	–	–

	Held at 1 July 2014	Granted as compensation	Purchases	Sales	Share Consolidation[(a)]	Held at 30 June 2015
Non-Executive Directors						
D McDonough	107,905	–	22,095	–	(11,700)	118,300
J Mulcahy	45,000	–	–	–	(4,050)	40,950
R Anderson	18,060,801	–	–	–	(1,625,469)	16,435,332
W Bartlett	33,194	–	–	–	(2,987)	30,207
P Birtles	15,000	–	–	–	(1,350)	13,650
Executive Directors						
P Crowley (retired 31 December 2015)	480,000	–	25,000	–	(45,450)	459,550
R Thornton	58,694	–	13,806	–	(6,525)	65,975
Executives						
P Gibson (Appointed 27 April 2015)	n/a	–	–	–	–	–
S Mitchell (Appointed 16 February 2015)	n/a	–	–	–	–	–
S Ralphsmith (Appointed 5 November 2014)	n/a	–	–	–	–	–
K Veitch (Appointed 1 July 2014)	n/a	–	–	–	–	–
I Brannan (Ceased employment 13 March 2015)	–	–	–	–	–	n/a
L Patterson (Ceased employment 1 July 2015)	77,500	–	–	–	(6,975)	70,525
C Camillo (Ceased employment 2 February 2015)	–	–	–	–	–	n/a

Note:

(a) The balances at 30 June 2015 have been adjusted for the share consolidation approved by shareholders at a General Meeting on 29 May 2015. On the effective date of 9 June 2015, the share capital of the Company was consolidated through the conversion of every one fully paid ordinary share in the Company into 0.9100 fully paid ordinary shares in the Company.

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 2016 is listed in the Directors' Report under Directors' Interests.

During the FY16 reporting period, there were 100,459 shares granted to key management personnel as compensation (2015: nil). The aggregate number of shares held by key management personnel or their related parties at 30 June 2016 was 16,732,241 (2015: 17,234,489).

6. KEY TERMS OF EMPLOYMENT CONTRACTS

6.1 Notice and termination payments

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

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

For the other specified executives, the Group is required to give reasonable notice of termination of up to six months. The Group retains the right to immediately terminate the employment contracts of the executives by making payment equal to the relevant notice period (of up to six months) in lieu of providing notice.

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

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

Unless as a consequence of redundancy, an executive will not be eligible for an STI payment following cessation of employment with the Group.

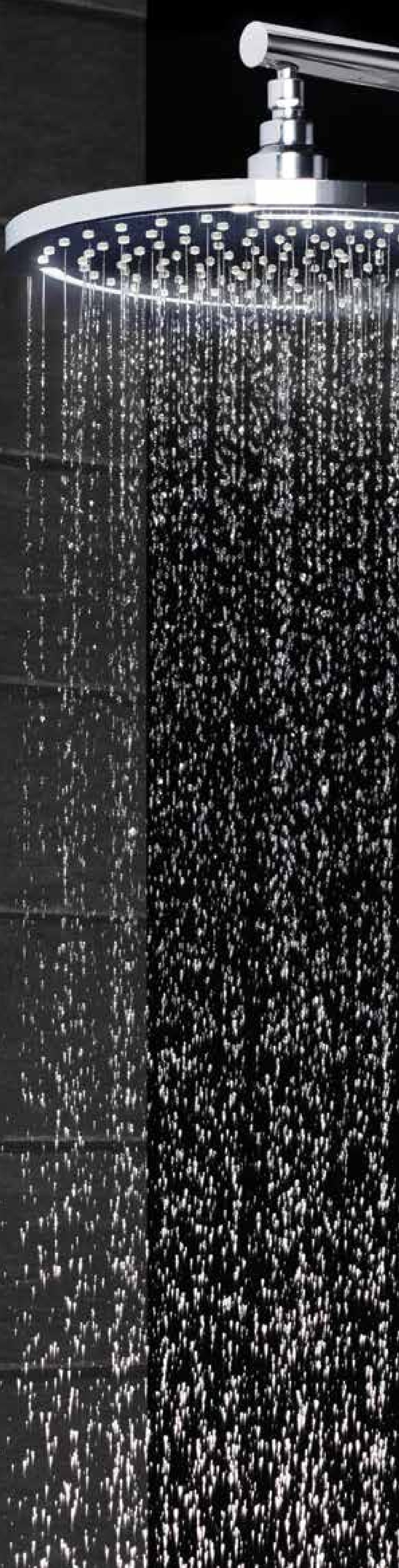
Performance Rights held by executives under the LTI plan will lapse upon the cessation of employment with the Group, unless the Board determines otherwise.

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

Darryl D McDonough
Chairman

Tim R Salt
Managing Director

Sydney, 22 August 2016



GWA GROUP LIMITED FINANCIAL REPORT

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

CONTENTS

NOTE

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2016

In thousands of AUD	Note	2016	2015
CONTINUING OPERATIONS			
Sales revenue	2	439,666	426,218
Cost of sales		(259,924)	(249,268)
Gross profit		179,742	176,950
Other income	4	779	5,065
Selling expenses		(60,939)	(59,560)
Administrative expenses		(41,288)	(43,572)
Other expenses	5	(29)	(57,649)
Operating profit		78,265	21,234
Finance income		500	935
Finance expenses		(7,008)	(8,264)
Net finance costs	9	(6,508)	(7,329)
Profit before tax		71,757	13,905
Tax expense	10	(19,837)	(3,544)
Profit from continuing operations		51,920	10,361
DISCONTINUED OPERATIONS			
Profit / (loss) from discontinued operations, net of tax	3A	1,761	(26,544)
Profit / (loss)		53,681	(16,183)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign subsidiaries, net of tax		78	(9)
Cash flow hedges, net of tax		(2,850)	827
Other comprehensive (loss) / income, net of tax		(2,772)	818
Total comprehensive income / (loss)		50,909	(15,365)
EARNINGS / (LOSS) PER SHARE (CENTS)			
Total			
– Basic	11	19.66	(5.30)
– Diluted	11	19.58	(5.30)
Continuing operations			
– Basic	11	19.02	3.39
– Diluted	11	18.94	3.38

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June *In thousands of AUD*	**Note**	**2016**	**2015**
CURRENT ASSETS			
Cash and cash equivalents	12	35,696	33,043
Trade and other receivables	13	51,983	63,885
Inventories	14	76,361	83,498
Other		2,267	2,502
Assets classified as held for sale		–	15,339
Total current assets		166,307	198,267
NON-CURRENT ASSETS			
Deferred tax assets	16	18,189	22,103
Property, plant and equipment	17	11,281	13,937
Intangible assets	18	314,894	316,549
Other		188	322
Total non-current assets		344,552	352,911
Total assets		510,859	551,178
CURRENT LIABILITIES			
Trade and other payables	19	40,510	47,599
Employee benefits	21	6,889	7,559
Income tax payable	15	1,851	8,857
Provisions	23	22,430	40,891
Liabilities associated with assets classified as held for sale		–	6,023
Total current liabilities		71,680	110,929
NON-CURRENT LIABILITIES			
Trade and other payables	19	432	–
Loans and borrowings	20	120,000	125,000
Employee benefits	21	8,447	9,337
Provisions	23	2,602	18
Total non-current liabilities		131,481	134,355
Total liabilities		203,161	245,284
Net assets		307,698	305,894
EQUITY			
Issued capital	24	307,877	337,942
Reserves	24	(3,356)	(51)
Retained earnings / (accumulated losses)		3,177	(31,997)
Total equity		307,698	305,894

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

The Gilderol business was sold in July 2015 and classified as a discontinued operation (refer to Note 3 Discontinued Operations). The 30 June 2015 consolidated statement of financial position includes the assets and liabilities associated with the Gliderol business within assets and liabilities classified as held for sale.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2016

In thousands of AUD	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		502,464	610,596
Payments to suppliers and employees		(421,842)	(548,445)
Cash generated from operations		80,622	62,151
Interest and facility fees paid		(6,662)	(8,319)
Interest received		500	935
Income taxes paid		(19,536)	(11,262)
Net cash from operating activities	32	54,924	43,505
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		70	33,059
Acquisition of property, plant and equipment		(2,708)	(3,344)
Acquisition of intangible assets		(920)	(1,718)
Proceeds from business disposals, net of transaction costs		3,570	88,599
Net cash from investing activities		12	116,596
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		20,000	105,000
Repayment of borrowings		(25,000)	(155,000)
Dividends paid		(18,718)	(35,251)
Capital return to holders of FY13 LTI grant		(44)	–
Payment for on-market share buy-back		(30,029)	–
Capital return to shareholders		–	(70,273)
Net cash used in financing activities		(53,791)	(155,524)
Net increase in cash and cash equivalents		1,145	4,577
Cash and cash equivalents at beginning of the year		33,043	29,873
Effect of exchange rate changes		181	(80)
Cash within assets held for sale on the statement of financial position		1,327	(1,327)
Cash and cash equivalents at 30 June	12	35,696	33,043

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

The cash flows of the Gliderol business are included in the consolidated statement of cash flows for the year ended 30 June 2016 only for the part of the year that they were owned by GWA Group Limited and its controlled entities. The 30 June 2015 consolidated statement of cash flows included Gliderol for the full year and has not been re-stated. Accordingly, the consolidated statement of cash flows for the years ended 30 June 2016 and 30 June 2015 are not comparable.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2016

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

For the year ended 30 June 2015

In thousands of AUD	Share capital	Translation reserve	Hedging reserve	Equity compensation reserve	(Accumulated losses) / retained earnings	Total
Balance at 1 July 2014	408,100	(1,141)	(1,908)	1,808	19,130	425,989
Total comprehensive income for the year						
Loss for the year	–	–	–	–	(16,183)	(16,183)
Other comprehensive income						
Exchange differences on translation of foreign subsidiaries, net of tax	–	(9)	–	–	–	(9)
Cash flow hedges, net of tax	–	–	827	–	–	827
Total other comprehensive income	–	(9)	827	–	–	818
Total comprehensive loss	–	(9)	827	–	(16,183)	(15,365)
Transaction with owners, recorded directly in equity						
Share-based payments, net of tax	–	–	–	372	307	679
Dividends declared	–	–	–	–	(35,251)	(35,251)
Capital return to shareholders, net of tax	(70,158)	–	–	–	–	(70,158)
Total transactions with owners	(70,158)	–	–	372	(34,944)	(104,730)
Balance as at 30 June 2015	337,942	(1,150)	(1,081)	2,180	(31,997)	305,894

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

GWA Group Limited (the 'Company') is a for-profit company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2016 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 22 August 2016.

(a) Statement of compliance

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

(b) Basis of preparation

The financial report is presented in Australian dollars which is the Company's functional currency and the functional currency of the majority of the consolidated entity. The entity has elected not to early adopt any accounting standards or amendments.

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

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

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

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

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

- note 18 - measurement of the recoverable amounts of intangible assets
- note 22 - fair value of share-based payments
- note 23 and 28 - provisions and contingencies
- note 25 - valuation of financial instruments

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

(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 2016:

- AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality*

The initial adoption of the above revision has not had a material impact on the amounts reported in the consolidated annual financial report.

(ii) Standards and Interpretations issued but not yet adopted

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

Standard / Interpretation	Effective for the annual reporting period beginning on	Expected to be initially applied in the financial year ending
AASB 16 *Leases*	1 January 2019	30 June 2020
AASB 9 *Financial Instruments (December 2014),* AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*, AASB 2014-8 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)* and AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*	1 January 2018 (Applies on a modified retrospective basis)	30 June 2019
AASB 15 *Revenue from Contracts with Customers*, AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15* and AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15*	1 January 2018	30 June 2019
AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017	30 June 2018
AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 Statement of Cash Flows*	1 January 2017	30 June 2018
AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*	1 January 2016	30 June 2017
AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*	1 January 2016	30 June 2017
AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 Presentation of Financial Statements*	1 January 2016	30 June 2017
AASB 1057 *Application of Australian Accounting Standards* and *AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs*	1 January 2016	30 June 2017

The consolidated entity is assessing the potential impact of the above Standards and Interpretations issued but not yet adopted 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 statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(iii) Transaction eliminated on consolidation

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

(e) Foreign currency

(i) Foreign currency transactions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(e) Foreign currency continued

(ii) Financial statements of foreign operations

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

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

(iii) Net investment in foreign operations

Foreign exchange differences arising from the retranslation of the net investment in foreign operations (including monetary items neither planned to be settled or likely to be settled in the foreseeable future), and of related hedges are recognised in the FCTR to the extent that the hedge is effective. They are released into profit or loss as part of the gain or loss on disposal.

(f) Derivative financial instruments

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

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

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.

(g) 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.

(i) Cash flow hedges

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

When the hedged item is a non-financial asset, the amount recognised in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period 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.

Separable embedded derivatives

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

Other non-trading derivatives

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

(ii) Hedge of monetary assets and liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(g) Hedging continued

(iii) Hedge of net investment in foreign operation

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

(h) Property, plant and equipment

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

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.

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

(i) Subsequent costs

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

(ii) Depreciation

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
- motor vehicles 4-8 years

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

(i) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

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

(ii) Brand names

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

(iii) Goodwill

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

(iv) Other intangible assets

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

(v) Subsequent expenditure

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

(vi) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives in the current and comparative periods are as follows:

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

(j) Trade and other receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(k) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

(l) Cash and cash equivalents

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

(m) Impairment

(i) Non-derivative financial assets

Financial assets measured at amortised cost

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

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

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

Available-for-sale financial assets

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

(ii) Non-financial assets

The carrying amounts of the consolidated entity's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite life intangible assets are tested at least annually for impairment. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(n) Share capital

(i) Ordinary shares

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

(ii) Dividends

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

(iii) Transaction costs

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

(o) Interest-bearing borrowings

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

(p) Employee benefits

(i) Defined contribution superannuation funds

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

(ii) Other long-term employee benefits

The consolidated entity's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted to present value.

(iii) Short-term benefits

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

(iv) Share-based payment transactions

The grant date fair value of performance rights granted to employees is recognised as a personnel expense, with a corresponding increase in equity, over the specified period that the performance rights vest to employees. The amount recognised as an expense is adjusted to reflect the actual number of performance rights for which the related service and non-market vesting hurdles are met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(q) Provisions

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

(i) Warranties

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

(ii) Restructuring

A provision for restructuring is recognised when the consolidated entity has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

(iii) Site restoration

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

(r) Trade and other payables

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

(s) Revenue

(i) Goods sold

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

(t) Expenses

(i) Costs of goods sold

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(t) Expenses continued

(ii) Operating lease payments

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

(iii) Net financing costs

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

(u) 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.

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

The Company and its wholly-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.

(v) 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.

(w) Earnings per share

The consolidated entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(x) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(y) Segment reporting

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

2. OPERATING SEGMENTS

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

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

Discontinued operations in the current and prior period includes the sale of garage doors and openers (Gliderol Garage Doors), water heaters (Dux Hot Water) and ducted heating and climate control systems (Brivis Heating & Cooling). Refer to note 3 for further information regarding discontinued operations.

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

	Bathrooms & Kitchens		Door & Access Systems		Discontinued operations		Total	
In thousands of AUD	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Sales revenue	341,953	330,015	97,713	96,203	4,798	121,564	444,464	547,782
Segment profit / (loss) before significant items and tax	84,582	83,291	7,318	7,239	(605)	1,528	91,295	92,058
Impairment losses on non-financial assets	–	–	–	–	–	(24,204)	–	(24,204)
Supplier compensation payment	–	(525)	–	–	–	–	–	(525)
Loss on sale of discontinued operations	–	–	–	–	–	(3,634)	–	(3,634)
Restructuring income – gains on disposal of property	–	4,253	–	–	–	–	–	4,253
Brivis product defect issues (note 28)	–	–	–	–	2,805	–	2,805	–
Restructuring costs	–	(40,764)	–	–	–	–	–	(40,764)
Other restructuring and significant items	–	(545)	–	96	–	(2,380)	–	(2,829)
Segment profit / (loss) before income tax	84,582	45,710	7,318	7,335	2,200	(28,690)	94,100	24,355
Depreciation	1,983	4,360	935	964	103	2,787	3,021	8,111
Amortisation	–	–	406	406	41	787	447	1,193
Capital expenditure	1,896	903	758	513	44	1,700	2,698	3,116
Reportable segment assets	389,947	408,294	61,157	63,555	–	10,490	451,104	482,339
Reportable segment liabilities	49,673	66,609	9,816	12,433	–	6,023	59,489	85,065

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. OPERATING SEGMENTS CONTINUED

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

In thousands of AUD	2016	2015
Revenues		
Total revenue for reportable segments	444,464	547,782
Elimination of discontinued operations	(4,798)	(121,564)
Consolidated revenue – continuing operations	439,666	426,218
Profit		
Total profit for reportable segments	94,100	24,355
Elimination of discontinued operations	(2,200)	28,690
Other significant items	-	(2,427)
Restructuring expenses: corporate	-	(11,619)
Unallocated amounts: corporate expenses	(13,635)	(17,765)
Profit from operating activities	78,265	21,234
Net financing costs	(6,508)	(7,329)
Consolidated profit before tax – continuing operations	71,757	13,905
Assets		
Total assets for reportable segments	451,104	482,339
Unallocated amounts: corporate assets*	59,755	68,839
Consolidated total assets	510,859	551,178
Liabilities		
Total liabilities for reportable segments	59,489	85,065
Unallocated amounts: corporate liabilities*	143,672	160,219
Consolidated total liabilities	203,161	245,284

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

Reconciliations of other material items

In thousands of AUD	2016	2015
Depreciation		
Total depreciation for reportable segments	3,021	8,111
Elimination of discontinued operations	(103)	(2,787)
Unallocated amounts: depreciation on corporate assets	470	509
Consolidated depreciation – continuing operations	3,388	5,833
Amortisation		
Total amortisation for reportable segments	447	1,193
Elimination of discontinued operations	(41)	(787)
Unallocated amounts: amortisation on corporate assets	2,191	2,734
Consolidated amortisation – continuing operations	2,597	3,140
Capital expenditure		
Total capital expenditure for reportable segments	2,698	3,116
Elimination of discontinued operations	(44)	(1,700)
Unallocated amounts: corporate capital expenditure	930	1,946
Consolidated capital expenditure – continuing operations	3,584	3,362

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. OPERATING SEGMENTS CONTINUED

Geographical Segments

The business segments are managed on a worldwide basis, but operate mainly in one geographical area being Australia. A sales office is also operated in New Zealand. Sales revenue from geographical areas outside Australia comprised only 6% of the consolidated entity's total sales revenue for the current year (2015: 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.

	Australia		New Zealand		Consolidated	
In thousands of AUD	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
External sales revenue	415,336	402,474	24,330	23,744	439,666	426,218
Non-current assets*	321,107	326,255	5,256	4,553	326,363	330,808

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

Major customers

The consolidated entity conducts business with 3 customers where the net revenue generated from each customer exceeds 10% of the consolidated entity's net revenue. Net revenue from these customers represent $71,365,000 (2015: $68,519,000), $63,426,000 (2015: $59,209,000) and $56,073,000 (2015: $63,265,000) respectively of the consolidated entity's total net revenues for the current year of $439,666,000 (2015: $426,218,000). The revenues from these customers are reported in the Bathrooms & Kitchens and Door & Access Systems segments.

3. DISCONTINUED OPERATIONS

During the year ended 30 June 2016, the Gliderol business was sold with an effective date of 31 July 2015.

During the year ended 30 June 2015, the Dux Hot Water business was sold with an effective date of 19 December 2014 and the Brivis Heating & Cooling business was sold with an effective date of 2 February 2015.

The operating activities of these three businesses were classified as discontinued in the current and prior years. The assets and liabilities associated with the Gliderol business were classified as held for sale at 30 June 2015.

A. Results of discontinued operations

For the year ended 30 June		
In thousands of AUD	**2016**	**2015**
Revenue	4,798	121,564
Expenses	(5,403)	(120,036)
(Loss) / profit from operating activities	(605)	1,528
Tax benefit / (expense) on operating activities	403	(517)
(Loss) / profit from operating activities, net of tax	(202)	1,011
Impairment loss recognised on the re-measurement to fair value less costs to sell – Gliderol	–	(24,204)
Tax benefit on impairment loss – Gliderol	–	2,034
Product defect issues settlement – Brivis	2,805	–
Tax expense on product defect issues settlement	(842)	–
Loss on sale of discontinued operations	–	(3,634)
Other restructuring and significant items	–	(2,380)
Tax benefit on other restructuring and significant items	–	629
Profit / (loss) for the year	1,761	(26,544)
Basic profit / (loss) per share (cents per share)	0.64	(8.69)
Diluted profit / (loss) per share (cents per share)	0.64	(8.69)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. DISCONTINUED OPERATIONS CONTINUED

B. Cash flows from discontinued operations

For the year ended 30 June

In thousands of AUD	**2016**	**2015**
Net cash (used in) / from operating activities	(682)	2,290
Net cash from investing activities	4,779	86,533
Net cash from discontinued operations	4,097	88,823

C. Effect of disposal of Gliderol on the financial position of the consolidated entity

As at 30 June

In thousands of AUD	**2016**
Trade and other receivables	(5,685)
Inventories	(5,095)
Net deferred tax assets	(982)
Other liabilities	12
Trade and other payables	4,239
Provisions	383
Employee benefits	1,718
Net assets and liabilities	(5,410)
Disposal costs	(1,360)
	(6,770)
Consideration proceeds	6,900
Cash and cash equivalents disposed of	(130)
Net cash inflow	6,770

4. OTHER INCOME

In thousands of AUD	**Note**	**2016**	**2015**
Foreign currency gains – realised		42	5
Foreign currency gains – unrealised		292	–
Other – scrap income, royalties		445	807
Restructuring income – gains on disposal of property	6	–	4,253
		779	5,065

5. OTHER EXPENSES

In thousands of AUD	**Note**	**2016**	**2015**
Foreign currency losses – realised		29	1,132
Foreign currency losses – unrealised		–	734
Significant items – expenses	6	–	55,783
		29	57,649

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. SIGNIFICANT ITEMS

In thousands of AUD	Note	2016	2015
Restructuring costs	(i)	–	52,633
Restructuring income – gains on disposal of property	(i)	–	(4,253)
Supplier exit compensation	(ii)	–	723
Corporate transformation costs	(iii)	–	2,427
Total significant items before tax		–	51,530
Tax benefit		–	(16,734)
Net significant items after tax		–	34,796

(i) Restructuring costs

In October 2014, GWA announced its plans to restructure its manufacturing activities following a detailed review of its operations. This resulted in decisions to phase out the Norwood plastics operation in Adelaide over the next three years, and cease production in the Wetherill Park vitreous china manufacturing facility by the end of calendar 2014. There were no expenses recognised in association with this in the current year (2015: $41,000,000).

In June 2015, GWA announced that it would restructure its group operations to drive greater focus across its businesses, realign the cost base to adjust for the divested businesses, and further capture supply chain efficiencies. There were no expenses recognised in association with this in the current year (2015: $11,600,000).

In April 2015, GWA announced the sale and leaseback of its Wetherill Park facility. A gain of $4,253,000 was recognised in the prior year (2016: nil).

(ii) Supplier exit compensation

In prior reporting periods, the Bathrooms & Kitchens business conducted a supply chain review and determined it would exit arrangements with a number of overseas suppliers and focus on building strategic relationships with a few core suppliers. During the year ended 30 June 2014, a former China sanitaryware supplier threatened legal action for breach of contract and management entered into an agreement to settle the dispute in order to focus on the strategic supply relationships. During the year ended 30 June 2016 no costs were incurred in relation to the settlement of this dispute (2015: $723,000).

(iii) Corporate transformation costs

In 2014, the Board approved and completed a strategic review of the Group focus and structure. Opportunity for future growth and shareholder returns were identified in the target market segments of the Bathrooms & Kitchens and Door & Access Systems businesses. No costs were incurred in the current year in relation to the execution of this review (2015: $2,427,000).

7. PERSONNEL EXPENSES

In thousands of AUD	2016	2015
Wages and salaries – including superannuation contributions, annual leave, long service leave and on-costs	86,730	99,931
Equity-settled share-based payment transactions	99	679
	86,829	100,610

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. AUDITOR'S REMUNERATION

In AUD	**2016**	**2015**
Auditor services		
Auditor of the Company		
KPMG Australia:		
Audit and review of financial reports	402,300	457,233
Other regulatory services	34,186	–
Overseas KPMG Firms:		
Audit and review of financial reports	10,000	15,000
	446,486	472,233
Other services		
Auditor of the Company		
KPMG Australia:		
Taxation services	–	5,300
Overseas KPMG Firms:		
Taxation services	52,112	31,504
	52,112	36,804

9. NET FINANCING COSTS

In thousands of AUD	**2016**	**2015**
Finance income		
Interest income on call deposits	447	843
Other	53	92
	500	935
Finance expense		
Interest expense on financial liabilities	2,891	3,786
Interest expense on swaps	1,241	991
Facility fees on financial liabilities	2,143	2,809
Establishment and legal fees amortisation	733	630
Other	–	48
	7,008	8,264
Net financing costs	6,508	7,329

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. INCOME TAX EXPENSES

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

In thousands of AUD	**2016**	**2015**
Current tax expense		
Current year	15,497	12,759
Adjustments for prior years	(780)	978
	14,717	13,737
Deferred tax expense / (benefit)		
Origination and reversal of temporary differences	5,120	(10,193)
Tax expense from continuing operations	19,837	3,544
Tax expense / (benefit) from discontinued operations	439	(2,146)
Total expense in statement of profit or loss and other comprehensive income	20,276	1,398

Numerical reconciliation between tax expense and pre-tax net profit

In thousands of AUD	**2016**	**2015**
Profit from continuing operations before tax	71,757	13,905
Profit / (loss) from discontinued operations before tax	2,200	(28,690)
Profit / (loss) before tax	73,957	(14,785)
Tax expense / (benefit) using the domestic rate of 30% (2014: 30%)	22,187	(4,435)
Tax (benefit) / expense due to:		
Non-deductible expenses	94	384
Non-deductible impairment loss	–	5,227
(Deductible) / non-deductible net share-based payments	(72)	204
Effect of tax rate in foreign jurisdictions	(40)	(128)
Non-assessable accounting gain on disposal of capital gains tax assets	(629)	(237)
Carried forward tax losses utilised	(56)	(86)
Building depreciation allowance	–	(15)
Rebateable research and development	(207)	(312)
	21,277	602
(Over) / under provided in prior years	(1,001)	796
Income tax expense on pre-tax net profit	20,276	1,398

Deferred tax recognised directly in equity

In thousands of AUD	**2016**	**2015**
Derivatives	(1,222)	354
Share buy-back and capital return costs	16	(92)
	(1,206)	262

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share (EPS) has been based on the following profit attributable to ordinary shareholders.

Profit attributable to ordinary shareholders – basic / diluted

In thousands of AUD	**2016**	**2015**
Continuing operations		
Profit before significant items	51,920	45,157
Net significant items	–	(34,796)
Profit for the year from continuing operations	51,920	10,361
Discontinued operations		
(Loss) / profit before significant items	(202)	1,011
Net significant items	1,963	(27,555)
Profit / (loss) for the year from discontinued operations	1,761	(26,544)
Profit / (loss) for the year	53,681	(16,183)

Basic earnings per share

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)

In thousands of shares	**2016**	**2015**
Issued ordinary shares at 1 July	278,948	306,534
Effect of on-market share buy-back*	(5,923)	–
Effect of share consolidation**	–	(1,209)
Weighted average number of ordinary shares at 30 June	273,025	305,325

Diluted earnings per share

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)

In thousands of shares	**2016**	**2015**
Weighted average number of ordinary shares (basic)	273,025	305,325
Effect of performance rights on issue	1,162	1,533
Weighted average number of ordinary shares (diluted)	274,187	306,858

***Effect of on-market share buy-back**

On 16 November 2015, GWA announced an on-market share buy-back program as part of its ongoing capital management initiatives. The share buy-back was completed on 17 June 2016. As at 30 June 2016, 15,000,356 shares were purchased on-market and subsequently cancelled (refer to note 24 for further details). This reduction is reflected in the calculation of the weighted average number of ordinary shares at 30 June 2016.

****Effect of share consolidation**

On 29 May 2015, GWA shareholders approved a consolidation of the Company's share capital through the conversion of each fully paid ordinary share in GWA into 0.9100 fully paid ordinary shares. Upon completion of the share consolidation, the number of the Company's shares on issue reduced from 306,533,770 to 278,947,986 (refer to note 24 for further details). This reduction is reflected in the calculation of the weighted average number of ordinary shares at 30 June 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. EARNINGS PER SHARE CONTINUED

	2016	2015
Earnings / (loss) per share (cents)		
Total		
- Basic	19.66	(5.30)
- Diluted	19.58	(5.30)
- Basic (excluding significant items)	18.94	15.12
- Diluted (excluding significant items)	18.86	15.04
Continuing operations		
- Basic	19.02	3.39
- Diluted	18.94	3.38
- Basic (excluding significant items)	19.02	14.79
- Diluted (excluding significant items)	18.94	14.72

12. CASH AND CASH EQUIVALENTS

In thousands of AUD	2016	2015
Bank balances	21,150	10,873
Call deposits	14,546	22,170
Cash and cash equivalents in the statement of cash flows	35,696	33,043

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

13. TRADE AND OTHER RECEIVABLES

In thousands of AUD	2016	2015
Net trade receivables	50,502	62,540
Forward exchange contracts used for hedging (net receivable)	–	328
Other	1,481	1,017
	51,983	63,885

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

14. INVENTORIES

In thousands of AUD	2016	2015
Raw materials and consumables	4,078	3,617
Work in progress	149	173
Finished goods	72,134	79,708
	76,361	83,498

15. CURRENT TAX LIABILITIES

The current tax liability for the consolidated entity of $1,851,000 (2015: $8,857,000) represents the amount of income taxes payable in respect of the current period. In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax-consolidated group has assumed the current tax liability initially recognised by the members in the tax-consolidated group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
In thousands of AUD	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Property, plant and equipment	–	1	(741)	(633)	(741)	(632)
Intangible assets	1,710	1,677	(517)	(634)	1,193	1,043
Inventories	2,578	2,090	–	–	2,578	2,090
Employee benefits	4,599	4,834	–	–	4,599	4,834
Provisions	7,486	11,856	–	–	7,486	11,856
Other items	3,108	3,019	(34)	(107)	3,074	2,912
Tax assets / (liabilities)	19,481	23,477	(1,292)	(1,374)	18,189	22,103
Set off of tax	(1,292)	(1,374)	1,292	1,374	–	–
Net tax assets	18,189	22,103	–	–	18,189	22,103

Unrecognised deferred tax assets

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

In thousands of AUD	**2016**	**2015**
Capital losses	67,346	20,771
Revenue losses from foreign jurisdictions	20	76

The deductible capital losses accumulated at balance date do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which to offset the tax benefit of these losses.

Movement in temporary differences during the year

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

In thousands of AUD	**Balance 1 July 14**	**Recognised in income**	**Recognised in equity**	**Reclassified to Assets / Liabilities Held for Sale**	**Balance 30 June 15**
Property, plant and equipment	(1,378)	746	–	–	(632)
Intangible assets	(3,479)	4,522	–	–	1,043
Inventories	2,214	122	–	(246)	2,090
Employee benefits	7,495	(2,144)	–	(517)	4,834
Provisions	6,164	5,943	–	(251)	11,856
Other items	2,890	297	(262)	(13)	2,912
	13,906	9,486	(262)	(1,027)	22,103

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. PROPERTY, PLANT AND EQUIPMENT

In thousands of AUD	Land and buildings	Plant and equipment	Motor Vehicles	Work in progress	Total
Cost					
Balance at 1 July 2015	–	126,952	520	804	128,276
Additions	–	1,386	–	1,781	3,167
Disposal of discontinued operations (Gliderol)	–	(9,231)	(342)	(177)	(9,750)
Disposals transferred to restructuring provision	–	(1,540)	–	–	(1,540)
Other disposals	–	(58,847)	(76)	–	(58,923)
Effect of movements in exchange rates	–	71	3	–	74
Balance at 30 June 2016	–	58,791	105	2,408	61,304
Balance at 1 July 2014	57,635	173,887	729	1,723	233,974
Additions	263	3,028	–	53	3,344
Disposal of discontinued operations (Dux and Brivis)	(24,584)	(48,853)	(76)	(487)	(74,000)
Other disposals	(33,314)	(1,567)	(132)	–	(35,013)
Transfers	–	485	–	(485)	–
Effect of movements in exchange rates	–	(28)	(1)	–	(29)
Balance at 30 June 2015	–	126,952	520	804	128,276
Depreciation and impairment losses					
Balance at 1 July 2015	–	(113,642)	(520)	(177)	(114,339)
Depreciation	–	(3,491)	–	–	(3,491)
Depreciation charged to restructuring provision	–	(1,677)	–	–	(1,677)
Disposal of discontinued operations (Gliderol)	–	9,231	342	177	9,750
Disposals transferred to restructuring provision	–	916	–	–	916
Other disposals	–	58,810	76	–	58,886
Effect of movements in exchange rates	–	(65)	(3)	–	(68)
Balance at 30 June 2016	–	(49,918)	(105)	–	(50,023)
Balance at 1 July 2014	(9,086)	(127,290)	(576)	–	(136,952)
Depreciation	(817)	(7,699)	(104)	–	(8,620)
Depreciation charged to restructuring provision	–	(1,542)	–	–	(1,542)
Disposal of discontinued operations (Dux and Brivis)	2,338	31,826	52	–	34,216
Other disposals	7,565	1,416	116	–	9,097
Impairment loss	–	(10,386)	(10)	(177)	(10,573)
Effect of movements in exchange rates	–	33	2	–	35
Balance at 30 June 2015	–	(113,642)	(520)	(177)	(114,339)
Carrying amounts					
At 30 June 2016	–	8,873	–	2,408	11,281
At 1 July 2015	–	13,310	–	627	13,937
At 30 June 2015	–	13,310	–	627	13,937
At 1 July 2014	48,549	46,597	153	1,723	97,022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. INTANGIBLE ASSETS

In thousands of AUD	Software	Brand names	Trade names, designs, patents and customer relationships	Goodwill	Total
Cost					
Balance at 1 July 2015	35,099	302,767	12,897	30,080	380,843
Additions	909	–	–	–	909
Disposal of discontinued operations (Gliderol)	(475)	–	(7,317)	(24,074)	(31,866)
Other disposals	(7,196)	–	–	–	(7,196)
Effects of movements in exchange rates	–	33	–	–	33
Balance at 30 June 2016	28,337	302,800	5,580	6,006	342,723
Balance at 1 July 2014	33,573	308,788	24,354	50,914	417,629
Additions	1,617	–	101	–	1,718
Disposal of discontinued operations (Dux and Brivis)	(91)	(6,000)	(11,558)	(20,834)	(38,483)
Effects of movements in exchange rates	–	(21)	–	–	(21)
Balance at 30 June 2015	35,099	302,767	12,897	30,080	380,843
Amortisation and impairment losses					
Balance at 1 July 2015	(30,635)	–	(9,585)	(24,074)	(64,294)
Amortisation	(2,201)	–	(437)	–	(2,638)
Disposal of discontinued operations (Gliderol)	485	–	7,348	24,074	31,907
Other disposals	7,196	–	–	–	7,196
Impairment loss	–	–	–	–	–
Balance at 30 June 2016	(25,155)	–	(2,674)	–	(27,829)
Balance at 1 July 2014	(26,469)	–	(5,470)	(17,000)	(48,939)
Amortisation	(2,798)		(1,129)	–	(3,927)
Amortisation charged to restructuring provision	(55)	–	–	–	(55)
Disposal of discontinued operations (Dux and Brivis)	13	–	2,709	–	2,722
Impairment loss	(1,326)	–	(5,695)	(7,074)	(14,095)
Balance at 30 June 2015	(30,635)	–	(9,585)	(24,074)	(64,294)
Carrying amounts					
At 30 June 2016	3,182	302,800	2,906	6,006	314,894
At 1 July 2015	4,464	302,767	3,312	6,006	316,549
At 30 June 2015	4,464	302,767	3,312	6,006	316,549
At 1 July 2014	7,104	308,788	18,884	33,914	368,690

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. INTANGIBLE ASSETS CONTINUED

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

In thousands of AUD	**2016**	**2015**
Bathrooms & Kitchens	284,201	284,168
Door & Access Systems	24,605	24,605
	308,806	308,773

Impairment testing for brand names and goodwill

The recoverable amounts of all brand names and goodwill were assessed at 30 June 2016 based on internal value in use calculations and no impairment was identified for any cash generating units (2015: $nil).

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

- Cash flows were projected based on actual operating results and business plans of the units approved by the Board, with projected cash flows to five years before a terminal value was calculated. Maintainable earnings were adjusted for an allocation of corporate overheads.
- Management used a constant growth rate of 2.5% (2015: 2.5%) in calculating terminal values of the units, which does not exceed the long-term average growth rate for the industry.
- Pre-tax discount rates between 12.5% - 13.0% were used (2015: 14.4% - 14.5%).

The key assumptions relate to dwelling completions, economic activity and market share. The values assigned to the key assumptions represent management's assessment of future trends in the Bathrooms & Kitchens and Door & Access Systems industries and are based on both external sources and internal sources (historical data). The recoverable amount of the cash generating units exceeds their carrying values at 30 June 2016 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.

19. TRADE AND OTHER PAYABLES

In thousands of AUD	**2016**	**2015**
Current		
Trade payables and accrued expenses	33,903	43,964
Forward exchange contracts used for hedging (net payable)	3,944	–
Interest rate swaps used for hedging	1,705	1,872
Non-trade payables and accrued expenses	958	1,763
	40,510	47,599
Non-current		
Trade payables and accrued expenses	432	–

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. LOANS AND BORROWINGS

This note provides information about the contractual terms of the consolidated entity's loans and borrowings, which are measured at amortised cost. For more information about the consolidated entity's exposure to interest rate and foreign currency risk, see note 25.

Non-current liabilities

In thousands of AUD	**2016**	**2015**
Unsecured cash advance facilities	120,000	125,000

Terms and debt repayment schedule

In thousands of AUD	**Currency**	**Year of maturity**	**2016 Face value**	**2016 Carrying amount**	**2015 Face value**	**2015 Carrying amount**
Unsecured cash advance facilities	AUD	2017	–	–	125,000	125,000
Unsecured cash advance facilities	AUD	2018	120,000	120,000	–	–
			120,000	120,000	125,000	125,000

In thousands of AUD	**2016**	**2015**
Financing facilities		
Standby letters of credit	2,000	2,000
Bank guarantees	7,000	7,044
Unsecured cash advance facilities	225,000	225,000
	234,000	234,044
Facilities utilised at reporting date		
Standby letters of credit	–	–
Bank guarantees	4,116	4,133
Unsecured cash advance facilities	120,000	125,000
	124,116	129,133
Facilities not utilised at reporting date		
Standby letters of credit	2,000	2,000
Bank guarantees	2,884	2,911
Unsecured cash advance facilities	105,000	100,000
	109,884	104,911

Unsecured cash advance facility

On 23 October 2015, GWA Finance Pty Limited successfully completed the extension of its syndicated banking facility. The facility now comprises a single three year revolving facility of $225 million which matures in October 2018. Prior to 23 October 2015 and for the year ended 30 June 2015, the facility matured in October 2017. The loan is denominated in Australian dollars, bears interest at market rates and interest is typically payable every 30 to 90 days. The consolidated entity hedges its exposure to variable interest rates through interest rate swap transactions.

Letter of credit

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. EMPLOYEE BENEFITS

In thousands of AUD	2016	2015
Current		
Liability for annual leave	5,398	5,888
Liability for long-service leave	1,491	1,671
	6,889	7,559
Non-current		
Liability for long-service leave	8,447	9,337

Defined contribution superannuation funds

The consolidated entity makes contributions to defined contribution superannuation funds. Contributions are charged against income as they are made based on various percentages of each employee's gross salary. The amount recognised as an expense was $6,430,000 for the financial year ended 30 June 2016 (2015: $8,936,000).

22. SHARE-BASED PAYMENTS

The Long Term Incentive (Equity) Plan was approved by shareholders at the 2008 Annual General Meeting. Under the plan, the Board may offer performance rights to participants which entitle the holder to ordinary shares in the Company (or in limited cases cash payments), 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 the 2015/16 year are subject to financial performance conditions which measure growth in Return on Funds Employed (ROFE) and Total Shareholder Return (TSR) compared to a peer group of companies (2014/15 year: performance hurdles were subject to financial performance conditions that measured growth in ROFE and EPS relative to dwelling completions growth). The performance hurdles are challenging but achievable and focus senior executives on sustained long term growth consistent with shareholder wealth creation. The Plan runs over a three year performance period and the rights will only vest if the performance hurdles are achieved based on a 50% allocation of each grant to the two performance hurdles. If the vesting conditions and performance hurdles are achieved, ordinary shares will be issued to the participants at no cost. If the performance hurdles are not met, then the rights are cancelled after three years.

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

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

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

TSR of GWA Group Limited relative to TSRs of Comparator Companies	Proportion of Performance Rights to Vest if TSR hurdle is met
Less than the 50th percentile	0%
50th percentile	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)

For performance rights granted to executives in the 2014/15 year, the performance hurdles and vesting proportions for the ROFE performance measure are outlined in the table below.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. SHARE-BASED PAYMENTS CONTINUED

For performance rights granted to executives in the 2014/15 year, the performance hurdles and vesting proportions for the EPS performance measure are outlined in the table below.

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

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

Tranche	Grant date	Expiry date	Balance at beginning of the year	Granted during the year	Cancelled during the year	Vested during the year	Forfeited during the year	Balance at end of the year
			Number	Number	Number	Number	Number	Number
2016								
(i)	25/02/2013	30/06/2015	726,000	–	–	(195,476)	(530,524)	–
(ii)	24/02/2014	30/06/2016	340,000	–	–	–	–	340,000
(iii)	25/02/2015	30/06/2017	507,000	–	(76,667)	–	–	430,333
(iv)	23/03/2016	30/06/2018	–	850,500	–	–	–	850,500
			1,573,000	850,500	(76,667)	(195,476)	(530,524)	1,620,833
2015								
(i)	17/02/2012	30/06/2014	292,500	–	–	–	(292,500)	–
(ii)	25/02/2013	30/06/2015	892,000	–	(166,000)	–	–	726,000
(iii)	24/02/2014	30/06/2016	540,000	–	(200,000)	–	–	340,000
(iv)	25/02/2015	30/06/2017	–	507,000	–	–	–	507,000
			1,724,500	507,000	(366,000)	–	(292,500)	1,573,000

Fair value

During the current financial year 850,500 performance rights were granted to employees (2015: 507,000) at a weighted average fair value of $1.33 (TSR) and $1.78 (ROFE) (2015: $1.98 ROFE & EPS).

For the 30 June 2016 financial year, 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 5.85%, the risk free rate was 2.04% and annualised share price volatility was 33.0% for the Company and its comparator companies listed for the TSR hurdle.

The fair value of the performance rights granted will be allocated to each financial year evenly over the specified three year performance period. The amount recognised as personnel expenses in the current financial year was $99,000 (2015: $679,000). Refer to the Remuneration Report section of the Directors' Report for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. PROVISIONS

In thousands of AUD	Warranties	Restructuring	Site restoration	Product liability	Other	Total
Balance at 1 July 2015	2,538	32,471	1,332	1,826	2,742	40,909
Provisions made during the year	667	–	469	–	1,076	2,212
Provisions used during the year	(596)	(13,236)	(43)	(1,553)	(2,908)	(18,336)
Disposal of discontinued operations	–	–	–	–	176	176
Transfers between provisions / other balance sheet accounts	–	–	–	599	(528)	71
Balance at 30 June 2016	2,609	19,235	1,758	872	558	25,032
Current	2,574	18,726	676	175	279	22,430
Non-current	35	509	1,082	697	279	2,602
	2,609	19,235	1,758	872	558	25,032

Warranties

The provision for warranties relates to future warranty expense on products sold during the current and previous financial years. The major warranty expense relates to Bathroom & Kitchens' sanitaryware and tapware products. The provision is based on estimates made from historical warranty data associated with similar products and services. The consolidated entity expects to expend the remaining balance in the next financial year.

Restructuring

The restructuring provision relates to the estimated costs of redundancies, site closures and product rationalisation related to business restructuring. The majority of the provision is expected to be utilised in the next financial year.

Product liability

The provision for product liability is in respect of any future liabilities relating to Brivis product defect issues for which GWA remains responsible. Refer to note 28 for further details.

24. CAPITAL AND RESERVES

Share capital

	Ordinary shares		AUD	
In thousands	**2016**	**2015**	**2016**	**2015**
On issue at 1 July – fully paid	278,948	306,534	337,942	408,100
On-market buy-back shares acquired and cancelled, net of tax	(15,000)	–	(30,021)	–
Capital return to holders of FY13 LTI grant	–	–	(44)	–
Capital return, net of tax	–	–	–	(70,158)
Share consolidation	–	(27,586)	–	–
On issue at 30 June – fully paid	263,948	278,948	307,877	337,942

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. CAPITAL AND RESERVES CONTINUED

On-market share buy-back

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

Return of Funds to Shareholders and Share consolidation

On 15 June 2015, GWA completed a return of funds to shareholders of $88,282,000 ($0.288 per fully paid ordinary share) comprising a capital return of $69,890,000 ($0.228 per fully paid ordinary share) and a partly franked special dividend of $18,392,000 ($0.06 per fully paid ordinary share). The capital return is reflected as a reduction in the value of the Company's issued share capital at 30 June 2015.

On 29 May 2015, GWA shareholders approved a consolidation of the Company's share capital through the conversion of each fully paid ordinary share in GWA into 0.9100 fully paid ordinary shares. Upon the completion of the share consolidation on 9 June 2015, the number of the Company's shares on issue reduced from 306,533,770 to 278,947,986 at 30 June 2015.

Translation reserve

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

Hedging reserve

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

Equity compensation reserve

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

Dividends

Dividends recognised in the current year are:

	Costs per share (In AUD cents)	Total amount (In thousands of AUD)	Franked	Date of Payment
2016				
Interim 2016 ordinary	7.0	18,718	100%	5th Apr 2016
Total amount	7.0	18,718		
2015				
Special 2015	6.0	18,392	76.65%	15th Jun 2015
Final 2014 ordinary	5.5	16,859	100%	8th Oct 2014
Total amount	11.5	35,251		

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 (In AUD cents)	Total amount (In thousands of AUD)	Franked	Date of Payment
Final 2016 ordinary	8.0	21,116	100%	16th Sep 2016
Special 2016	1.0	2,639	100%	16th Sep 2016

The financial effect of these dividends has not been brought to account in the financial statements for the financial year ended 30 June 2016 and will be recognised in subsequent financial reports.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. CAPITAL AND RESERVES CONTINUED

Dividend franking account

	The Company	
In thousands of AUD	**2016**	**2015**
30 per cent franking credits available to shareholders of GWA Group Limited for subsequent financial years	13,689	7,157

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

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

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

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

Risk management policy

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

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

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

Capital management policy

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

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

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

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 39% of the trade receivables carrying amount at 30 June 2016 (2015: 45%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

Credit risk continued

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

In thousands of AUD	2016	2015
Cash and cash equivalents	35,696	33,043
Net trade receivables	50,502	62,540
Other receivables	1,481	1,017
	87,679	96,600

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

In thousands of AUD	2016 Receivable	2016 Impairment	2015 Receivable	2015 Impairment
Not yet due	51,357	–	53,402	–
Past due 0-30 days	15,193	–	25,496	–
Past due 31-60 days	678	(2)	828	–
Past due 61-120 days	164	(8)	306	(43)
Past due 120+ days	84	(75)	233	(180)
Less accrued rebates and credit claims	(16,889)	–	(17,502)	–
	50,587	(85)	62,763	(223)

There were no trade receivables with re-negotiated terms.

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

In thousands of AUD	2016	2015
Balance at 1 July	(223)	(1,323)
Impairment loss written back	109	738
Provisions used during the year	29	48
Disposal of Brivis and Dux businesses	–	162
Transfer of liabilities associated with assets classified as held for sale	–	175
Other transfer	–	(23)
Balance at 30 June	(85)	(223)

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

Liquidity risk continued

Maturity analysis

In thousands AUD	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	3-5 years	5+ years
2016							
Non-derivative financial liabilities							
Unsecured cash advance facilities	(120,000)	(129,391)	(2,012)	(2,012)	(4,025)	(121,342)	–
Trade and other payables	(35,293)	(35,293)	(34,861)	–	(96)	(144)	(192)
Derivative financial liabilities							
Interest rate swaps designated as hedges	(1,705)	(926)	(438)	(362)	(96)	(30)	–
Forward exchange contracts designated as hedges – net outflow	(3,944)	(3,944)	(2,744)	(1,198)	(2)	–	–
Total at 30 June 2016	(160,942)	(169,554)	(40,055)	(3,572)	(4,219)	(121,516)	(192)
2015							
Non-derivative financial liabilities							
Unsecured cash advance facilities	(125,000)	(136,469)	(2,458)	(2,458)	(4,915)	(126,638)	–
Trade and other payables	(45,727)	(45,727)	(45,727)	–	–	–	–
Derivative financial liabilities							
Interest rate swaps designated as hedges	(1,872)	(2,135)	(710)	(583)	(744)	(98)	–
Forward exchange contracts designated as hedges – net inflow	328	328	328	–	–	–	–
Total at 30 June 2015	(172,271)	(184,003)	(48,567)	(3,041)	(5,659)	(126,736)	–

The unsecured cash advance facilities mature in October 2018 (2015: the unsecured cash advance facilities matured in October 2017). The periods in which the cash flows associated with derivatives arise match the periods of profit and loss impact.

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 Committee.

(a) Interest rate risk

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

The consolidated entity adopts a policy of ensuring that its exposure to changes in interest rates on borrowings is reduced. Interest rate swaps, denominated in Australian dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure. At 30 June 2016, the consolidated entity had interest rate swaps in operation with a notional contract amount of $75,000,000 (2015: $125,000,000). The swaps have fixed rates ranging from 3.11% to 3.49% (2015: 3.11% to 3.50%) and mature over the next year. During 2016, the consolidated entity entered into replacement interest rate swaps effective in 2017 with a notional contract amount of $75,000,000. These swaps have fixed rates ranging from 2.14% to 2.30% and mature over the next two to four years.

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

The net fair value of swaps at 30 June 2016 of $1,705,000 was recognised as a fair value derivative liability (2015: $1,872,000 fair value derivative liability).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

Market risk continued

(a) Interest rate risk continued

(i) Profile

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

In thousands of AUD	2016 Notional value	2016 Carrying amount	2015 Notional value	2015 Carrying amount
Variable rate financial instruments				
Unsecured cash advance facilities	(120,000)	(120,000)	(125,000)	(125,000)
Bank balances	21,150	21,150	10,873	10,873
Call deposits	14,546	14,546	22,170	22,170
	(84,304)	(84,304)	(91,957)	(91,957)
Fixed rate financial instruments				
Interest rate swap derivatives*	150,000	(1,705)	125,000	(1,872)
Total	65,696	(86,009)	33,043	(93,829)

*As at 30 June 2016, $75,000,000 of interest rate swap derivatives were in effect and $75,000,000 were not effective until 2017.

(ii) Fair value sensitivity analysis for fixed rate instruments

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

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

In thousands of AUD	2016	2015
Increase of 100 basis points		
Hedging reserve decrease / (increase)	(2,219)	(1,808)
Financial assets increase / (decrease)	(548)	(97)
Financial liabilities (increase) / decrease	2,767	1,905
	–	–
Decrease of 100 basis points		
Hedging reserve (increase) / decrease	2,223	1,921
Financial assets increase / (decrease)	–	–
Financial liabilities decrease / (increase)	(2,223)	(1,921)
	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

Market risk continued

(a) Interest rate risk continued

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

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

In thousands of AUD	2016	2015
Increase of 100 basis points		
Unsecured cash advance facilities (AUD)	(1,289)	(1,509)
Bank balances	30	40
Interest rate swap derivatives	1,205	1,234
Call deposits variable rate	239	328
	185	93
Decrease of 100 basis points		
Unsecured cash advance facilities (AUD)	1,289	1,509
Bank balances	(30)	(40)
Interest rate swap deliverables	(1,205)	(1,234)
Call deposits variable rate	(239)	(328)
	(185)	(93)

(b) Foreign currency risk

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

The consolidated entity hedges its foreign currency exposure in respect of forecasted sales and purchases by entering into forward exchange contracts. The forward exchange contracts have maturities of up to 13 months after the balance date. The consolidated entity classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The estimated forecast sales and purchases in the tables below are for the 12-month period after the balance date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

Market risk continued

(b) Foreign currency risk continued

(i) Exposure to currency risk

In thousands of AUD	USD	NZD	EUR	RMB
Currency transaction risk				
2016				
Trade payables	(2,702)	–	(194)	(1,255)
Cash	6	5	7	1
Net balance sheet exposure	(2,696)	5	(187)	(1,254)
Estimated forecast sales	–	28,298	–	–
Estimated forecast purchases	(82,961)	(10,880)	(3,251)	(20,810)
Net forecast transaction exposure	(82,961)	17,418	(3,251)	(20,810)
Forward exchange contracts	71,574	(9,534)	–	18,248
Net exposure 30 June 2016	(14,083)	7,889	(3,438)	(3,816)
Foreign exchange rates at balance date	0.7426	1.0489	0.6699	4.9344
2015				
Trade payables	(4,747)	(1)	(641)	(465)
Cash	1,227	445	57	595
Net balance sheet exposure	(3,520)	444	(584)	130
Estimated forecast sales	–	13,875	–	–
Estimated forecast purchases	(61,372)	(4,398)	(2,930)	(9,388)
Net forecast transaction exposure	(61,372)	9,477	(2,930)	(9,388)
Forward exchange contracts	31,250	(3,320)	–	4,931
Net exposure 30 June 2015	(33,642)	6,601	(3,514)	(4,327)
Foreign exchange rates at balance date	0.7680	1.1294	0.6866	4.7661
Currency translation risk				
2016				
Net assets	–	2,706	–	53
2015				
Net liabilities	–	(3,009)	–	(209)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

Market risk continued

(b) Foreign currency risk continued

(ii) Sensitivity analysis

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

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:

	Carrying amount	Fair value	Carrying amount	Fair value
In thousands of AUD	**2016**	**2016**	**2015**	**2015**
Cash and cash equivalents	35,696	35,696	33,043	33,043
Trade and other receivables	51,983	51,983	63,557	63,557
Interest rate swaps:				
Liabilities	(1,705)	(1,705)	(1,872)	(1,872)
Forward exchange contracts:				
(Liabilities) / assets	(3,944)	(3,944)	328	328
Unsecured cash advance facilities	(120,000)	(120,000)	(125,000)	(125,000)
Trade and other payables	(35,293)	(35,293)	(45,727)	(45,727)
	(73,263)	(73,263)	(75,671)	(75,671)

(c) Estimation of fair values

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

(i) Derivatives

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

(ii) Loans and borrowings

The notional amount of the interest-bearing loans is deemed to reflect the fair value. The interest-bearing loans have a three year term.

(iii) Trade and other receivables / payables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

Market risk continued

(c) Estimation of fair values continued

(iv) Interest rates used for determining fair value

The consolidated entity uses the government yield curve as of 30 June 2016 plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	2016	2015
Derivatives	1.77% - 1.96%	2.10% - 2.75%
Loans and borrowings	2.97% - 3.29%	2.92% - 3.45%

(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 2016				
Forward contracts used for hedging	–	(3,944)	–	(3,944)
Interest rate swaps used for hedging	–	(1,705)	–	(1,705)
	–	(5,649)	–	(5,649)
30 June 2015				
Forward contracts used for hedging	–	328	–	328
Interest rate swaps used for hedging	–	(1,872)	–	(1,872)
	–	(1,544)	–	(1,544)

26. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	2016	2015
Less than one year	14,089	15,764
Between one and five years	18,836	27,914
More than five years	441	92
	33,366	43,770

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

During the financial year ended 30 June 2016, $16,189,000 (2015: $15,419,000) was recognised as an expense in profit or loss in respect of operating leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. CAPITAL COMMITMENTS

In thousands of AUD	2016	2015
Capital expenditure commitments		
PLANT AND EQUIPMENT		
Contracted but not provided for and payable:		
Within one year	3,954	2,009
Between one and five years	1,688	601
	5,642	2,610

28. CONTINGENCIES

Brivis Product Defect Issues

On 14 June 2016, GWA announced the settlement of the dispute with Carrier Air Conditioning Pty Ltd, Carrier Corporation and Others (Carrier companies) in relation to Brivis Climate Systems Pty Ltd (Brivis). The dispute arose from the liabilities of the Carrier companies to GWA for losses incurred in relation to the Brivis business which was acquired by GWA in March 2010. GWA subsequently sold Brivis to Rinnai Australia Pty Ltd in February 2015 but continued to remain responsible for certain Brivis product defect issues.

The dispute with the Carrier companies has been resolved through the establishment of an agreed confidential process for dealing with any future claims together with a net payment of $2,805,000 to GWA. The payment has been treated as part of discontinued operations in GWA's financial statements at 30 June 2016. The terms of the settlement are otherwise confidential. A provision exists at 30 June 2016 in respect of any future liabilities for which GWA remains responsible.

29. DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries as listed in Note 30 are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and Directors' 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. DEED OF CROSS GUARANTEE CONTINUED

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 2016, is set out in the table below.

SUMMARISED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME AND RETAINED PROFITS

In thousands of AUD	**2016**	**2015**
Sales revenue	420,169	410,393
Cost of sales	(250,235)	(236,057)
Gross profit	169,934	174,336
Operating expenses	(94,218)	(153,906)
Finance income	495	933
Finance expenses	(7,008)	(8,251)
Profit before tax	69,203	13,112
Tax expense	(19,130)	(3,932)
Profit from continuing operations	50,073	9,180
Profit / (loss) from discontinued operations, net of tax (refer note 3)	1,761	(26,072)
Net profit / (loss)	51,834	(16,892)
Total comprehensive income / (loss), net of tax	51,834	(16,892)
(Accumulated losses) / retained earnings at beginning of year	(36,488)	15,348
Dividends recognised during the year	(18,718)	(35,251)
Share-based payments, net of tax	211	307
Accumulated losses at end of the year	(3,161)	(36,488)

STATEMENT OF FINANCIAL POSITION

In thousands of AUD	**2016**	**2015**
Assets		
Cash and cash equivalents	33,225	31,328
Trade and other receivables	48,400	60,599
Inventories	74,116	80,924
Other	2,253	2,486
Assets classified as held for sale	–	15,339
Total current assets	157,994	190,676
Investments	11,113	11,113
Deferred tax assets	18,004	21,879
Property, plant and equipment	10,763	13,774
Intangible assets	310,819	312,507
Other	188	318
Total non-current assets	350,887	359,591
Total assets	508,881	550,267
Liabilities		
Trade and other payables	39,300	46,445
Income tax payable	1,862	9,496
Employee benefits	6,820	7,516
Provisions	22,430	40,891
Liabilities associated with assets classified as held for sale	–	6,023
Total current liabilities	70,412	110,371

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. DEED OF CROSS GUARANTEE CONTINUED

STATEMENT OF FINANCIAL POSITION CONTINUED

In thousands of AUD	2016	2015
Trade and other payables	432	–
Intercompany payables	4,603	2,993
Loans and borrowings	120,000	125,000
Employee benefits	8,442	9,334
Provisions	2,602	18
Total non-current liabilities	136,079	137,345
Total liabilities	206,491	247,716
Net assets	302,390	302,551
Equity		
Issued capital	307,877	337,942
Reserves	(2,326)	1,097
Accumulated losses	(3,161)	(36,488)
Total equity	302,390	302,551

30. CONSOLIDATED ENTITIES

	Parties to cross guarantee	Country of incorporation	Ownership interest	
			2016	2015
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%	100%
G Subs Pty Ltd	Y	Australia	100%	100%
Gainsborough Hardware Industries Limited	Y	Australia	100%	100%
Gliderol International Pty Limited*	N	Australia	–	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%

* This entity was sold during the year ended 30 June 2016, refer to Note 3. Gliderol International Pty Limited was released from its obligations under the Deed by executing a Notice of Disposal on 31 July 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 30 June 2016 the parent company of the consolidated entity was GWA Group Limited.

	Company	
In thousands of AUD	**2016**	**2015**
Results of the parent entity		
Profit for the year	19,038	17,712
Other comprehensive income	–	–
Total comprehensive income for the year	19,038	17,712
Financial position of the parent entity		
Current assets	–	–
Total assets	662,268	643,089
Current liabilities	19	–
Total liabilities	350,836	301,590
Equity of the parent entity		
Share capital	307,877	337,942
Equity compensation reserve	1,647	2,180
Retained earnings	1,908	1,377
Total equity	311,432	341,499

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

Apart from the contingent liability referenced in note 28, the directors are not aware of any contingent liabilities of the parent entity as at reporting date (2015: $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 (2015: $nil).

Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the parent entity has guaranteed the repayment of all current and future creditors in the event any of the entities party to the Deed is wound up. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the Deed are disclosed in Notes 29 and 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

In thousands of AUD	2016	2015
Cash flows from operating activities		
Profit / (loss) for the year	53,681	(16,183)
Adjustments for:		
Depreciation	3,491	8,620
Amortisation	2,638	3,927
Share-based payments	(322)	679
Foreign exchange (gain) / loss unrealised	(292)	734
Net financing costs	6,508	7,329
Impairment loss	–	24,204
Gain on sale of property, plant & equipment and intangible assets	(58)	(7,265)
Loss on sale of discontinued operations	–	3,634
Income tax expense	20,276	1,398
Operating profit before changes in working capital and provisions	85,922	27,077
Decrease / (increase) in trade and other receivables	11,046	(4,627)
Decrease in inventories	5,078	64
(Decrease) / increase in trade and other payables	(10,573)	2,418
(Decrease) / increase in provisions and employee benefits	(10,851)	37,219
Net cash before finance costs and taxes	80,622	62,151
Net interest paid	(6,162)	(7,384)
Income taxes paid	(19,536)	(11,262)
Net cash from operating activities	54,924	43,505

33. RELATED PARTIES

Key management personnel compensation

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

In AUD	2016	2015
Short-term employee benefits	5,837,153	5,558,823
Post-employment benefits	276,604	288,574
Termination benefits	780,000	–
Share-based payments	236,017	569,287
Other long term employee benefits	(316,697)	(127,312)
	6,813,077	6,289,372

Individual directors and executives compensation disclosures

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

34. SUBSEQUENT EVENTS

To the Directors’ best knowledge, there are no events that have arisen subsequent to 30 June 2016 that will, or may, significantly affect the operation or results of the consolidated entity.

DIRECTORS' DECLARATION

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

(a) the consolidated financial statements and notes, and the Remuneration Report in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and

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

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 There are reasonable grounds to believe that the Company and the group entities identified in Note 29 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.

3 The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Managing Director and Chief Financial Officer for the financial year ended 30 June 2016.

4 The directors draw attention to Note 1(a) to the consolidated financial statements which includes a statement of compliance with International Financial Reporting Standards.

Dated at Sydney on 22 August 2016.

Signed in accordance with a resolution of the directors:

Darryl D McDonough
Director

Tim R Salt
Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To: the directors of GWA Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016 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
Sydney 22 August 2016

Julie Cleary
Partner

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

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of GWA Group Limited (the Company), which comprises the consolidated statements of financial position as at 30 June 2016, and consolidated statement of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year ended on that date, notes 1 to 34 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

Independence

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

Auditor's opinion

In our opinion:

(a) The financial report of GWA Group Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2016 and of their performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of GWA Group Limited for the year ended 30 June 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Sydney 22 August 2016

GCleary

Julie Cleary

Partner

OTHER STATUTORY INFORMATION
AS AT 19 AUGUST 2016

STATEMENT OF SHAREHOLDING

In accordance with the Australian Securities Exchange Listing Rules, the directors state that, as at 19 August 2016, the share capital in the Company was held as follows:

Range	Ordinary Shareholders	Ordinary Shares	%
1 – 1,000	1,692	779,173	0.30
1,001 – 5,000	3,778	10,360,073	3.93
5,001 – 10,000	1,607	11,714,400	4.44
10,001 – 100,000	1,184	25,317,265	9.59
100,001 and over	75	215,776,719	81.75
Total	**8,336**	**263,947,630**	**100.00**

The number of shareholders with less than a marketable parcel of 221 shares is 570.

VOTING RIGHTS

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

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

SUBSTANTIAL SHAREHOLDERS

The following information is extracted from the Company's Register of Substantial Shareholders as at 19 August 2016:

Shareholder	Number of Shares	% Shares on Issue
Ellerston Capital Limited	26,695,804	10.11%
Investors Mutual Limited	25,090,000	9.51%

20 LARGEST SHAREHOLDERS AS AT 19 AUGUST 2016

Shareholder	Number of Shares	% Shares on Issue
J P Morgan Nominees Australia Limited	40,391,243	15.30
HSBC Custody Nominees (Australia) Limited	25,470,981	9.65
RBC Investor Services Australia Nominees Pty Limited <BKCust A/C>	19,424,661	7.36
Citicorp Nominees Pty Limited	16,588,377	6.28
HGT Investments Pty Ltd	12,740,000	4.83
KFA Investments Pty Ltd	10,200,684	3.86
Erand Pty Ltd	9,007,389	3.41
JMB Investments Pty Ltd	8,359,655	3.17
National Nominees Limited	7,490,469	2.84
Ashberg Pty Ltd	7,387,783	2.80
Theme (No 3) Pty Ltd	7,217,197	2.73
Mr Peter Zinn <Carol Zinn Family No 2 A/C>	5,898,176	2.23
ITA Investments Pty Ltd	4,688,628	1.78
BNP Paribas Noms Pty Ltd <DRP>	4,492,565	1.70
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	4,037,064	1.53
CJZ Investments Pty Ltd	3,841,565	1.46
Dabary Investments Pty Ltd	3,233,986	1.23
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	2,239,343	0.85
RBC Investor Services Australia Pty Limited <VFA A/C>	2,221,802	0.84
Eidde Pty Ltd <Duncan Family A/C>	2,019,940	0.77
Total	**196,951,508**	**74.62**

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING
The Annual General Meeting of GWA Group Limited will be held in the Grand Ballroom, Stamford Plaza, Corner Edward and Margaret Streets, Brisbane on Friday 28 October 2016 commencing at 10:30am (Brisbane time). Shareholders will be mailed their Notice of Annual General Meeting and Proxy Form during September 2016.

SHAREHOLDER ENQUIRIES
Shareholders with enquiries about their shareholding or dividend payments should contact the Company's share registry, Computershare Investor Services Pty Limited, on 1300 850 505 or write to GPO Box 2975 Melbourne Victoria Australia 3001. Alternatively, you can view details of your holding or make changes to your personal information online at www.investorcentre.com.

CHANGE OF ADDRESS
Shareholders who have changed their address should immediately notify the Company's share registry in writing or update your details online at www.investorcentre.com. If you are a CHESS sponsored holder and wish to change your address, please contact your broker.

CONSOLIDATION OF SHAREHOLDINGS
Shareholders who wish to consolidate their separate shareholdings into one holding should complete a Request to Consolidate Holdings Form which can be downloaded at www.investorcentre.com. If you are a CHESS sponsored holder and wish to consolidate your holdings, please contact your broker.

ANNUAL REPORTS
Annual Reports are made available to shareholders on the Company's website at www.gwagroup.com.au. Shareholders wishing to be mailed a copy of the Annual Report should notify the Company's share registry in writing or update your communication preferences online at www.investorcentre.com. Shareholders who have elected to receive the Notice of Annual General Meeting and Proxy Form via post will include details on accessing the online Annual Report.

DIVIDENDS
Dividends are determined by the Board having regard to the financial circumstances of the Company. Dividends are normally paid twice yearly following the release of the Company's half and full year results to the market. The latest dividend details can be found on the Company's website at www.gwagroup.com.au.

DIRECT CREDIT OF DIVIDENDS
To minimise cost and ensure fast and efficient payment of dividends to shareholders, the Company mandates direct credit for payment of dividends. Dividends may be paid directly to a bank, building society or credit union account in Australia. Payments are electronically credited on the dividend payment date and confirmed by an advice mailed to shareholders on that date, or emailed where shareholders have requested this form of communication. Direct credit application forms can be obtained by contacting the Company's share registry or can be updated online at www.investorcentre.com.

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

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

SHAREHOLDER TIMETABLE 2016

30 June

Financial year end

22 August

FY16 full year results and final dividend announcement

1 September

Ex dividend date for final ordinary and special dividend

2 September

Record date for determining final ordinary and special dividend entitlement

16 September

Final ordinary and special dividend paid

23 September

Notice of Annual General Meeting and Proxy Form mailed to shareholders

26 October

Proxy returns close 10:30am Brisbane time

28 October

Annual General Meeting

31 December

Half year end

HEAD OFFICE LOCATIONS

GWA GROUP LIMITED
7 Eagleview Place
Eagle Farm QLD 4009
AUSTRALIA

Telephone 61 7 3109 6000
Facsimile 61 7 3852 2201

www.gwagroup.com.au

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

Telephone 61 2 8825 4400
Facsimile 61 2 8825 4567

www.caroma.com.au
www.caroma.co.nz
specify.caroma.com.au
www.fowler.com.au
www.dorf.com.au
www.stylus.com.au
www.clark.com.au
www.cristinataps.com.au

GWA DOOR & ACCESS SYSTEMS
Gainsborough Hardware Industries Limited
31-33 Alfred Street
Blackburn VIC 3130
AUSTRALIA

Telephone 61 3 9877 1555
Facsimile 61 3 9894 1599

www.gainsboroughhardware.com.au
www.ausloc.com

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

Telephone 131KEY(539)
Facsimile 61 3 9644 5882

www.apisec.com.au

CORPORATE DIRECTORY

DIRECTORS
D D McDonough, Chairman
J F Mulcahy, Deputy Chairman
T R Salt, Managing Director
R M Anderson, Non-Executive Director
W J Bartlett, Non-Executive Director
P A Birtles, Non-Executive Director
R J Thornton, Executive Director

CHIEF FINANCIAL OFFICER
P A Gibson, BA, FCMA, FAICD, FGIA

COMPANY SECRETARY
R J Thornton, CA BCom (Acc) LLB (Hons) LLM

REGISTERED OFFICE
7 Eagleview Place
EAGLE FARM QLD 4009
AUSTRALIA

Telephone 61 7 3109 6000
Facsimile 61 7 3852 2201

www.gwagroup.com.au

ASX code: GWA

AUDITOR
KPMG
10 Shelley Street
Sydney NSW 2000
AUSTRALIA

Telephone 61 2 9335 7000
Facsimile 61 2 9335 7001

SHARE REGISTRY
Computershare Investor Services Pty Limited

117 Victoria Street
West End QLD 4101
AUSTRALIA

GPO Box 2975
Melbourne VIC 3001
AUSTRALIA

(within Australia) 1300 850 505
(outside Australia) 61 3 9415 4000

www.computershare.com.au

GROUP BANKERS
Commonwealth Bank of Australia
Australia and New Zealand Banking Group
HSBC Bank Australia

GWA
Smarter Solutions

7 Eagleview Place
Eagle Farm, QLD 4009
AUSTRALIA

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

Website: www.gwagroup.com.au