GWA Group Limited

2020 Annual Report

In this report

FY20 Performance Highlights

GWA delivers disciplined financial result

Continued cost discipline helps mitigate challenging market conditions

NORMALISED[1] FROM CONTINUING OPERATIONS[2]

A$ million excludes significant items, includes Methven for full year

REVENUE
$398.7 million
↑ 4.4%

EBIT
$71.8 million
↓ 8.0%

OPERATING CASH FLOW
$61.0 million
↓ 9.9%

EBITDA
$92.2 million
↓ 0.8%

NPAT
$44.9 million
↓ 11.6%

EPS
$17.0c per share
↓ 2.3c per share

Reported[3] Net Profit After Tax for the period was $43.9 million

$43.9 million

Final dividend 3.5 cents per share, full-year dividend 11.5 cents, fully franked

11.5 cents

Solid balance sheet maintained with **strong cashflow conversion and cost discipline**, enabling the Company to manage through the current challenging conditions.

Continued **execution of superior water solutions growth strategy** which has strengthened the Company's competitive position for when market conditions improve.

Successful integration of the Methven acquisition into the Group which remains on track with **synergies achieved ahead of schedule.**

Caroma Smart Command® gaining market traction with focus on sustainability benefits and enhanced hygiene.

1 Normalised is before $(1.0)m in significant items (after tax) relating to integration costs associated with the acquisition of Methven (FY19: $(7.6)m).

2 Continuing Operations include the revenue and earnings contribution from Methven from the effective date of acquisition, 10 April 2019, but exclude the Door & Access Systems' business which was sold on 3 July 2018.

3 Reported result includes $(1.0)m significant items (after tax) relating to integration costs associated with the acquisition of Methven. FY19 Reported result includes $50.8 million after tax profit from the sale of the Door & Access Systems business and $(7.6)m in significant items (after tax) relating to transaction and integration costs associated with the acquisition of Methven.

Five Year Financial Summary

CONTINUING OPERATIONS[1]	2015/16 $'000	2016/17 $'000	2017/18 $'000	2018/19[7] $'000	2019/20[7] $'000
Revenue from continuing operations	439,666	350,437	358,622	381,730	398,704
Earnings before interest, tax, depreciation, amortisation (EBITDA) and significant items[2]	84,250	78,423	80,171	92,986	92,206
EBITDA margin (%)	19.2	22.4	22.4	24.4	23.1
Depreciation and amortisation	(5,985)	(4,122)	(3,929)	(14,869)	(20,366)
Earnings before interest, tax and significant items (EBIT)[2]	78,265	74,301	76,242	78,117	71,840
EBIT margin (%)	17.8	21.2	21.3	20.5	18.0
Interest (net)	(6,508)	(5,338)	(4,813)	(5,811)	(8,644)
Normalised profit before tax[2]	71,757	68,963	71,429	72,306	63,196
(%)	16.3	19.7	19.9	18.9	15.9
Tax expense on normalised profit	(19,837)	(19,712)	(21,290)	(21,467)	(18,273)
Normalised effective tax rate (%)	27.6	28.6	29.8	29.7	28.9
Normalised profit after tax[2]	**51,920**	**49,251**	**50,139**	**50,839**	**44,923**
Significant items after tax	–	–	–	(7,597)	(1,037)
Net profit after tax from continuing operations	**51,920**	**49,251**	**50,139**	**43,242**	**43,886**
Profit from discontinued operations (net of income tax)	1,761	4,420	4,113	50,802	–
Net profit after tax for the period	**53,681**	**53,671**	**54,252**	**94,044**	**43,886**
Net cash from operating activities	54,924	57,171	39,158	67,630	60,952
Capital expenditure	3,628	5,281	12,475	4,326	12,317
Net debt[3]	88,420	79,756	97,729	141,930	144,841
Shareholders' equity	307,698	320,603	333,401	286,756	279,731

OTHER RATIOS AND STATISTICS	2015/16	2016/17	2017/18	2018/19	2019/20
Interest cover (times)[4]	14.3	17.1	19.6	23.5	13.6
Gearing: net debt/(net debt + equity) (%)[8]	22.3	19.9	22.7	27.5	28.4
Return on shareholders' equity (%)	17.4	16.7	16.3	32.8	15.7
Dividend payout ratio – Group (%)[5]	81.4	81.1	87.4	51.9	69.2
Dividend payout ratio – Normalised Continuing (%)[5]	84.1	88.4	94.7	96.0	67.6
Dividend per share (cents)[6]	16.0	16.5	18.0	18.5	11.5
Franking (%)	100	100	100	100	100
Share price (30 June) ($)	2.09	3.15	3.40	3.42	2.77
Dividend yield at 30 June share price (%)	7.7	5.2	5.3	5.4	4.2
Number of employees	876	760	757	665	629
Basic earnings per share (cents) – Group	19.7	20.3	20.6	35.6	16.6
Basic earnings per share (cents) – Continuing	19.0	18.7	19.0	16.4	16.6
Normalised basic earnings per share (cents) – Continuing	19.0	18.7	19.0	19.3	17.0

(1) The Door and Access Systems' business has been sold with an effective date of 3 July 2018. During the year ended 30 June 2016, the Gliderol business was sold with an effective date of 31 July 2015. Accordingly, the operating activities of Door and Access Systems were classified as discontinued in FY18 and FY17, and Gliderol classified as discontinued operations in FY16, and presented separately from the results of continuing operations. FY16 includes the operating activities of Door and Access Systems as part of continuing operations. Continuing operations includes the contribution from Methven from the effective date of acquisition, 10 April 2019.

(2) 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 reports 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 relevant years' financial reports.

(3) Net debt reflects the Group's borrowings and bank guarantees less cash (including cash classified within assets held for sale).

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

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

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

(7) AASB16 Leases and the May 2020 IFRS Intepretation Committee decision on 'Multiple Tax Consequences of Recovering an Asset' have been adopted from 1 July 2019 (FY20), with retrospective restatement of FY19 made. FY16-FY18 has not been restated.

(8) Equity for the purposes of gearing excludes the retained earnings impact from the adoption of the May 2020 IFRS Intepretation Committee decision on 'Multiple Tax Consequences of Recovering an Asset'.

Company Profile

We make life better for all our stakeholders

GWA Group Limited (GWA) listed on the Australian Securities Exchange in May 1993 and is a leading innovator, designer and supplier of product solutions, services and intelligent technology focused on the water solutions segment.

We own and distribute market-leading brands and state of the art product solutions across our ranges of sanitaryware, tapware, showers, basins, baths, kitchen sinks, laundry tubs, bathroom/kitchen accessories and valves. We have an intelligent bathroom system incorporating IoT smart water management solutions.

GWA operates a central-led business with corporate functions supporting our water solutions business. We have sale and distribution facilities across our primary end markets of Australia, New Zealand, United Kingdom and China.

We are highly respected within the building industry for innovation, water efficiency, product reliability and quality, technical expertise and superior service.

We maintain cost efficient long term supply agreements with selected, exclusive manufacturing partners across Asia and Europe, and with light manufacturing operations in New Zealand and China. GWA has an experienced senior management team in R&D, design, brand building, customer engagement, supply and distribution.

GWA remains committed to growing shareholder value through our focus on superior solutions for water and has strong market positions, market-leading brands and significant growth opportunities.

GWA is a member of the ASX 200 index of listed Australian companies.

OUR BRANDS

CAROMA

METHVEN

dorf

Deva by METHVEN

FLEXISPRAY

CLARK

NEFA BY METHVEN

Strategic Summary

Purpose: We make life better through the design and delivery of products, services and technologies that create superior solutions for people to enjoy and sustain water, our planet's most precious resource.

Goal: To build GWA as the most trusted and respected water solutions company.

STRATEGIC GROWTH DRIVERS

BUILD	EXTEND	LEADERSHIP	GROW
R&R market share in ANZ	ANZ leadership position in Commercial segment	of water smart, connected bathrooms and buildings	select overseas markets leveraging ANZ Commercial expertise

INNOVATE AND PARTNER
Solutions, services and ways of doing business

EXCEED CUSTOMER SERVICE EXPECTATIONS
Good to do business with — people, processes, systems

DRIVE BEST COST
Continuous improvement to support profitability and fund selective reinvestment

ATTRACT AND DEVELOP GREAT PEOPLE
Continue to build capability, culture and engagement

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

EXTERNAL MEASURES OF SUCCESS
NPAT growth, ROFE, TSR, Water sustainability

WE ALL LEAD. WE ARE CUSTOMER FOCUSED AND CONSUMER DRIVEN. WE CARE FOR EACH OTHER.

Chairman's Report

FINANCIAL RESULTS

Normalised[1] Group Net Profit After Tax from Continuing Operations was $44.9 million compared to $50.8 million for the prior year. Revenue increased by 4 per cent to $398.7 million while Normalised EBIT declined by 8 per cent to $71.8 million. Continuing Operations normalised results include the full year contribution from Methven in FY20. For FY19 Methven results are included only from the effective date of acquisition – 10 April 2019.

GWA's reported Net Profit After Tax for the period was $43.9 million which includes significant items (after tax) of $1.0 million relating to integration costs associated with the acquisition of Methven in FY20.

The Company's balance sheet and cash flow generation remain strong.

In line with the Company's dividend policy, the Board determined a final dividend of 3.5 cents per share, bringing the full-year dividend to 11.5 cents per share fully-franked, compared with 18.5 cents per share for the prior year. The full year dividend represents a reported dividend payout ratio of 69 per cent.

The Company's Dividend Reinvestment Plan will be offered to shareholders for the final dividend at a 1.5 per cent discount[2].

COVID-19 RESPONSE

As the COVID-19 pandemic emerged in the second half of the year, GWA responded with our priority being to ensure the health and safety of all our staff and visitors to our sites as we continued our role as an essential supplier of products and services to the plumbing and construction sectors.

In response to the lockdown restrictions in the United Kingdom and New Zealand, 112 staff were furloughed during those periods. The fixed remuneration of the Board and Group Executive was reduced by 20 per cent for the period 1 April 2020 to 30 June 2020.

GWA has maintained its existing sources of supply and is in a strong position to supply all key products to our customers.

GWA will continue to closely monitor and adjust its business operations as required and in accordance with the latest Government and regulatory health and safety advice.

FINANCIAL STRENGTH

GWA retains a strong balance sheet to manage through the current challenging environment while maintaining investments to support the strategy for medium term growth.

1 Continuing Operations normalised results (excludes significant items) includes the full year contribution from Methven in FY20. For FY19 Methven results are included only from the effective date of acquisition – 10 April 2019.

2 1.5% discount to the volume weighted average market price (VWAP).

We enhanced our near-term liquidity by securing an additional $33 million in facilities through members of our current banking syndicate.

Total Group facilities at 30 June 2020 are $283 million, comprising a multicurrency revolving facility of $243 million which matures in October 2022 and a $40 million short-term revolving bilateral facility which is due to mature in October 2020.

The Group remains in a strong financial position. Net debt as at 30 June 2020 was $144.8 million which was broadly in line with the prior year's total of $141.9 million.

GWA's financial metrics, including leverage, gearing and interest cover ratios remain solid.

SUSTAINABILITY

GWA is committed to sustainable practices throughout its operations and we work with our key stakeholders and communities to deliver on that commitment.

WORKPLACE HEALTH AND SAFETY (WHS)

The Group made significant progress in implementing its workplace health and safety strategy this year.

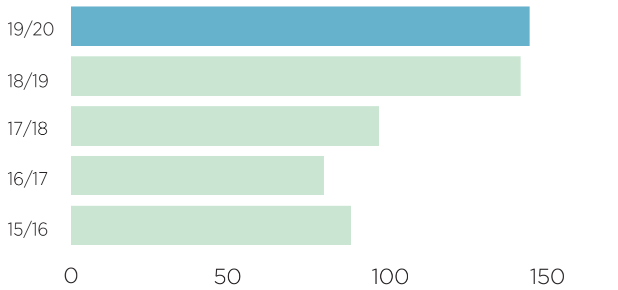
That strategy focuses on leadership and behavioural aspects of safety and identifies and mitigates physical risks in its operations.

A major achievement was the integration of all Methven sites across New Zealand, China and the United Kingdom into the GWA safety system, SafetyOne. It was a significant task to standardise operating procedures to deliver a consistent and measurable approach to safety across the Group.

Our workplace health and safety engagement programme, (Homecoming) is now into its third year and continues to be rolled out to all employees across Australia and New Zealand. The roll-out into China and the United Kingdom was delayed due to the COVID-19 pandemic.

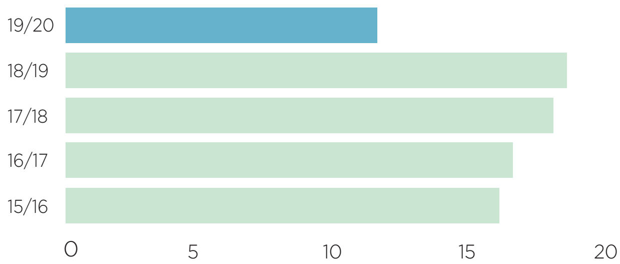
The implementation of our WHS programme has resulted in an improvement in lead and lag safety metrics for FY20. GWA recorded a material decrease in the Total Injury Frequency Rate from 6.2 in FY19 to 0.9 in FY20. The FY19 data did not include the Methven business which has been captured in the FY20 data.

Net Debt ($m)



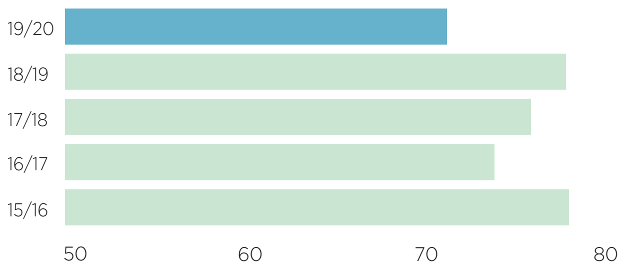
The Group remains in a strong financial position to manage through the current challenging environment. Net debt as at 30 June 2020 was $144.8 million which was broadly in line with the prior year's total of $141.9 million.

Dividend per share (cents)



In line with the Company's dividend policy, the Board determined a final dividend of 3.5 cents per share, bringing the full-year dividend to 11.5 cents per share fully-franked.

Normalised EBIT from Continuing Operations ($m)



Normalised EBIT from Continuing Operations declined by 8 per cent to $71.8 million. Our continued focus on operational and cost discipline across the business resulted in a resilient EBIT margin of 18.0 per cent.

The decrease is a significant improvement, particularly in the context of an increase in manufacturing activity and Methven's manufacturing sites being included in the FY20 data.

WORKPLACE DIVERSITY

We are committed to promoting diversity and inclusion through the implementation of policies and initiatives to achieve a diverse workforce.

Females comprised 42 per cent of GWA's overall workforce for the reporting period, up from 39 per cent for the prior year.

We will publish our second stand-alone Sustainability Report in September 2020 which provides further details of our policies and initiatives.

That Report will also detail how we are operating in a sustainable manner across our business and continue to leverage our leading position to provide a range of products and systems that make life better through superior water saving solutions for the built environment.

EXECUTIVE REMUNERATION

During the year, the changes from the FY19 review of the executive remuneration structure were implemented. The review was designed to ensure our structure remains aligned with the Board's remuneration strategy and market practice. The changes mainly relate to our long-term incentive plan to reflect current market practice and alignment of the Managing Director's incentive opportunity with peer company CEOs.

As outlined at last year's AGM, the review concluded that the Group's remuneration framework is fit for purpose and aligned with our growth strategy and market practice. The details of the changes as a consequence of the review are outlined in the Remuneration Report.

The Board seeks to remunerate executives on a fair basis that is sufficient to attract and retain a high-quality management team with the requisite experience, knowledge, skills and judgement required to grow 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.

There were no short-term incentive payments for all executives for FY20 as the financial gateways were not achieved due to the weaker market activity and the negative impact of the COVID-19 pandemic on revenue and earnings for the Group.

CONCLUSION

Your Board believes GWA is well equipped to manage through the current challenging market conditions. The business has been repositioned significantly over recent years, including increased traction in key market segments, improvements in supply chain efficiency, enhancements to our customer experience and the acquisition of Methven which brings further geographic diversity and scale to the Group.

Investments made in product and systems innovation, including our intelligent bathroom system, Caroma Smart Command® are also key drivers of our growth strategy.

The Board remains committed to leveraging the Company's strategy to generate shareholder value over the medium term.

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

In particular, I want to thank and acknowledge our employees for their ongoing efforts during the COVID-19 pandemic in managing a difficult operating environment by supporting each other and our customers.

To our shareholders, thank you for your continuing support of GWA.

Managing Director's Review of Operations

SUMMARY

In a very challenging year, with significant uncertainty and a strong focus on the health and wellbeing of our people, GWA delivered a disciplined result in FY20.

Revenue was significantly impacted by lower construction activity in the residential new build and renovation and replacement segments, merchant destocking in the first half and the impact of the COVID-19 pandemic in the last quarter of the year.

GWA's pro forma[1] revenue declined year on year by $55.1 million (12.1) per cent.

The year on year EBIT[1] decline was $12.1 million (14.3) per cent. The continuous focus on operational and cost discipline across the business resulted in a resilient EBIT margin[1] of 18.0 per cent compared to 18.5 per cent in the prior year.

At the same time, the Company continued to execute its strategy for medium term growth.

We continued our investment in growth and cost-out initiatives which have strengthened the Company's competitive position for when market conditions improve.

The Company remains well capitalised to manage through the current challenging conditions and continues to generate strong operating cashflow.

The implementation of our superior water solutions strategy and ongoing investment in revenue enhancing initiatives means GWA has a very solid foundation and increased leverage to improve revenue and earnings momentum when market conditions improve.

FOCUS IN FY20 — "CONTROLLING THE CONTROLLABLES"

As expected, market conditions were difficult in FY20 but this was compounded by the unforeseen impact of COVID-19. Our focus continues to be on controlling those elements within our control. Specifically, that relates to:

- working more collaboratively with our key customers to leverage mutual growth opportunities in our core markets;
- improving engagement with consumers, with an increased focus on digital to enable us to respond to changing consumer buying dynamics; and
- optimising our cost base and supply network to drive operational efficiencies and improve customer experience across the business.

We made good progress in each of these areas.

We continued to build stronger engagement with our key customers through our joint business planning initiative.

That collaboration has resulted in enhanced ranging of Caroma, Clark and Methven brands in-store and behind our merchant customers' trade counters and importantly, strong traction in specific growth segments such as aged care.

We continue to drive growth in commercial segments through increased collaboration with our customers to capture segment opportunities including aged care and commercial renovation and replacement.

These initiatives have resulted in GWA maintaining its market share in the Australian market.

1 Continuing Operations pro forma normalised results (excludes significant items) include a comparison for the prior year, including GWA results and the management accounts for Methven.

Our commercial forward order book remains strong and ahead of the same period last year.

Our intelligent bathroom system, Caroma Smart Command®, continues to represent a growth opportunity. Caroma Smart Command® includes a set of Bluetooth-enabled, touchless bathroom products which enable monitoring and management of water usage in commercial buildings.

The system has been successfully installed in 49 sites with a solid bank of additional projects in the pipeline. The anticipated roll-out into other sites during the second half of FY20 was delayed by the impact of COVID-19, including the temporary closure of key airport and retail sites where installations were expected in FY20.

Market support for Caroma Smart Command®, continues to be positive, not only surrounding the system's sustainability benefits but also increasingly on its enhanced hygiene and touchless applications as commercial building owners and managers adjust to new operational procedures and protocols due to COVID-19.

We continued our consumer engagement strategy with the launch of new products such as the Caroma Elvire range and brand building initiatives through traditional and social media. Digital consumer engagement continues to increase with Caroma website traffic increasing by 23 per cent in the second half of FY20.

In response to the weaker market conditions, we accelerated cost-out and efficiency improvements across the business.

We successfully delivered $5 million in cost savings and are on track to deliver the overall $9-12m cost-out programme by FY21. In addition, we implemented further short-term actions which delivered an additional $10.5 million of cost savings to partially mitigate the reduction in revenue caused by the weaker market conditions and merchant destocking in FY20. Not all these further cost savings will be repeatable in FY21.

Meanwhile, we continued to invest in our Australian distribution network and consolidated to four key distribution centres in New South Wales (NSW), Queensland, Victoria and Western Australia which complements the investment previously made at Prestons, NSW. This consolidation has enabled us to integrate Methven products into GWA systems and enhance customer service through an increase in the number of Methven and Caroma orders with a single invoice and single order delivery. In addition, we anticipate improved operating efficiencies from FY21.

The integration of Methven remains on track. The new executed sales structure has been successfully created which is providing improved ranging of Methven products in the Australian merchant channel.

In addition, the world leading Methven shower IP will be used in Caroma new shower launches taking place in FY21.

We had good sales momentum in Methven in the first half which continued until the COVID-19 restrictions were implemented in New Zealand and the United Kingdom. The enhanced geographic diversification that Methven provides continues to be a strategic growth opportunity for the Group.

Methven cost synergies are in line with our increased target. On acquisition we expected NZ$5 million in cost synergies by the end of FY21. We realised A$3 million in FY20 and remain on track to deliver ahead of the initial target with at least A$6 million in cost synergies by the end of FY21.

GWA continued to make solid improvements in our sustainability agenda in FY20.

We recorded a material reduction in our Total Injury Frequency Rate (TIFR) from 6.2 in FY19 to 0.9 in FY20 while we maintained a MTIFR (Medically Treated Injury Frequency Rate) at zero for FY20.

These results have been achieved from a continued focus on our health and safety culture and behavioural change at all sites across the GWA network. Our enhanced focus on preventative measures, including hazard reduction and near miss reporting at individual sites is also helping to drive cultural change in the way we interact at our sites.

We continued to implement our employee engagement strategy with 90 per cent of our people completing our "Making Life Better" employee survey. Our Group engagement score increased 9 percentage points (ppts) to 61 per cent, which is above the median for companies in Australia and New Zealand.

Meanwhile, our commitment to promoting diversity and inclusion in our workplace was reflected in an increase in female participation from 39 per cent to 42 per cent in FY20.

GWA is committed to designing and developing new products and systems in Australia for Australian and New Zealand consumers and performance that exceeds stringent local standards and contributes to water efficiency in the built environment.

As part of its commitment to sustainable product design, Caroma announced during FY20 that its market-leading product warranty has now been extended to 20 years. For over 75 years, Caroma has been at the forefront of innovation and design of quality bathroom and kitchen products and this new, extended warranty is our sustainable promise to customers that Caroma products will stand the test of time.

In February 2021, Caroma Smart Command® will launch the Sustainable Water Summit, which will be a forum for industry leaders across Australia to discuss what the future in sustainable water management in the built environment looks like and what our pathway to success is through data and innovation. At this event we will showcase various case studies which demonstrate the water saving benefits of Caroma Smart Command® and discuss various other benefits such as hygiene, wellness and maintenance.

MARKET CONDITIONS IN FY20

GWA estimates that its Australian addressable market declined by approximately (10) per cent for FY20 compared to FY19. The significant merchant destocking experienced in the first half of FY20 did not continue into the second half; however, due to the market uncertainty, the anticipated uplift in revenue we normally experience, as some customers pursue year end incentives, did not eventuate in June 2020.

The overall market slowdown was driven primarily by the reduction in activity in the residential new build segment and a reduction in residential renovation activity. Weak consumer sentiment impacted retail spending and, coupled with house price declines and lower housing turnover, contributed to the market decline over the year.

For FY20 in Australia the market declined in total by (10) per cent:

- Renovations and Replacements market segment declined by approximately (8) per cent.
- Detached House completions decreased by approximately (20) per cent.
- Medium and High-Density dwelling completions decreased by approximately (18) per cent.
- On a value of work done basis, Commercial building activity decreased by approximately (4) per cent.

The New Zealand and United Kingdom markets were both impacted significantly as COVID-19 restrictions were implemented. However, GWA grew share in the United Kingdom and maintained share in New Zealand.

IMPACT AND RESPONSE TO COVID-19

In response to COVID-19, GWA's primary focus has been to ensure the ongoing health and safety of our employees and, the financial sustainability of our business, while maintaining investment on our strategic growth agenda.

During the pandemic we are providing enhanced safety protection including sanitiser, masks, temperature checks and increased cleaning at our work sites. All our office-based staff have been supported to work remotely. At our warehouses, we have implemented shift management and social distancing protocols including staggered break times to limit personal interactions.

In 2H FY20 we activated business continuity plans internally and with our suppliers to minimise disruption to the business and our customers. During the pandemic GWA has been able to maintain continuity of supply while continuing to honour agreed payment terms.

The COVID-19 pandemic impacted the Company, primarily in the final quarter of the year.

The shutdowns in New Zealand and the United Kingdom from April 2020 resulted in disruption to the business. GWA recorded negligible revenue in New Zealand during the period of level 4 restrictions and significantly reduced revenue in the United Kingdom during the shutdowns. Together, these markets comprised 20 per cent of GWA's Group revenue[2].

In the United Kingdom and New Zealand 112 staff were furloughed during the lockdown periods. GWA enabled staff to utilise their leave entitlements and supported them in accessing relevant government support, where available, during the period. Despite significantly reduced revenue in these markets, GWA continued to incur a number of costs (fixed costs and a number of staff not being stood down as they were involved in future-focused development activity).

In acknowledgement of employees being furloughed in New Zealand and the United Kingdom, fixed remuneration of the Board and Group Executive was reduced by 20 per cent for the period Q4 FY20.

Lockdown restrictions in Australia (79 per cent of Group revenue)[2] were less severe than in New Zealand and the United Kingdom, with trading for the fourth quarter at approximately 90 per cent of expected levels.

GWA estimates that COVID-19 impacted Group Revenue by approximately $22.2 million and Group EBIT by approximately $8.6 million in FY20.

We continue to closely monitor and adjust our business operations as required and in accordance with the latest Government and regulatory health and safety advice.

FINANCIAL RESULTS

CONTINUING OPERATIONS (PRO FORMA) NORMALISED — EXCLUDES SIGNIFICANT ITEMS

Continuing Operations pro forma normalised results (excludes significant items) include a comparison for the prior year, including GWA results and the management accounts for Methven.

A$ million (Excludes Significant Items)	FY19 Includes Methven for full year	FY20 Includes Methven for full year	% change
Revenue	453.8	398.7	(12)%
EBITDA	102.2	92.2	(10)%
EBIT	**83.9**	**71.8**	**(14)%**
EBIT Margin (%)	*18.5%*	*18.0%*	*(0.5)ppts*
NPAT	**53.8**	**44.9**	**(17)%**

Net sales declined by 12.1 per cent to $398.7 million reflecting the continued decline in residential new build and renovation construction activity in Australia, the impact of merchant destocking in the first half and COVID-19 restrictions in the second half, particularly in New Zealand and the United Kingdom.

The slowdown in residential construction, merchant destocking in Australia and the impact of COVID-19 impacted Group pro forma revenue by $(55.1) million and EBIT by $(27.6) million.

GWA was able to successfully offset $18.5 million of the EBIT impact through a continued strong focus on operational discipline and SG&A efficiencies ($5 million), Methven synergies ($3 million) and short-term cost reductions of $10.5 million.

These initiatives assisted GWA to maintain EBIT margin of 18.0 per cent compared to 18.5 per cent for the prior year.

ROFE was five percentage points lower on the prior corresponding period at 16.4 per cent. This reflects the revenue decline and EBIT margin dilution, as expected, due to Methven.

2 GWA's Revenue before the impact of COVID-19

CONTINUING OPERATIONS NORMALISED RESULT (EXCLUDES SIGNIFICANT ITEMS)

Continuing Operations normalised result includes the full year contribution from Methven in FY20. For FY19 Methven results are included only from the effective date of acquisition – 10 April 2019.

A$ million (Excludes Significant Items)	FY19 Includes Methven from 10 April	FY20 Includes Methven for full year	% change
Revenue	381.7	398.7	+4%
EBITDA	93.0	92.2	(1)%
EBIT	**78.1**	**71.8**	**(8)%**
EBIT Margin (%)	*20.5%*	*18.0%*	*(2.5)ppts*
NPAT	**50.8**	**44.9**	**(12)%**

Normalised Continuing Operations EBIT (excluding significant items) was $71.8 million compared to $78.1 million for the prior year.

Continuing Operations normalised EBIT margin was 18.0 per cent compared to 20.5 per cent for the prior year, reflecting the full-year inclusion of Methven's lower margin earnings in FY20 which dilute the overall group EBIT margin and the impact of COVID-19.

GROUP REPORTED RESULTS — CONTINUING AND DISCONTINUED OPERATIONS

The Group reported result for FY20 includes the full year contribution from Methven in FY20. For FY19 Methven results are included only from the effective date of acquisition – 10 April 2019. FY19 also includes the profit on sale from the Door & Access Systems' business which was sold on 3 July 2018.

A$ million	FY19 Includes Methven from 10 April	FY20 Includes Methven for full year	% change
Revenue	381.7	398.7	+4%
EBITDA	134.4	90.7	(33)%
EBIT	**119.4**	**70.3**	**(41)%**
NPAT	**94.0**	**43.9**	**(53)%**
Earnings Per Share (cents)	*35.6c*	*16.6c*	*(19.0)c*

GWA's reported net profit after tax for the period was $43.9 million.

Group reported results include significant items. In FY20 these included net costs associated with the acquisition and integration of Methven of $(1.0) million (after tax).

Significant items in FY19 included the after-tax profit on sale of the Door & Access Systems' business of $50.8 million and $(7.6) million of transaction costs (after tax) incurred for the acquisition of Methven.

The results and balances for the year ended 30 June 2019 have been restated for the impact of the adoption of AASB 16 Leases. This has resulted in an adjustment to FY19 NPAT down $(0.9) million and FY19 EBIT up $1.0 million.

STRONG FINANCIAL METRICS ENABLE GWA TO DETERMINE 3.5 CENT FINAL DIVIDEND

The Board determined a final dividend of 3.5 cents per share, bringing the full-year dividend to 11.5 cents per share, fully-franked compared with 18.5 cents per share for the prior year.

The record date for entitlement to receive the final dividend will be 9 September 2020 with the payment date of 16 October 2020.

This FY20 dividend represents a payout ratio of reported profit of 69 per cent. This is consistent with our policy to pay dividends in the range of 65-85 per cent of net profit after tax. The Board believes the level of dividends is appropriate and strikes the right balance between immediate returns to shareholders and maintaining the Company's financial position for current conditions and continued investment for future growth.

As part of the Company's capital management approach, the Dividend Reinvestment Plan (DRP) will be offered to shareholders for the FY20 final dividend at a 1.5 per cent discount[3]. The DRP is not underwritten.

ONGOING STRONG FINANCIAL POSITION

GWA's balance sheet metrics remain strong, enabling the Company to manage through the current challenging conditions and remain well positioned as markets improve.

Net debt as at 30 June 2020 was $144.8 million which was broadly in line with the prior year's total of $141.9 million.

In October 2019, GWA successfully completed the refinance of its syndicated banking facility. In April 2020, the Group also secured an additional $33 million in facilities through members of its current banking syndicate. The increase in facilities will provide further liquidity should it be required and importantly it also provides the Group with the flexibility to take advantage of any opportunities that may arise.

Total Group facilities are $283 million, comprising a multicurrency revolving facility of $243 million which matures in October 2022 and a $40 million revolving bilateral facility which is due to mature in October 2020. The bilateral facility is a short-term working capital facility which the Company plans to extend in Q1 FY21.

GWA's credit metrics remain solid. The Company's gearing ratio (net debt/net debt plus equity) was 28.4 per cent compared to 27.5 per cent at 30 June 2019 and leverage ratio (net debt/EBITDA) of 1.9 times compared to 1.6 times at 30 June 2019.

GWA's interest cover ratio (EBITDA/net interest) was 13.6 times at 30 June 2020.

3 1.5% discount to the volume weighted average market price (VWAP)

SOLID CASH GENERATION

GWA continues to generate strong operating cashflow, notwithstanding the weaker market conditions.

Pro forma cashflow from operations in FY20 was $88.6 million compared to $107.7 million in the prior year.

Cash conversion remains strong with a cash conversion ratio of 96 per cent from Continuing Operations.

GWA remains focused on debtor management to ensure no deterioration as a result of COVID-19. Day Sales Outstanding (DSO) at 30 June was consistent with the prior year.

Capital expenditure was $12.3 million in FY20 which is towards the lower end of the guidance provided at the half year result, reflecting the Company's prudent approach to cash management as COVID-19 restrictions were implemented.

The Group's capital expenditure programme is focused on growth initiatives to drive revenue enhancing opportunities and cost efficiencies including further investment in Caroma Smart Command®, warehouse and office consolidation and further investment in IT systems.

FY21 MARKET OUTLOOK

Trading in the first six weeks of FY21 has been slightly ahead of the same period in the prior year. However, trading is expected to remain very challenging in FY21 due to weak construction market conditions further exacerbated by the uncertainty surrounding the effects of COVID-19 across all regions and as highlighted by the rapidly evolving situation in Victoria.

Lead indicators such as residential building approvals, housing turnover and lower consumer confidence, increased unemployment and lower net migration point to a reduction in GWA's overall addressable market for FY21.

GWA expects this decline will be driven predominantly by the residential new build segment in multi-residential and detached housing with the decline in the residential renovation and replacement segment to be less pronounced.

The timing and extent of any potential longer-term benefit from government stimulus measures, such as homebuilder, remains uncertain as to whether it will bring building work forward or generate incremental business.

While Commercial renovation and new build activity is expected to moderate, GWA's forward order book remains solid and is higher than at the corresponding period last year.

In FY21 we will continue to execute our focused customer and consumer initiatives to generate share growth.

These initiatives include agreed business plans with primary merchant customers targeting specific product and segment categories, ongoing collaboration with key secondary customers in core segments such as aged care and increased focus on digital consumer engagement.

We will leverage the market leading Caroma and Methven brands with new product development and range launches in sanitaryware, tap and showerware to build further consumer engagement in core categories.

We will continue to drive further growth of Caroma Smart Command® both in Australia/New Zealand and in International markets. We will continue to leverage Methven's presence in the United Kingdom and Asia.

To mitigate input cost inflation GWA has announced price increases to be implemented from August 2020 across Australia/New Zealand in conjunction with other cost saving initiatives, including Methven cost synergies, and the final year of the Company's $9-12 million cost savings target by FY21.

Approximately 70 per cent of US dollar exposure is hedged to 30 June 2021 at US$0.67 cents.

GWA expects to provide a further update on trading at the Company's Annual General meeting on 30 October 2020.

While markets remain challenging, GWA has demonstrated its ability to deliver a disciplined result in FY20. We executed well by focusing on the elements within our control to respond to the short term challenges.

As a result, we have created a strong platform for growth as market conditions improve with enhanced operational leverage supported by an ongoing strong financial position.

Board of Directors

DARRYL MCDONOUGH

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

INDEPENDENT CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Expertise: Experienced non-executive director
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 on 31 October 2013. He has over 30 years of experience as a director and as a 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. He 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 listed companies for the time periods noted:

- ALS Limited since 2012*
- Mirvac Group Limited since 2009*

PETER BIRTLES

BSC, ACA, MAICD

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 2010. He is a Chartered Accountant and is the former 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. He is also a director of Metcash Limited, Apparel Group (Hong Kong) Limited, APG & Co Pty Ltd and Good360 Australia Pty Ltd.

During the past three years Mr Birtles has served as a director of the following listed companies for the time periods noted:

- Metcash Limited since August 2019*
- Super Retail Group Limited since 2006 to 2019

TIM SALT

BSC

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Expertise: Extensive global experience in managing market leading branded portfolios across different industry sectors

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.

After starting at Unilever, Mr Salt spent much of his career in beverage companies including Tetley Tea in the UK, Pepsi in Australia and the 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.

* denotes current directorship

JANE MCKELLAR
BA, MA (HONS), GAICD

INDEPENDENT NON-EXECUTIVE DIRECTOR

Special Responsibilities: Member of Nomination and Remuneration Committee

Ms McKellar was appointed a Non-Executive Director of GWA Group Limited on 28 October 2016. She is an experienced Non-Executive Director in both public and private companies in Australia and the USA, with key contributions in customer-focused business transformation, harnessing digital technology, and brand and marketing strategies to enhance business performance. Her executive experience includes senior roles with Unilever, NineMSN, Microsoft, Elizabeth Arden and Stila Corp. She is presently a Non-Executive Director at ASX listed Freedom Foods Group Limited and McPherson's Limited and, is also on the Board of the NRMA.

During the past three years Ms McKellar has served as a director of the following listed companies for the time periods noted:

- Freedom Foods Group Limited since May 2020*
- McPherson's Limited since 2015*
- Automotive Holdings Group Limited 2015 – 2019

ALISON BARRASS
BSC, DipMA

INDEPENDENT NON-EXECUTIVE DIRECTOR

Expertise: Extensive experience in FMCG Sector, governance leadership and innovation

Ms Barrass was appointed a Non-Executive Director of GWA Group Limited on 24 May 2019. She is a highly experienced executive across private and publicly-listed organisations and was most recently the Chair of Methven Ltd, a leading New Zealand-based business which was acquired by GWA in April 2019. Her career has included significant marketing and business transformation roles with major FMCG companies, including CEO roles with both Goodman Fielder New Zealand and Griffins Foods. She is currently a Non-Executive Director of Spark NZ, Heilala Vanilla, Rockit International, Lewis Road Creamery, and Chair of Tom and Luke Limited.

During the past three years Ms Barrass has served as a director of the following listed companies for the time periods noted:

- Spark NZ Limited since 2016*
- Methven Limited 2012 – 2019

STEPHEN GODDARD
BSC (HONS), MSC

INDEPENDENT NON-EXECUTIVE DIRECTOR

Special Responsibilities: Chairman of Audit and Risk Committee

Mr Goddard was appointed a Non-Executive Director of GWA Group Limited on 28 October 2016. He has more than 30 years' retail experience having held senior executive positions with some of Australia's major retailers. His executive experience includes Finance Director and Operations Director for David Jones, founding Managing Director of Officeworks, and various senior management roles with Myer. He is Chairman of JB Hi-Fi Limited. He is also a Non-Executive Director and Chairman of the Audit and Risk Committee of both Accent Group Limited and Nick Scali Limited and a former Non-Executive Director and Chairman of the Audit and Risk Committees of Pacific Brands Limited and Surfstitch Group Limited.

During the past three years Mr Goddard has served as a director of the following listed companies for the time periods noted:

- Nick Scali Limited since March 2018*
- Accent Group Limited since Nov 2017*
- JB Hi-Fi Limited since 2016*

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.

* denotes current directorship

Directors' Report
as at 30 June 2020

Your directors present their report on the consolidated entity of GWA Group Limited (the Group) and the entities it controlled during FY20.

DIRECTORS

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

D D McDonough, Chairman and Non-Executive Director
J F Mulcahy, Deputy Chairman and Non-Executive Director
T R Salt, Managing Director and Chief Executive Officer
P A Birtles, Non-Executive Director
J M McKellar, Non-Executive Director
S T Goddard, Non-Executive Director
A J Barrass, Non-Executive Director
R J Thornton, Executive Director and Company Secretary

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 FY20, and the period for which each directorship has been held, are outlined in the director profiles in the Annual Report.

COMPANY SECRETARY

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

DIRECTORS' INTERESTS

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

Director	Ordinary Shares
D D McDonough	150,000
J F Mulcahy	40,950
T R Salt*	512,570
P A Birtles	38,650
J M McKellar	3,054
S T Goddard	10,000
A J Barrass	–
R J Thornton*	229,577
Total**	**984,801**

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 7.2.1 of the Remuneration Report.

** Section 7.3.3 of the Remuneration Report sets out the number of shares held directly, indirectly or beneficially by key management personnel or their related entities at balance date as prescribed in Accounting Standard AASB 124, this being 1,194,301 shares (2019: 855,301 shares).

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of Committees of directors) held during FY20 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		Board Committee COVID-19[1]	
	A	B	A	B	A	B	A	B
D D McDonough	11	11	4	4	6	6	4	3
J F Mulcahy	11	11	–	–	6	6	4	3
T R Salt	11	11	–	–	–	–	4	4
P A Birtles	11	11	4	4	–	–	4	4
J M McKellar	11	11	–	–	6	6	4	4
S T Goddard	11	11	4	4	–	–	4	4
A J Barrass	11	10	–	–	–	–	4	4
R J Thornton[2]	11	11	–	–	–	–	4	4

Notes:

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

B – Number of meetings attended

1. The Board established a Committee to provide oversight and support to management in dealing with the impacts of the COVID-19 pandemic during April and May 2020. In addition, the Chairman of the Board and Chairman of the Audit and Risk Committee met weekly with management as part of the oversight measures put in place during this time.
2. R J Thornton attends Committee meetings as Company Secretary.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year 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, United Kingdom and China.

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

OPERATING AND FINANCIAL REVIEW

The Operating and Financial Review for the consolidated entity during FY20 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 FY20

Dividends	Cents per share	Total Amount $'000	Franked	Date of Payment
Final 2018/19 Ordinary	9.5	25,075	Fully Franked	4 September 2019
Interim 2019/20 Ordinary	8.0	21,116	Fully Franked	4 March 2020

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

DETERMINED AFTER END OF FY20

After the balance date the following dividend was determined by the directors. The dividend has not been provided and there are no income tax consequences at 30 June 2020.

Dividend	Cents per share	Total Amount $'000	Franked	Date of Payment
Final 2019/20 Ordinary	3.5	9,238	Fully Franked	16 October 2020

The financial effect of the final dividend has not been brought to account in the financial statements for FY20 and will be recognised in subsequent financial reports.

The record date for the final dividend is 9 September 2020 and the dividend payment date is 16 October 2020. The Dividend Reinvestment Plan (DRP) will be offered to shareholders for the final dividend and a discount of 1.5% to the volume weighted average market price (VWAP) will apply to shares subscribed for under the DRP. The record date for DRP participation is 9 September 2020.

EVENTS SUBSEQUENT TO REPORTING DATE

The directors' continue to assess the uncertain and evolving impact of the COVID-19 pandemic on the Group's operations.

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 ISSUES

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

INDEMNIFICATION

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

INSURANCE PREMIUMS

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

Premiums were paid in respect of every current (and former) director and officer of the Group and controlled entities, including the directors named in the Directors' Report, the Group 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, did not perform any non-audit services.

The Board has considered the non-audit services provided during the year 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 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 22 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 FY20.

ROUNDING

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 relating to the rounding of amounts in the Directors' Report.

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

Remuneration Report

INTRODUCTION

The Directors of GWA Group Limited present this Remuneration Report for the period ended 30 June 2020. The Remuneration Report outlines the Group's remuneration strategy and principles, explains how the Group's FY20 performance has driven executive remuneration outcomes, and provides the details of specific remuneration arrangements that apply to Key Management Personnel (KMP) in accordance with section 300A of the *Corporations Act 2001* (Cth) (Corporations Act) and applicable accounting standards.

The structure of the Remuneration Report is outlined below:

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

1. MESSAGE FROM THE REMUNERATION AND NOMINATION COMMITTEE (RNC)

The RNC is pleased to present shareholders with the FY20 Remuneration Report. This report outlines GWA's approach to remuneration for its executives and in particular, the link between GWA's strategy and its remuneration framework and the link between performance and executive reward.

GWA delivered a disciplined result in FY20 in challenging market conditions and with the negative impacts of COVID-19 on revenue and earnings. GWA responded to these short-term challenges with a focus on operational and cost discipline and made significant progress against its strategic objectives which have strengthened the company's competitive position for when market conditions improve.

The decline in earnings for FY20 was disappointing but the company remains in strong financial health to navigate through these uncertain times. The incentive outcomes for the Managing Director and other Executive Leadership Team (ELT) members for FY20 reflected the lower profitability and shareholder returns. While market conditions were difficult, management responded quickly to the unforeseen impact of COVID-19 in ensuring the health and safety of staff and taking immediate actions to control costs. The Board and executives took a 20% pay reduction in Q4 FY20 to support cost management plans due to COVID-19.

This report outlines how GWA's performance has driven the remuneration outcomes for executives. The RNC had oversight of the performance and remuneration arrangements of the Managing Director and the other ELT members during FY20, together with the Group's remuneration framework and incentive plans. The RNC ensures that the financial reward for executives is aligned with performance and shareholders' interests.

GWA's remuneration framework reflects our approach on providing remuneration which is fair and equitable to attract and retain talented individuals necessary to deliver our strategy, while aligning the interests of executives and shareholders.

At the centre of our remuneration framework are:

- challenging financial and non-financial measures to assess performance and focus executives on key operational and strategic objectives critical to GWA's long-term success;
- incentive plans that align reward for executives to shareholder wealth creation over the short and medium term;

- ability for the Board to exercise its discretion to adjust or 'clawback' executive reward where business and operational risks have not been adequately managed; and
- best practice governance in determining remuneration arrangements and outcomes that are fair and reasonable taking into consideration community and shareholder expectations.

During FY19, the RNC completed a review of the executive remuneration structure which confirmed that the remuneration framework is fit for purpose and aligned with our strategy. As a result of the review we implemented some changes to our approach for FY20 to better align with market practice. Most of the changes relate to our Long-Term Incentive plan and alignment of the Managing Director's incentive opportunity with peer company CEO's based on market benchmarking data provided by an independent adviser.

Further details on the changes made in FY20 are outlined in section 3.2.

As a result of COVID-19 the Board will be conducting a further review of GWA's remuneration framework during FY21 to ensure it remains fit for purpose and aligned with our strategy. Any changes from the review will be outlined in the FY21 Remuneration Report.

2. KEY MANAGEMENT PERSONNEL

The names and titles of the Group's KMP for FY20, being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, are set out below.

Name	Position	Term as KMP
Non-Executive Directors		
D McDonough	Chairman and Non-Executive Director	Full year
J Mulcahy	Deputy Chairman and Non-Executive Director	Full year
P Birtles	Non-Executive Director	Full year
J McKellar	Non-Executive Director	Full year
S Goddard	Non-Executive Director	Full year
A Barrass	Non-Executive Director	Full year
Executive Directors		
T Salt	Managing Director and Chief Executive Officer	Full year
R Thornton	Executive Director and Company Secretary	Full year
Other Executive KMP[1]		
P Gibson	Group Chief Financial Officer	Full year
C Reil	Group General Manager – People & Performance	Full year

Note:

1. C Norwell, General Manager Sales was previously included as Other Executive KMP for FY19 but does not meet the definition of KMP for FY20 based on his delegated authorities.

3. BOARD ROLE IN SETTING REMUNERATION STRATEGY AND PRINCIPLES

The Board has overall responsibility for reviewing, approving and monitoring GWA's remuneration strategy and outcomes including for the directors and executives. The strategy is designed to provide remuneration that is fair and equitable, and is designed to attract and retain directors and management with the experience, knowledge, skills and judgement required for success.

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

The Board delegates some aspects of the review and monitoring process to the Nomination and Remuneration Committee. The charter for the Nomination and Remuneration Committee is available on the Company's website at www.gwagroup.com.au under Corporate Governance Policies.

3.1 GWA'S REMUNERATION GOVERNANCE FRAMEWORK

GWA BOARD

- Overall responsibility for the remuneration strategy and outcomes for the Group; and
- Reviews and, as appropriate, approves recommendations from the Remuneration and Nomination Committee.

WITH ADVICE FROM:

REMUNERATION AND NOMINATION COMMITTEE

Review of the:

- Group's executive remuneration and incentive policies and schemes;
- Remuneration framework for non-executive directors;
- MD and other executives' remuneration packages and performance objectives;
- Evaluation of MD performance;
- MD and other executives' development plans;
- Group's recruitment, retention and termination policies and procedures;
- Group's superannuation arrangements; and
- Diversity policy and assessing progress against objectives.

EXTERNAL ADVISERS

- Provide independent advice, information and recommendations relevant to remuneration decisions;
- The Remuneration and Nomination Committee receives information from independent external adviser related to remuneration market benchmark data and analysis for the annual executive fixed remuneration review; and
- There were no remuneration recommendations received from the external adviser during the year.

BASED ON:

REMUNERATION PRINCIPLES

- Align and contribute to GWA's key strategic business objectives and desired business outcomes;
- Align executives' remuneration with the interests of securityholders;
- Assist GWA in attracting executives and retaining the best talent required to execute the business strategy;
- Support GWA's performance based culture against business plans and shareholder returns; and
- Be fair, equitable and easy to understand.

3.2 EXECUTIVE REMUNERATION STRUCTURE REVIEW

During FY19 the Remuneration and Nomination Committee engaged an independent remuneration consultant to review the executive remuneration structure to ensure that it remains aligned with its remuneration strategy and market practice. The review concluded that the Group's remuneration framework is fit for purpose, with the following changes implemented in FY20 to better align with market practice:

- The clawback provisions under the Long-Term Incentive (LTI) plan have been strengthened so that the Board may reduce or 'clawback' benefits under the LTI plan (including Performance Rights, shares, proceeds of shares or cash amounts) if the Board considers that is justified by the performance of the Group, any member of the Group, any business, area or team, or the conduct, capability or performance of the executive;
- The LTI plan has been revised to provide flexibility for executives in the timing of exercise of vested Performance Rights, by providing that a Performance Right is not deemed to be exercised automatically upon vesting, but rather may be exercised by the executive at any time from vesting until expiry of the Performance Right seven years after the date of grant;
- The LTI plan has been revised to provide the Group with the flexibility, at the discretion of the Board, to settle vested and exercised Performance Rights in cash to executives as an alternative to shares;
- The LTI plan has been revised to provide the Board with broader discretion to determine whether some or all of the Performance Rights lapse, vest, are exercised or settled in shares or cash in the event that the Group is the subject of a successful takeover bid or acquisition by scheme of arrangement. The treatment for unvested rights will be determined by the Board in its absolute discretion. Vested rights will be automatically exercised unless the Board determines otherwise;
- Under the Short-Term Incentive (STI) plan for FY20 there has been an increased focus on the measurability of personal KPIs and the inclusion of role specific non-financial KPIs for executives that reflect how the financial goals have been achieved during the period with an increased focus on customer outcomes;
- The remuneration mix for the Managing Director between fixed and variable components for FY20 has been adjusted to reflect a higher variable component. The Managing Director's STI opportunity for FY20 was increased to 50% at target performance and 75% at stretch performance (previously 40% at target and 50% at stretch) and the LTI opportunity was increased to 100% (previously 60%). This is in line with the market benchmarking data provided by an independent adviser during FY19 which indicated that peer company CEO's typically have a higher variable opportunity for STI and LTI plans;
- The Managing Director's fixed remuneration has remained unchanged for FY20 (excluding the pay reduction of 20% during Q4 FY20 to assist in managing costs during COVID-19) and has not changed since his appointment during FY16. There were no changes to the variable components for the other executives for FY20.

4. RELATIONSHIP BETWEEN REMUNERATION POLICY AND GROUP PERFORMANCE

Remuneration is linked to performance by:

- Applying challenging financial and non-financial measures to assess performance;
- Ensuring that these measures focus management on operational and strategic business objectives that create shareholder value while balancing short-term and medium/longer term shareholder value creation.

GWA measures performance on the following key corporate measures:

- Earnings before interest and tax (EBIT);
- Return on funds employed (ROFE);
- Total shareholder return (TSR).

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

Any adjustments to normalise the EBIT and ROFE measures, and the reasons for any adjustments, will be disclosed. There were no STI payments made to executives in respect of FY20 performance. This is reflected in the Remuneration Tables in section 7.1.

For the FY18 LTI grant (performance period for the 3 years to 30 June 2020) to be tested in August 2020, the impact of the adoption of the May 2020 IFRS Interpretation Committee decision (refer Note 1c of the financial statements) will be excluded from ROFE i.e. the resulting deferred tax liability (DTL) will be added back to net assets. This ensures there is no unintended benefit for the executives with the testing of the ROFE hurdle.

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

The following graph shows the Group's relative TSR performance over the five-year period from 1 July 2015 to 30 June 2020 compared to the ASX 200 Accumulation Index. The ASX 200 Accumulation Index comprises the top 200 stocks on the Australian Securities Exchange based on liquidity and size, and is recognised as the benchmark for the Australian equity market. In the second half of FY20 there was significant volatility in both the equity markets and GWA's share price due to the COVID-19 pandemic.

Total Shareholders Return (TSR) Chart for GWA vs ASX 200 Acc Index
From 1 July 2015 to 30 June 2020

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

Financial Year	EBIT[a] ($m)	EPS[a] (cents)	Total DPS (cents)[c]	Share Price (30 June) ($)	Market Capitalisation (30 June) ($m)
2015/16[b]	78.3	19.0	16.0	2.09	551.7
2016/17	80.6	20.3	16.5	3.15	831.4
2017/18[d]	76.2	19.0	18.0	3.40	897.4
2018/19[d][e]	78.1	19.3	18.5	3.42	902.7
2019/20[e][f]	71.8	17.0	11.5	2.77	731.1

Notes:

(a) excludes significant items

(b) excludes the discontinued operations of Gliderol, Dux and Brivis

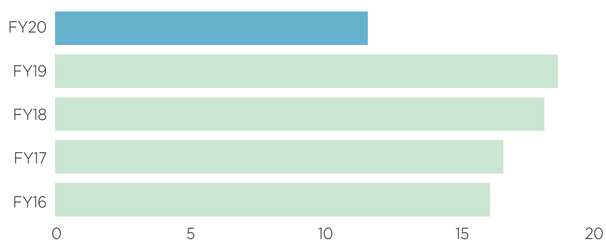
(c) includes ordinary and special dividends

(d) FY18 and FY19 represent continuing operations and exclude the discontinued operations of the Door & Access Systems' business (including the gain on sale) which was sold on 3 July 2018. FY16 and FY17 include the results of the Door & Access Systems' business

(e) FY19 and FY20 includes the results of Methven Limited from the date of acquisition (10 April 2019)

(f) FY20 performance was negatively impacted by COVID-19 resulting in business interruption and challenging market conditions across all regions. GWA recorded negligible revenue in New Zealand during the period of level 4 restrictions and significantly reduced revenue in the United Kingdom during the shutdowns. Together, these markets comprised 21 per cent of GWA's revenue (before the impact of COVID-19). Lockdown restrictions in Australia (79 per cent of Group revenue before COVID-19) were less severe than in New Zealand and the United Kingdom, with trading for the fourth quarter at approximately 90 per cent of expected levels

Total dividend per share (cents)



The remuneration and incentive framework aims to focus executives on sustaining short-term operating performance coupled with investment in long-term strategic growth in the markets in which the business operates.

The Group's Normalised[1] profit performance for Continuing Operations[2] declined in FY20 due to weaker market activity and the negative impact of COVID-19 on revenue and earnings for the Group. The focus on operational and cost discipline during FY20 ensured the company was able to manage through the short-term challenges and continue to invest in its growth strategy.

The company is in a strong financial position to manage through the current challenging environment. The earnings performance for FY20 enabled the Board to pay a full year fully franked dividend of 11.5 cents per share for FY20 representing a dividend pay-out ratio of reported profit of 69% which is in line with the company's dividend policy.

The Group has continued its progress in FY20 against its strategic objectives to enhance the operating performance of the business, to continue to grow market share and to maximise returns to shareholders over time. The progress against the strategy is outlined in the Managing Director's Review of Operations.

The successful execution of the Group's strategy was included in executives' measurable personal goals and reflected in the financial performance targets under the STI and LTI plans for FY20; refer sections 6.3 Short-Term Incentive and 6.4 Long-Term Incentive.

The remuneration and incentive framework has focused executives on responding appropriately to the challenging market conditions in FY20 which included the impacts of COVID-19. It has encouraged management to respond quickly and make long-term decisions to sustain competitiveness ensuring that the Group is well placed to maximise returns through the market cycle.

5. 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 that non-executive directors maintain their independence.

At the 2018 Annual General Meeting, shareholders approved an increase in non-executive director fees to an annual maximum aggregate amount of $1,350,000 including statutory superannuation. This increase was to allow for new director appointments over time in accordance with the Board succession plans.

The actual fees paid to the non-executive directors are outlined in the Remuneration Tables in section 7.1 and are based on the following:

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

There have been no changes to these amounts since FY16. The non-executive directors took a 20% pay reduction in Q4 FY20 to support cost management plans due to COVID-19. This is reflected in the Remuneration Tables in section 7.1.

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

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

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

The Board does not require its non-executive directors to hold GWA shares, however the holding of shares is actively encouraged. For details of the non-executive director shareholdings, please refer to section 7.3.3.

6. DESCRIPTION OF EXECUTIVE REMUNERATION

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

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

As outlined in section 3.2, during FY19 the Board engaged an independent remuneration consultant to review the executive remuneration structure to ensure it remains aligned with the Board's remuneration strategy and market practice. The changes following the review were implemented in FY20.

1 Normalised is before $1 million in significant items (after tax) relating primarily to integration costs associated with the acquisition of Methven in FY20.

2 Continuing Operations include the revenue and earnings contribution from Methven from the effective date of acquisition, 10 April 2019.

6.1.1 GWA's Executive Remuneration Structure for FY20

Objective	Attract and retain best talent	Reward current year performance	Reward long-term performance
	Fixed	Variable (at risk)	
Remuneration Components	**Fixed Remuneration**	**Short Term Incentive (STI)**	**Long Term Incentive (LTI)**
Delivery	• Base Salary • Non-monetary benefits • Superannuation	• Annual cash payment subject to performance • Portion deferred for one year and paid in cash	• Annual grant of Performance Rights vesting after 3 years subject to performance
FY20 Approach	• Fixed remuneration targeted between median and 75th percentile of comparator group • Benchmark companies of similar size and operational scope	STI performance measures: • Gateway: Revenue and EBIT at 95% of target • Financial targets (60%): EBIT and ROFE • Personal targets (40%): measureable personal KPIs	LTI performance measures: • 3 year performance period • Performance hurdles (each 50%): ROFE (absolute measure) TSR (relative measure)

Note:
1 The Managing Director's remuneration structure for FY20 is the same as the other executives, however the remuneration mix is different as outlined in section 6.1.2. For details of the Managing Director's remuneration arrangements, please refer to section 8.1.

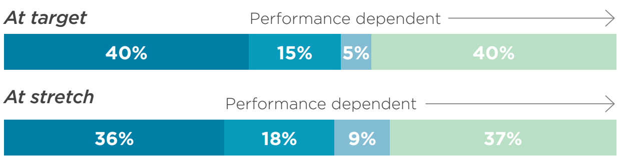
The Board is of the view that a combination of EBIT, ROFE and TSR performance measures are an effective basis for STI and LTI targets as they are currently key metrics used in the business and aligned with the Group's strategy.

ROFE is an appropriate target, both over the one-year horizon, for STI purposes, and over the three-year horizon, for LTI purposes. The Board is cognisant that in any one year or longer period ROFE can be impacted by the timing of investments in growth, e.g. acquisitions, capital spend, where benefits (EBIT) may accrue in subsequent periods, thereby depressing ROFE in the current year. By setting a longer term ROFE target the Board is also able to incentivise executives for achievement of the ROFE target above the cost of capital over time and to ensure that management make decisions aligned with shareholders' interests over time, notwithstanding, that in the short-term, investments in future growth may detract from headline ROFE numbers.

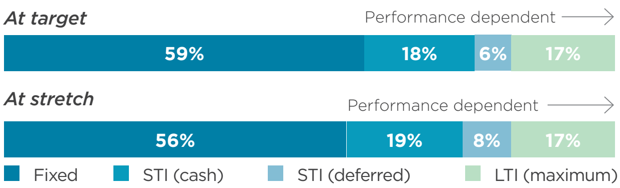
6.1.2 Managing Director and other executives' remuneration mix

The components of remuneration for the Managing Director and other executives' for FY20 at 'target' and 'stretch' performance are provided in the following table:

Managing Director Remuneration Mix



Other Executives' Remuneration Mix[1]



Note:
1 Based on the average of the other executives' fixed remuneration excluding the Managing Director and CFO.

6.1.3 Managing Director variable remuneration structure

The FY20 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
FY20	75	100	**175**

The FY20 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
FY20	50	25	**75**

6.1.4 Other Executives' variable remuneration structure

The FY20 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
FY20	50	30	**80**

The FY20 STI components for other executives are provided in the following table:

Other Executives	Financial Targets as maximum % of fixed remuneration	Personal Goals as maximum % of fixed remuneration	Maximum STI as % of fixed remuneration
FY20	30	20	**50**

6.2 FIXED REMUNERATION

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

The level of fixed remuneration is set:

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

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

Based on a market benchmarking report provided by an independent adviser for the FY20 executive remuneration review, the fixed remuneration for most executive positions at GWA are comparable to market benchmark levels for companies of comparable operational scope and size to GWA, having regard to market capitalisation and revenue. The 19 listed peer companies included in the survey provided reliable and robust statistical remuneration benchmarking and shared some common attributes with GWA, however, few direct competitors and good position matches exist for precise remuneration positioning. The Nomination and Remuneration Committee therefore exercised judgement in determining appropriate remuneration levels, having regard to the background and experience of the individuals.

While market levels of remuneration are monitored on a regular basis, there is no contractual requirement that pay will be adjusted each year. Where these levels are above the 75th percentile, fixed remuneration will either be frozen or increases will be below market levels.

For FY20, the Board made no adjustment to the Managing Director's fixed remuneration which was at the median of the comparator group based on the independent benchmark data. The Managing Director's fixed remuneration has remained unchanged since his appointment during FY16. In addition, the Managing Director and the other executives took a pay reduction of 20% during Q4 FY20 to assist in managing costs during COVID-19. This is reflected in the Remuneration Tables in section 7.1.

6.3 SHORT-TERM INCENTIVE (STI)

6.3.1 STI overview

The STI plan provides for an annual payment that varies with performance measured over the Group's financial year to 30 June 2020. The STI is aligned to shareholder interests as executives will only become entitled to the majority of payments if profitability improves (relative to peers in the cyclical housing industry), with maximum incentive payments above the target level linked directly to shareholder value creation. As noted in section 6.1, the maximum STI that can be earned is capped.

Financial gateways are in place to ensure a minimum level of financial performance is achieved before any STI payments (both financial and personal goals) are awarded to executives. The gateways represent 95% of at target Revenue and EBIT. If both gateways have not been achieved, then the executives are not eligible for an STI payment of either component – 'financials' and 'personal goals'.

The STI payment is made in cash after finalisation of the annual audited financial statements. 50% of the financial target component of the STI is deferred for executives that achieve their STI financial targets. The deferred component is subject to further testing by the Board to confirm the integrity of the achievement of the STI financial targets following finalisation of the following year's audited financial statements. If the Board is satisfied the deferred component will be paid to executives together with nominal interest at market rates. However, if the Board is not satisfied the deferred component will be subject to forfeiture.

6.3.2 STI performance requirements

6.3.2.1 Financial Performance Targets

For FY20, STI financial performance targets are based on Earnings Before Interest and Tax (EBIT) and Return On Funds Employed (ROFE) targets as determined by the Nomination and Remuneration Committee. The use of EBIT and ROFE as the basis of STI financial targets is aimed at ensuring executives are accountable for delivering both profit and return on funds improvements.

The Board is of the view that a combination of EBIT and ROFE targets are an effective basis for STI targets as they are currently key metrics used in the business and ROFE is a key target in driving returns on capital employed in excess of the cost of capital. The EBIT and ROFE targets are weighted equally for divisional and corporate executives, and adjusted for normalisation if applicable; refer section 4.

The 'target' 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 'target' and 'stretch' levels is rewarded on a straight line basis between 'target' achievement and 'stretch' achievement.

The Board retains the right to vary from policy if required. However, any variation from policy and the reasons for it will be disclosed. There was no variation from policy in setting the STI financial performance targets for FY20.

6.3.2.1.1 FY20 STI Financial Performance Outcomes

For FY20, due to the weaker market conditions and negative impact of COVID-19 the financial gateways were not achieved and therefore, the executives were not eligible for an STI payment (both financial and personal goals).

The following table provides an overview of the STI metrics for FY20 and outcomes:

Financial Metric	Gateway	FY20 STI Outcomes
Net Sales	Not Achieved	–
EBIT	Not Achieved	Nil
ROFE	–	Nil

The STI performance outcomes for FY20 were aligned with shareholders' interests as it reflected the lower profitability and shareholder returns for the period.

This outcome is reflected in the Remuneration Tables in section 7.1.

The deferred component of the STI incentive payments for FY19 for executives was tested by the Board in August 2020 to confirm the integrity of the achievement of the STI financial targets in FY19. Following satisfaction with the testing, the Board approved the payment of the deferred component to executives together with interest at nominal market rates.

6.3.2.2 Personal Goals

The personal goals set for each executive include achievement of key milestones to improve or consolidate the Group or business unit's strategic position. The personal goals vary with the individual's role, risks and opportunities and are aligned with the Group's strategic plan and corporate priorities. Achievement of personal goals accounts for a maximum of 25% for the Managing Director and 20% of the other executives' fixed remuneration.

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

Personal goals include both measurable financial and business improvement goals. The measurable financial goals are financial outcomes which the individual aims to achieve through their effort and that of their team and influence on the wider business. Examples may include achieving working capital reductions, sales/margin targets or cost reduction targets. The measurable business improvement goals are outcomes which drive sustainable 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, enhancing sustainability, delivering a major project on time and budget, market share and productivity improvements or implementing a significant change or strategic initiative.

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

The Managing Director's performance review is conducted semi-annually by the Chairman following input from the Board and with the outcomes reviewed and approved by the Nomination and Remuneration Committee. An assessment of the Managing Director's key performance goals subject to STI incentive payments for FY20 is provided in section 6.3.2.2.1. As outlined in section 6.3.2.1.1 the financial gateways were not achieved for FY20 and therefore, there were no STI payments made to the Managing Director and other executives. This is reflected in the Remuneration Tables in section 7.1.

The inclusion of personal goals in the remuneration structure ensures that executives can be recognised for improved business performance, including periods where troughs in the housing industry cycle mean financial performance is consequently weaker across the sector. 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.

6.3.2.2.1 Managing Director's key performance goals and outcomes

An assessment of the Managing Director's key performance goals and financial targets subject to STI incentive payments for FY20 is provided in the following table.

FY20 Goals	Performance	Assessment
Personal Objectives		
Achieve leading workplace health and safety (WHS) performance with the aim of an injury free workplace. **Measures:** • Safety initiatives to reduce risk • Leading safety indicators (Safety Interactions, Hazards Reported, Actions Closed) • Lagging safety measures (MTIFR, LTIFR, TIFR)	During FY20 the Group made substantial progress on implementing our safety strategy. This strategy focuses on leadership and behavioural aspects of safety together with identifying and mitigating physical risks in our operations. This continued focus on safety has resulted in a significant improvement in the Group's performance in both lead and lag safety indicators. The Group recorded a material decrease in TIFR from 6.2 in FY19 to 0.9 in FY20. The Methven sites across NZ, China and the UK have been integrated into the GWA safety system, SafetyOne, with the standardisation of operating procedures to deliver a consistent and measurable approach to safety across the Group. The Group ensured staff were safe and well during COVID-19 through its well established practice of supporting flexible work which enabled all office based staff to work from home. A number of measures were implemented to ensure employees could work safety at their work sites. Ownership and accountability for safety exists at all levels in the business with "Caring For Each Other" central to the Group's cultural pillars and with employee engagement on safety increasing 2 percentage points to 89% which is above the Australia/NZ top quartile based on our 2019 engagement survey.	On target
Executing and delivering FY20 business plan including the integration of Methven. Deliver the growth strategy in accordance with the horizon plans. **Measures:** • Integration of Methven • Improvement in market share • Growth strategy development and execution including increased installations of Caroma Smart Command®	Long-term growth plans have been developed for the Group in order to accelerate growth and improve shareholder returns. The plans outline growth initiatives to strengthen the core business, build emerging businesses and create growth options into the future in line with the Group's superior water solutions strategy. The integration of Methven remains on track with cost synergies in line with expectations and with improved ranging of Methven products in Australia. The Group maintained market share in FY20 during challenging market conditions with the impact of COVID-19 in the last quarter of the year. The Group responded to the weaker market conditions in FY20 by accelerating cost-out and efficiency improvements, whilst continuing to implement our growth strategy. Solid progress was achieved with our consumer engagement strategy and growth in commercial segments. The number of installations of Caroma Smart Command® (CSC) increased to 49 sites in FY20 with a solid bank of additional projects in the pipeline. CSC continues to represent a significant growth opportunity for the Group.	On target
Build employee engagement and culture and embed purpose and values to deliver the strategy. Continue to increase diversity with a focus on increasing female representation. **Measures:** • Culture and engagement surveys • Gender diversity	The Group continues to implement programs to drive a high performance culture and to encourage staff to perform their best while upholding GWA's Cultural Pillars. There is an active Culture Council which is led by the Managing Director who champions programs aligned to GWA's Cultural Pillars. An employee engagement survey was conducted during FY20 in partnership with Kincentric (formerly Aon). The overall engagement score was 61% which is above the Australia/NZ average. Increasing the diversity of the Group's talent continues to be a focus and the percentage of female employees increased to 43% globally. In Australia, the percentage of women increased to 42%, and 60% of all promotions were awarded to women, as reported in the Group's 2020 Workplace Gender Equality Report which is available on the Group's website at www.gwagroup.com.au under Gender Equality Reporting. The Group received notification during August 2020 that it is compliant with the Workplace Gender Equality Act 2012.	On target

Financial targets		
STI financial performance targets **Measures**: • Revenue and EBIT financial gateways • EBIT and ROFE financial targets	Due to the weaker market conditions and negative impact of COVID-19 in FY20, the STI financial gateways were not achieved. As a result there were no STI payments (both financial and personal goals) to the Managing Director and other executives for FY20. This outcome is reflected in the Remuneration Tables in section 7.1.	Below target

On target   Above target   Below target

6.4 LONG-TERM INCENTIVE (LTI)

6.4.1 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 given the nature of the business.

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

If the vesting conditions and performance hurdles are achieved, the participants may exercise the Performance Rights at no cost before their expiry seven years after the grant date. Until that time, the participants have no right to dividends or voting rights on unvested Performance Rights. If the performance hurdles are not met then the Performance Rights are cancelled. The LTI plan rules do not allow for re-testing of the performance hurdles after the initial performance period.

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

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

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

For the FY20 LTI grant, a participant may not dispose of the ordinary shares issued under the LTI until Board approval has been obtained and the shares are subject to a holding lock upon issue. This was to ensure that executives retain a suitable shareholding in the Group. 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 executive's Group shareholdings as a multiple of fixed remuneration, and such other factors as it considers relevant to the application. No applications from participants to dispose of the shares were received by the Board in FY20.

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

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

For the FY20 LTI grant, the proportion of Performance Rights that can vest will be calculated and the shares will vest in August 2022 subject to achieving the performance hurdles. If the performance hurdles are not met the Performance Rights will be cancelled.

As outlined in section 3.2, the clawback provisions under the LTI plan rules were strengthened following an independent external review conducted in FY19. The clawback provisions enable the Board to reduce or 'claw back' benefits under the LTI (including unvested Performance Rights, shares, proceeds of shares or cash amounts) if the Board considers that action is justified in the circumstances. This includes where an executive has committed an act of fraud, defalcation or gross misconduct.

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 2020 was 1,741,500 which represents 0.7% of the Group's total issued shares.

6.4.2 LTI performance requirements

For the FY20 LTI grant, the performance hurdles continue to provide for vesting scales graduated with performance and demanding performance hurdles.

6.4.2.1 TSR hurdle

The performance hurdles and vesting proportions for the TSR performance measure that applies to the FY20 LTI grant are 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 a bespoke group of domestic ASX listed companies exposed to similar economic, market, and/or financial factors.

GWA and the comparator companies operate in a number of different sectors (e.g. Industrial, Material, Consumer Discretionary) and the choosing of one sector or industry will not provide a comprehensive list of related companies. To ensure an adequate number of comparator companies is included for the TSR hurdle, the Board has selected companies outside the building supplies and construction materials industry, but subject to similar external influences.

The group of comparator companies for the FY20 LTI grant is as follows:

James Hardie Industries PLC, Fletcher Building Ltd, Boral Ltd, Adelaide Brighton Ltd, Brickworks Ltd, Super Retail Group Ltd, CSR Ltd, ARB Corp Ltd, Bapcor Ltd, Breville Group Ltd, Asaleo Care Ltd, GUD Holdings Ltd, Cedar Woods Properties Ltd, Decmil Group Ltd, Simonds Group Ltd, Hills Ltd, Fleetwood Corp Ltd, Accent Group Ltd, Pact Group Holdings Ltd, Reece 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. The Board reviews the comparator group on an annual basis to ensure they remain relevant and to ensure potential new peers are considered for inclusion.

6.4.2.2 ROFE hurdle

The performance hurdles and vesting proportions for the ROFE performance measure that applies to the FY20 LTI grant is outlined in the following table:

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

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

The ROFE hurdle is calculated as earnings before interest and tax (EBIT) divided by funds employed and adjusted for normalisation if applicable; refer section 4. Funds employed is calculated as net assets minus cash plus borrowings and net AASB16 Leases balances.

The Board has discretion to make reasonable adjustments to the EBIT figure where it is unduly distorted by significant or abnormal events, and in order to ensure that it reflects underlying trading performance. The use of any discretion and the reasons for it will be disclosed.

For the FY18 LTI grant (performance period for the 3 years to 30 June 2020) to be tested in August 2020, the impact of the adoption of the May 2020 IFRS Interpretation Committee decision (refer Note 1c of the financial statements) will be excluded from ROFE i.e. the resulting deferred tax liability (DTL) will be added back to net assets. This ensures there is no unintended benefit for the executives with the testing of the ROFE hurdle.

7. DETAILS OF DIRECTOR AND EXECUTIVE REMUNERATION

7.1 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 2020 are provided in the following Remuneration Tables.

		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[(f)]												
D McDonough, Chairman	2020	244,997	–	–	–	–	21,003	–	266,000	–	–	–
	2019	259,469	–	–	–	–	20,531	–	280,000	–	–	–
J Mulcahy, Deputy Chairman	2020	111,150	–	–	–	–	12,350	–	123,500	–	–	–
	2019	117,650	–	–	–	–	12,350	–	130,000	–	–	–
P Birtles, Non-Executive Director	2020	102,600	–	–	–	–	11,400	–	114,000	–	–	–
	2019	108,600	–	–	–	–	11,400	–	120,000	–	–	–
J McKellar, Non-Executive Director	2020	102,600	–	–	–	–	11,400	–	114,000	–	–	–
	2019	108,600	–	–	–	–	11,400	–	120,000	–	–	–
S Goddard, Non-Executive Director	2020	111,150	–	–	–	–	12,350	–	123,500	–	–	–
	2019	116,969	–	–	–	–	13,031	–	130,000	–	–	–
A Barrass, Non-Executive Director (Appointed 24 May 2019)	2020	102,600	–	–	–	–	11,400	–	114,000	–	–	–
	2019	12,769	–	–	–	–	1,213	–	13,982	–	–	–
Total – Non-Executive Directors Remuneration	**2020**	**775,097**	–	–	–	–	**79,903**	–	**855,000**			
	2019	**724,057**	–	–	–	–	**69,925**	–	**793,982**			
Executive Directors[(g)]												
T Salt, Managing Director[(e)]	2020	967,514	–	4,277	676,736	–	25,000	–	1,673,527	40	–	100
	2019	967,308	400,000	1,627	452,597	–	24,999	–	1,846,531	46	80	20
R Thornton, Executive Director	2020	369,520	–	4,254	110,404	6,344	21,003	–	511,525	22	–	100
	2019	389,008	163,816	8,013	92,763	6,325	20,531	–	680,456	38	80	20
Total – Directors Remuneration	**2020**	**2,112,131**	**–**	**8,531**	**787,140**	**6,344**	**125,906**	–	**3,040,052**			
	2019	**2,080,373**	**563,816**	**9,640**	**545,360**	**6,325**	**115,455**	–	**3,320,969**			
Executives[(g)]												
P Gibson, Group Chief Financial Officer	2020	701,848	–	10,440	202,361	64,758	25,000	–	1,004,407	20	–	100
	2019	733,654	300,000	8,289	170,188	–	24,999	–	1,237,130	38	80	20
C Reil, Group General Manager – People & Performance	2020	373,012	–	4,792	112,948	–	25,000	–	515,752	22	–	100
	2019	386,512	168,000	2,040	69,373	–	24,999	–	650,924	36	80	20
Total – Executives Remuneration	**2020**	**1,074,860**	**–**	**15,232**	**315,309**	**64,758**	**50,000**	**–**	**1,520,159**			
	2019	**1,120,166**	**468,000**	**10,329**	**239,561**	–	**49,998**	–	**1,888,054**			
Total – Directors and Executives Remuneration	**2020**	**3,186,991**	**–**	**23,763**	**1,102,449**	**71,102**	**175,906**	**–**	**4,560,211**			
	2019	**3,200,539**	**1,031,816**	**19,969**	**784,921**	**6,325**	**165,453**	–	**5,209,023**			

Notes to the Remuneration Tables:

(a) Salary and fees represent base salary and includes the movement in annual leave provision.

(b) Due to the weaker market conditions and the negative impact of COVID-19 the financial gateways under the Short-Term Incentive (STI) plan were not achieved and therefore, the executives were not eligible for an STI payment (both financial and personal goals) for FY20 performance.

(c) The short-term non-monetary benefits include insurance and other minor benefits including any applicable fringe benefits tax.

(d) The Long-Term Incentive (LTI) plan was approved by shareholders at the 2008 Annual General Meeting. The outstanding Performance Rights at 30 June 2020 were granted to executives in FY18, FY19 and FY20 (as applicable) and are subject to vesting conditions and the achievement of specified performance hurdles over the three year performance periods. During FY20, 100% of the Performance Rights granted to executives in respect of the FY17 LTI grant vested as the ROFE and TSR hurdles were fully achieved. The fair value of the Performance Rights granted in FY18, FY19 and FY20 were calculated using Black Scholes Model (ROFE hurdle) and Monte Carlo Simulation (TSR hurdle) valuation methodologies and allocated to each financial year evenly over the three year performance period. If the specified performance hurdles are not achieved, then no benefits will be received by the executives under the LTI plan and the Performance Rights are cancelled.

(e) For details of Mr Tim Salt's remuneration arrangements as Managing Director, please refer to section 8.1. The Managing Director's fixed remuneration for FY20 was at the median of the comparator group based on the market benchmark data provided by an independent adviser and has remained unchanged since his appointment during FY16 (excluding the pay reduction of 20% during Q4 FY20 to assist in managing costs during COVID-19).

(f) Non-executive director remuneration has remained frozen since FY16 (excluding the pay reduction of 20% during Q4 FY20 to assist in managing costs during COVID-19). The total non-executive director remuneration is within the annual aggregate maximum amount approved by shareholders. For details of non-executive director remuneration, please refer to section 5.

(g) For the actual remuneration received by the executives for FY20, please refer to the table in section 7.1.1.

7.1.1 Actual remuneration received by executives for FY20

The following table sets out the actual value of remuneration received by executives for FY20, derived from the various components of their remuneration during FY20. This table differs from the more detailed statutory remuneration disclosures in the Remuneration Tables in section 7.1 due to the exclusion of LTI amounts not vested or reversal of accounting expenses associated with LTI grants and is therefore unaudited.

Executives FY20	Fixed Remuneration $[(a)]	Short Term Incentive $[(b)]	Long Term Incentive (Earned) $[(c)]	Total $
T Salt, Managing Director[(d)]	954,277	–	363,931	1,318,208
R Thornton, Executive Director	393,317	–	74,653	467,970
P Gibson, Group Chief Financial Officer	722,940	–	136,580	859,520
C Reil, Group General Manager – People & Performance	412,407	–	–	412,407
Total	**2,482,941**	–	**575,164**	**3,058,105**

Notes:

(a) Fixed remuneration represents amounts actually paid to executives during FY20 and includes base salary, non-monetary benefits and superannuation. It includes the 20% pay reduction in Q4 FY20 to support cost management plans due to COVID-19.

(b) Due to the weaker market conditions and the negative impact of COVID-19 the financial gateways under the Short-Term Incentive (STI) plan were not achieved and therefore, the executives were not eligible for an STI payment (both financial and personal goals).

(c) The performance hurdles for the FY17 LTI grant were tested during FY20 and fully achieved; refer section 7.2.1 Performance Rights. Excludes the value of any unvested LTI grants expensed or reversed during FY20.

(d) For details of Mr Tim Salt's remuneration arrangements as Managing Director refer to section 8.1.

7.2 SHARE BASED PAYMENTS

7.2.1 Performance Rights

The following table shows details of the Performance Rights granted to key management personnel during the year ended 30 June 2020 and in prior years that affects compensation in this or future reporting periods.

	Year of grant	Number of rights granted	Grant date*	% vested in year	% forfeit in year	Fair value of rights at grant date $*	Issue price used to determine number of rights granted
Executive Directors							
T Salt, Managing Director	2020	329,000	14 February 2020	–	–	1,036,350	3.04
	2019	220,000	18 February 2019	–	–	566,500	2.73
	2018	224,000	19 February 2018	–	–	427,358	2.68
	2017	214,500	24 February 2017	100	–	363,931	2.80
R Thornton, Executive Director	2020	40,500	14 February 2020	–	–	127,575	3.04
	2019	45,000	18 February 2019	–	–	115,875	2.73
	2018	46,000	19 February 2018	–	–	87,761	2.68
	2017	44,000	24 February 2017	100	–	74,653	2.80
Executives							
P Gibson, Group Chief Financial Officer	2020	74,000	14 February 2020	–	–	233,100	3.04
	2019	83,000	18 February 2019	–	–	213,725	2.73
	2018	84,000	19 February 2018	–	–	160,259	2.68
	2017	80,500	24 February 2017	100	–	136,580	2.80
C Reil, Group General Manager – People & Performance	2020	41,500	14 February 2020	–	–	130,725	3.04
	2019	46,000	18 February 2019	–	–	118,450	2.73
	2018	47,000	19 February 2018	–	–	89,669	2.68
	2017	–	–	–	–	–	–

Note:

* The issue price used to determine the number of Performance Rights offered to key management personnel during FY20 was $3.04 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 25 October 2019. 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 $3.54 per right and TSR hurdle was $2.71 per right.

All of the rights carry an exercise price of nil. The rights granted on 19 February 2018, 18 February 2019 and 14 February 2020 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 2020, 2021 and 2022 respectively, subject to the achievement of the performance hurdles. The rights granted to Mr Salt and Mr Thornton were approved by shareholders at the 2017, 2018 and 2019 Annual General Meetings in accordance with ASX Listing Rule 10.14.

Rights were forfeited where an employee ceased employment with the Group during the year in accordance with the rules of the LTI plan.

The number of rights outstanding at 30 June 2020 represents the balance yet to be tested.

7.2.2 Status and key dates of LTI awards

The following table shows the status and key dates for Performance Rights granted to key management personnel under the LTI plan.

Grant Date	Valuation Per Right[1]	Performance Testing Windows	Expiry Date (if hurdle not met)	Performance Status[2]
24 February 2017	Tranche A (TSR) $1.28 Tranche B (ROFE) $2.11	28 October 2016 to 19 August 2019 (Tranche A) 1 July 2016 to 30 June 2019 Tranche B)	19 August 2019	Tranche A (TSR): Performance condition met at 89th percentile resulting in maximum 100% vesting of the grant. Tranche B (ROFE): Performance condition met at an average of 20% per annum resulting in maximum 100% vesting of the grant.
19 February 2018	Tranche A (TSR) $1.43 Tranche B (ROFE) $2.38	27 October 2017 to August 2020 (Tranche A) 1 July 2017 to 30 June 2020 (Tranche B)	August 2020	Performance testing not yet commenced.
18 February 2019	Tranche A (TSR) $2.23 Tranche B (ROFE) $2.92	26 October 2018 to August 2021 (Tranche A) 1 July 2018 to 30 June 2021 (Tranche B)	August 2021	Performance testing not yet commenced.
14 February 2020	Tranche A (TSR) $2.71 Tranche B (ROFE) $3.54	25 October 2019 to August 2022 (Tranche A) 1 July 2019 to 30 June 2022 (Tranche B)	August 2022	Performance testing not yet commenced.

Notes:

1 The value of performance rights at grant date calculated in accordance with AASB 2 Share-based Payments. Valuations are performed by a third party, PWC for the 2017 and 2018 grants and Deloitte for the 2019 and 2020 grants.

2 To ensure an independent TSR measurement, GWA engages the services of external organisation, Deloitte, to assist with determining performance under the TSR hurdle. In addition, GWA's external auditor, KPMG, is engaged to perform agreed upon procedures to assist with ROFE measurement and the accuracy of LTI vesting outcomes.

7.3 KEY MANAGEMENT PERSONNEL TRANSACTIONS

7.3.1 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 2020 (2019: nil).

7.3.2 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 2020 (2019: nil).

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

7.3.3 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 2019	Granted as compensation	Purchases	Sales	Held at 30 June 2020
Non-Executive Directors					
D McDonough	150,000	–	–	–	150,000
J Mulcahy	40,950	–	–	–	40,950
P Birtles	38,650	–	–	–	38,650
J McKellar	3,054	–	–	–	3,054
S Goddard	10,000	–	–	–	10,000
A Barrass	–	–	–	–	–
Executive Directors					
T Salt	298,070	214,500	–	–	512,570
R Thornton	185,577	44,000	–	–	229,577
Executives					
P Gibson	129,000	80,500	–	–	209,500
C Reil	–	–	–	–	–

	Held at 1 July 2018	Granted as compensation	Purchases	Sales	Held at 30 June 2019
Non-Executive Directors					
D McDonough	150,000	–	–	–	150,000
J Mulcahy	40,950	–	–	–	40,950
P Birtles	38,650	–	–	–	38,650
J McKellar	1,000	–	2,054	–	3,054
S Goddard	10,000	–	–	–	10,000
A Barrass (Appointed 24 May 2019)	n/a	–	–	–	–
Executive Directors					
T Salt	36,070	262,000	–	–	298,070
R Thornton	120,577	65,000	–	–	185,577
Executives					
P Gibson	10,000	119,000	–	–	129,000
C Reil	–	–	–	–	–

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 2020 is listed in the Directors' Report under Directors' Interests.

During the FY20 reporting period, there were 339,000 shares vested to key management personnel as compensation (2019: 446,000). The aggregate number of shares held by key management personnel or their related parties at 30 June 2020 was 1,194,301 (2019: 855,301).

8. KEY TERMS OF EMPLOYMENT CONTRACTS

8.1 MANAGING DIRECTOR REMUNERATION

The remuneration arrangements for Mr Tim Salt as Chief Executive Officer were determined by the Nomination and Remuneration Committee in FY16 following the provision of market data from an independent external adviser. Based on the benchmark data, Mr Salt's total remuneration was aligned with the then market median in relation to a group of 16 companies of comparable operational scope and size to GWA. The remuneration arrangements for Mr Salt were advised to the market on 27 November 2015 and his fixed remuneration has not changed since then (excluding the pay reduction of 20% during Q4 FY20 to assist in managing costs during COVID-19). As mentioned in section 3.2, following a review of executive remuneration in FY19, the STI and LTI opportunity for Mr Salt were adjusted to be in line with market.

The following is a summary of Mr Salt's remuneration package for FY20:

- Total Fixed Remuneration (TFR) comprising salary, superannuation and all other benefits other than incentive plans of $1,000,000;
- Participation in GWA's Short-Term Incentive (STI) plan:
  - STI opportunity of 50% of TFR based on Mr Salt meeting Board approved Key Performance Indicator (KPI) objectives, with provision for a maximum 75% of TFR for outperformance against these KPIs.
- Participation in GWA's Long-Term Incentive (LTI) plan:
  - LTI opportunity of 100% of TFR over a three year performance period and subject to achievement of performance hurdles in respect of growth in Return on Funds Employed (ROFE) and Total Shareholder Return (TSR).

For the FY20 executive remuneration review, the market benchmark data provided by an independent external adviser confirmed that the Managing Director's fixed remuneration was at the median level of the comparator group consisting of 19 companies with comparable operational scope and size to GWA.

8.2 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 Tim Salt provides that if either the Group or Mr Tim 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 Tim Salt by making payment equal to twelve months salary in lieu of providing notice.

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

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

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

8.3 TREATMENT OF INCENTIVES ON TERMINATION

The following table shows the treatment of incentives on termination of employment in the various circumstances shown.

Circumstances	Short term incentive[1]	Long term incentive – unvested Performance Rights
Immediate termination for cause	No STI payable and clawback provisions may apply (including deferred STI)	Performance Rights are forfeited
Resignation	Board discretion to award STI on a pro-rata basis (including deferred STI)	Performance Rights are forfeited unless Board determines otherwise
Notice by company, good leaver, retirement, redundancy, death or permanent disability	Board discretion to award STI on a pro-rata basis (including deferred STI)	Board discretion to allow awards to vest or remain subject to performance hurdles after termination on a pro-rata basis
Change of control	STI will be paid on a pro-rata basis	The Board has discretion to allow awards to vest on a change of control of GWA (e.g. a takeover or merger)

Notes:

1 Any STI payments will be paid according to the normal annual STI payment time frame (i.e. payment timing will not be accelerated).

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

Darryl D McDonough
Chairman

Tim R Salt
Managing Director

17 August 2020

GWA Group Limited Financial Report

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

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NOTES

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June			
In thousands of AUD	**Note**	**2020**	**2019[i]**
			Restated[ii]
Profit or loss			
CONTINUING OPERATIONS			
Sales revenue	4(a)	398,704	381,730
Cost of sales	4(c)	(237,432)	(218,801)
Gross profit		161,272	162,929
Other income	4(b)	2,892	2,014
Selling expenses		(53,781)	(52,033)
Administrative expenses		(38,020)	(34,771)
Other expenses	4(d)	(523)	(22)
Operating profit (excluding transaction & integration costs)		71,840	78,117
Transaction & integration costs on business combination[iii]	3	(1,543)	(8,737)
Operating profit		70,297	69,380
Finance income	4(f)	156	414
Finance expenses	4(f)	(8,800)	(6,225)
Net financing costs		(8,644)	(5,811)
Profit before tax		61,653	63,569
Income tax expense	5	(17,767)	(20,327)
Profit from continuing operations		43,886	43,242
DISCONTINUED OPERATIONS[iv]			
Profit from discontinued operations, net of income tax	27	–	50,802
Profit for the period		43,886	94,044
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign subsidiaries, net of tax		(1,740)	(1,238)
Cashflow hedges, net of tax		(3,120)	(3,086)
Other comprehensive income, net of tax		(4,860)	(4,324)
Total comprehensive income for the period		39,026	89,720
EARNINGS PER SHARE (CENTS)			
Total			
– Basic	6	16.6	35.6
– Diluted	6	16.5	35.5
Continuing operations (excluding transaction & integration costs)			
– Basic	6	17.0	19.3
– Diluted	6	16.9	19.2
Continuing operations			
– Basic	6	16.6	16.4
– Diluted	6	16.5	16.3

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

(i) The results for the year ended 30 June 2019 include the results from Methven Limited from the date of acquisition (10 April 2019). Refer to Note 3 for further information.

(ii) Refer to Note 13 for information on the impact of the adoption of AASB 16 *Leases*, including restatement of comparatives.

(iii) Transaction & integration costs are a form of 'other expenses' however disclosed separately due to their significance.

(iv) The Door & Access Systems' business was sold with an effective date of 3 July 2018 and is classified as a discontinued operation in the above statement. Refer to Note 27 for further information.

Consolidated Statement of Financial Position

As at				
In thousands of AUD	**Note**	**30 June 2020**	**30 June 2019**	**1 July 2019**
			Restated(i)	**Restated(i)**
CURRENT ASSETS				
Cash and cash equivalents	7	32,359	39,637	27,860
Trade and other receivables	8	56,628	71,057	61,476
Inventories	9	78,782	75,262	70,029
Derivative financial instruments	19	–	1,656	4,777
Other		3,772	4,178	2,413
Assets classified as held for sale	27	–	–	61,912
Total current assets		171,541	191,790	228,467
NON-CURRENT ASSETS				
Deferred tax assets	10	15,990	15,512	10,666
Property, plant and equipment	11	24,830	20,804	14,906
Intangible assets	12	421,226	422,091	286,808
Right of use assets	13	67,833	48,288	47,549
Other		–	71	297
Total non-current assets		529,879	506,766	360,226
Total assets		701,420	698,556	588,693
CURRENT LIABILITIES				
Trade and other payables	14	43,699	55,495	42,934
Loans and borrowings	17	27,000	–	–
Employee benefits	15	5,120	5,786	4,371
Income tax payable	5	137	947	6,532
Lease liabilities	13	11,458	8,325	8,555
Provisions	16	6,438	9,141	7,341
Derivative financial instruments	19	4,315	1,448	156
Liabilities classified as held for sale	27	–	–	12,025
Total current liabilities		98,167	81,142	81,914
NON-CURRENT LIABILITIES				
Deferred tax liability	10	102,846	102,842	85,247
Trade and other payables	14	696	659	718
Loans and borrowings	17	148,400	177,759	125,000
Lease liabilities	13	63,138	44,343	42,725
Employee benefits	15	4,310	3,884	4,427
Provisions	16	4,132	1,171	1,631
Total non-current liabilities		323,522	330,658	259,748
Total liabilities		421,689	411,800	341,662
Net assets		279,731	286,756	247,031
EQUITY				
Issued capital	18	307,790	307,790	307,790
Reserves		(5,758)	(1,038)	4,451
Retained earnings		(22,301)	(19,996)	(65,210)
Total equity		279,731	286,756	247,031

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

(i) Refer to Note 13 for information on the impact of the adoption of AASB 16 *Leases*, and Note 1(c)(i) for information on the impact of the adoption of the IFRS IC (Interpretation Committee) decision, including restatement of comparatives.

Consolidated Statement of Cash Flows

For the year ended 30 June			
In thousands of AUD	Note	2020	2019[(i)] Restated[(ii)]
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		461,319	424,661
Payments to suppliers and employees		(374,567)	(328,988)
Cash generated from operations		86,752	95,673
Interest and facility fees paid		(5,431)	(3,357)
Lease interest paid		(2,683)	(2,058)
Interest received		159	225
Income taxes paid		(17,845)	(22,853)
Net cash from operating activities	7(b)	60,952	67,630
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		35	210
Acquisition of property, plant and equipment		(10,044)	(3,137)
Acquisition of intangible assets		(2,308)	(1,399)
Proceeds from business disposal, net of transaction costs		–	98,883
Acquisition of subsidiary, net of cash acquired	3	–	(108,671)
Net cash used in investing activities		(12,317)	(14,114)
Proceeds from borrowings		293,145	193,759
Repayment of borrowings		(293,827)	(177,275)
Dividends paid		(46,191)	(48,830)
Repayment of lease liability		(8,384)	(11,452)
Net cash used in financing activities		(55,257)	(43,798)
Net (decrease)/increase in cash and cash equivalents		(6,622)	9,718
Cash and cash equivalents at the beginning of the year		39,637	29,070
Effect of exchange rate changes		(656)	849
Cash and cash equivalents at 30 June		32,359	39,637

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

(i) The cashflows for the year ended 30 June 2019 include the cashflows from Methven Limited from the date of acquisition (10 April 2019). Refer to Note 3 for further information.

(ii) Refer to Note 13 for information on the impact of the adoption of AASB 16 *Leases*, including restatement of comparatives.

(iii) The Door & Access Systems' business was sold with an effective date of 3 July 2018 and is classified as a discontinued operation. The above cash flows are inclusive of discontinued operations. Refer to Note 27 for further information regarding discontinued operations including summarised cash flow information.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

In thousands of AUD	Share capital	Translation reserve	Hedging reserve	Equity compensation reserve	Retained earnings	Total
Balance as at 1 July 2019 – Restated[(i)(ii)]	307,790	(2,399)	149	1,212	(19,996)	286,756
Total comprehensive income for the period						
Profit for the period	–	–	–	–	43,886	43,886
Other comprehensive income						
Exchange differences on translation of foreign subsidiaries, net of tax	–	(1,740)	–	–	–	(1,740)
Cash flow hedges, net of tax	–	–	(3,120)	–	–	(3,120)
Total other comprehensive income	–	(1,740)	(3,120)	–	–	(4,860)
Total comprehensive income	–	(1,740)	(3,120)	–	43,886	39,026
Transaction with owners, recorded directly in equity						
Share-based payments, net of tax	–	–	–	140	–	140
Dividends paid	–	–	–	–	(46,191)	(46,191)
Total transactions with owners	–	–	–	140	(46,191)	(46,051)
Balance at 30 June 2020	307,790	(4,139)	(2,971)	1,352	(22,301)	279,731

For the year ended 30 June 2019

In thousands of AUD	Share capital	Translation reserve	Hedging reserve	Equity compensation reserve	Retained earnings	Total
Balance as at 1 July 2018	307,790	(1,161)	3,235	2,377	21,160	333,401
Transition impact of AASB 16 Leases[(i)]	–	–	–	–	(1,123)	(1,123)
Impact on adoption of IFRS IC decision[(ii)]	–	–	–	–	(85,247)	(85,247)
Balance as at 1 July 2018 restated	307,790	(1,161)	3,235	2,377	(65,210)	247,031
Total comprehensive income for the period						
Profit for the period	–	–	–	–	94,044	94,044
Other comprehensive income						
Exchange differences on translation of foreign subsidiaries, net of tax	–	(1,238)	–	–	–	(1,238)
Cash flow hedges, net of tax	–	–	(3,086)	–	–	(3,086)
Total other comprehensive income	–	(1,238)	(3,086)	–	–	(4,324)
Total comprehensive income	–	(1,238)	(3,086)	–	94,044	89,720
Transaction with owners, recorded directly in equity						
Share-based payments, net of tax	–	–	–	(1,165)	–	(1,165)
Dividends paid	–	–	–	–	(48,830)	(48,830)
Total transactions with owners	–	–	–	(1,165)	(48,830)	(49,995)
Balance at 30 June 2019	307,790	(2,399)	149	1,212	(19,996)	286,756

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

(i) Refer to Note 13 for information on the impact of the adoption of AASB 16 *Leases*, including restatement of comparatives.

(ii) Refer to Note 1(c)(i) for information on the impact of the adoption of the IFRS IC (Interpretation Committee) decision.

Notes to the Consolidated Financial Statements

SECTION I: OVERVIEW

1. Significant accounting policies

GWA Group Limited (the 'Company') is a for-profit company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2020 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity').

The principal activities of the consolidated entity during the year were the research, design, manufacture, import, and marketing of building fixtures and fittings to 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.

(a) Statement of compliance

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

(b) Basis of preparation

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

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

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 3 – valuation of identifiable assets and liabilities of businesses acquired
- Note 12 – measurement of the recoverable amounts of intangible assets
- Note 19 – valuation of financial instruments

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

Certain comparative information included in note disclosures have been amended in these financial statements to conform to the current year presentation.

(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 2020:

- AASB 16 Leases
- IFRS Interpretations Committee Decision on Multiple Tax Consequences of Recovering an Asset
- AASB Interpretation 23 Uncertainty over Income Tax Treatments
- AASB 2018-1 Annual Improvements to IFRS Standards 2015-2017 Cycle

Refer to Note 13 for the impact of adopting AASB 16 *Leases*.

In May 2020, the IFRS Interpretations Committee published its final agenda decision 'Multiple Tax Consequences of Recovering an Asset (IAS 12 Income Taxes)' which considers how an entity accounts for deferred taxes on an asset that has two distinct tax consequences over its life that cannot be offset (taxable economic benefits from use and capital gains on disposal or expiry). The IFRS Interpretations Committee concluded that in these circumstances an entity identifies separate temporary differences (and deferred taxes) that reflect these distinct and separate tax consequences of recovering the asset carrying amount.

The consolidated entity's accounting policy had been to consider these two tax consequences of recovering the assets carrying amount together as they crystallised over the asset's life, irrespective of how the asset was recovered.

As a result of the May 2020 IFRS Interpretation Committee's decision, the consolidated entity has changed its accounting policy, retrospectively adjusting the deferred tax accounting for impacted intangible assets (brand names) which were acquired prior to the adoption of IFRS.

Notes to the Consolidated Financial Statements

SECTION I: OVERVIEW CONTINUED

1. Significant accounting policies continued

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

The impact of this change as at 1 July 2018 was as follows:

In thousands of AUD	Adjustment
Decrease in retained earnings	85,247
(Increase in) deferred tax liabilities	(85,247)

The initial adoption of all other Standards and Interpretations listed above have not had a material impact on the amounts reported, or disclosures made, in the consolidated financial report.

(ii) Standards and Interpretations issued but not yet effective

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

	Effective for the annual reporting period beginning on	Expected to be initially applied in the period ending
AASB 2018-6 Definition of a Business – Amendments to AASB 3	1 January 2020	30 June 2021
AASB 2019-3 Interest Rate Benchmark Reform – Amendments to AASB 9, AASB 139 and AASB 7	1 January 2020	30 June 2021
AASB 2018-7 Definition of Material – Amendments to IAS 1 and IAS 8	1 January 2020	30 June 2021
AASB 2019-1 Amendments to The Conceptual Framework for Financial Reporting	1 January 2020	30 June 2021
AASB 2020-1 Classification of Liabilities as Current or Non-current – Amendments to IAS 1	1 January 2022	30 June 2023

The consolidated entity is assessing the potential impact of the above standards and interpretations issued but not yet effective 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 a business combination shall be measured at fair value, which shall be calculated as the sum of the business combination date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. Transaction costs are expensed as incurred.

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

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

(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 date the fair value was determined.

(ii) Financial statements of foreign operations

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

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at foreign exchange rates ruling at the reporting date. Foreign exchange differences arising on retranslation at balance date are recognised in other comprehensive income, and presented in the foreign currency translation reserve (FCTR) in equity. Hedge instrument movements of a hedge of a net investment in a foreign operation is also recognised in the FCTR to the extent the hedge is effective.

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

Notes to the Consolidated Financial Statements

SECTION I: OVERVIEW CONTINUED

1. Significant accounting policies continued

(f) Current vs non-current classification

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

An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

All other liabilities are classified as non-current.

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

SECTION II: RESULTS FOR THE YEAR

2. Operating segments

The consolidated entity has one continuing reportable segment, Water Solutions. This amalgamates the two continuing reportable segments reported in the 30 June 2019 financial report (Bathrooms and Kitchens, and Methven) following continued integration. This segment includes the sale of vitreous china toilet suites, basins, plastic cisterns, taps and showers, baths, kitchen sinks, laundry tubs, domestic water control valves, smart products and bathroom accessories. The CEO reviews internal management reports on a monthly basis.

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

Discontinued operations includes the Door & Access Systems' business that was sold with an effective date of 3 July 2018. Refer to Note 27 for further information regarding discontinued operations.

Notes to the Consolidated Financial Statements

SECTION II: RESULTS FOR THE YEAR CONTINUED

2. Operating segments continued

In thousands of AUD	Water Solutions		Discontinued		Total	
For the year ended 30 June	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Sales revenue	398,704	381,730	–	–	398,704	381,730
Segment EBIT before gain on sale(i)	71,840	78,117	–	–	71,840	78,117
Gain on sale(i)	–	–	–	50,060	–	50,060
Segment EBIT	71,840	78,117	–	50,060	71,840	128,177
Depreciation (property, plant and equipment)	5,303	3,734	–	–	5,303	3,734
Depreciation (right of use assets)	12,956	9,951	–	–	12,956	9,951
Amortisation	2,107	1,224	–	–	2,107	1,224
Capital expenditure	12,317	4,326	–	–	12,317	4,326
As at 30 June						
Reportable segment assets	701,420	698,556	–	–	701,420	698,556
Reportable segment liabilities	421,689	411,800	–	–	421,689	411,800

Reconciliation of profit

In thousands of AUD	**2020**	**2019**
For the year ended 30 June		
Total EBIT for reportable segments	71,840	128,177
Elimination of discontinued operations	–	(50,060)
Transaction and integration costs on business combination	(1,543)	(8,737)
Operating profit from continuing operations	70,297	69,380

(i) Gain on sale of discontinued operations excluding tax benefit. Refer to Note 27 for further information regarding the gain on sale of discontinued operations.

Geographical information

	Australia		New Zealand		Other		Consolidated	
In thousands of AUD	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
External sales revenue	323,183	342,406	47,319	31,401	28,202	7,923	398,704	381,730
Non-current assets	470,869	444,078	37,588	40,884	21,422	21,804	529,879	506,766

The revenue information above is based on the geographical location of customers. Non-current assets are based on the geographical location of the assets.

Major customers

The consolidated entity conducts business with four customers (2019: four) where the net revenue generated from each customer exceeds 10% of the consolidated entity's net revenue. Net revenue from these customers was:

In thousands of AUD	**2020**	**2019**
For the year ended 30 June		
Customer 1	85,091	79,370
Customer 2	64,545	45,183
Customer 3	49,456	65,136
Customer 4	40,637	48,122

Notes to the Consolidated Financial Statements

SECTION II: RESULTS FOR THE YEAR CONTINUED

3. Business combination

On 10 April 2019, the consolidated entity acquired 100% of the share capital of Methven Limited.

The acquisition provides a number of strategic benefits, strengthening the consolidated entities' position in Water Solutions across Australia and New Zealand, provides a platform for international growth, and opportunity to realise product, freight, logistics, and public company cost savings.

The fair value of the identifiable assets and liabilities of Methven as at the date of the acquisition as disclosed on the following page have been finalised during the year ended 30 June 2020 and changes to provisional values retrospectively reflected in the comparative period presented.

The $68,505,000 of goodwill recognised comprises the value of synergies to be achieved as a result of combining Methven Limited and its subsidiaries ('Methven') with the rest of the consolidated entity, as well as intangible assets that do not qualify for separate recognition. None of the goodwill recognised is expected to be deductible for tax purposes.

The goodwill has been allocated to the Water Solutions group of cash-generating units (CGU's).

In thousands of AUD	**10 April 2019**
Cash and cash equivalents	3,762
Trade and other receivables	14,518
Inventories	20,371
Other assets	1,867
Deferred tax assets	5,804
Property, plant and equipment	6,304
Intangible assets	68,336
Right of use assets	9,095
Trade and other payables	(17,457)
Employee benefits	(1,636)
Income tax payable	(226)
Deferred tax liabilities	(17,663)
Loans and borrowings	(36,275)
Provisions	(3,606)
Lease liabilities	(9,095)
Derivative financial instruments	(171)
Fair value of identifiable net assets	43,928
Goodwill arising on acquisition	68,505
	112,433
Cash paid	112,433
Acquisition date fair value of consideration transferred	112,433
Cash acquired on acquisition	3,762
Cash paid	(112,433)
Net consolidated cash outflow	(108,671)

The fair value of the acquired receivables amounts to $14,518,000. The gross contractual amount receivable was $14,551,000, however only the fair value amount is expected to be collected. Various valuation techniques were used to determine fair value of the identifiable assets and liability of Methven. The relief-from-royalty method was used to value brand names and patented technology (intangible assets) acquired.

Notes to the Consolidated Financial Statements

SECTION II: RESULTS FOR THE YEAR CONTINUED

3. Business combination continued

Transaction and integration costs on business combination are as follows:

For the year ended 30 June 2019	
Direct costs relating to the acquisition	5,843
Integration costs	2,894
Transaction and integration costs on business combination	8,737
Income tax benefit	(1,140)
	7,597

For the year ended 30 June 2020	
Direct costs relating to the acquisition	–
Integration costs	1,543
Transaction and integration costs on business combination	1,543
Income tax benefit	(506)
	1,037

Total	
Direct costs relating to the acquisition	5,843
Integration costs	4,437
Transaction and integration costs on business combination	10,280
Income tax benefit	(1,646)
	8,634

4. Income and Expenses

(a) Sales revenue

In thousands of AUD	**2020**	**2019**
Sales revenue	398,704	381,730

Sales revenue is recognised on the satisfaction of each performance obligation the consolidated entity has with its customers, and is measured based on an allocation of the contract's transaction price. The consolidated entity's key performance obligation is the delivery of goods to its customers with typical payment terms of 30 days. Key components of the transaction price include the price for the goods, along with retrospective rebates and stock return estimates.

Refer to Note 2 geographical information for disaggregated revenue information.

(b) Other income

In thousands of AUD	**2020**	**2019**
Foreign currency gains	968	106
Other – transitional services income, scrap income, royalties	876	1,908
Government grant income	1,048	–
	2,892	2,014

Government grant income relates to employment assistance funding provided by governments in response to the coronavirus. These grants have been recognised in other income where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Notes to the Consolidated Financial Statements

SECTION II: RESULTS FOR THE YEAR CONTINUED

4. Income and Expenses continued

(c) Cost of sales

In thousands of AUD	**2020**	**2019**
Cost of sales	237,432	218,801

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

(d) Other expenses

In thousands of AUD	**2020**	**2019**
Foreign currency losses	94	22
Other	429	–
	523	22

(e) Personnel expenses

In thousands of AUD	**2020**	**2019**
Wages and salaries – including superannuation contributions, annual leave and long service leave	69,554	60,912
Equity-settled share-based payment transactions	1,431	1,113
	70,985	62,025

Defined contribution superannuation funds
The consolidated entity makes contributions to defined contribution superannuation funds. A defined contribution superannuation fund is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution superannuation funds are recognised as an employee benefit expense in profit or loss in the periods during which the services are rendered by employees. The amount recognised as an expense was $3,948,000 for the financial year ended 30 June 2020 (2019: $3,738,000) for continuing operations.

(f) Net financing costs

In thousands of AUD	**2020**	**2019**
Finance income	156	414
Finance expense		
Interest expense on financial liabilities	4,910	3,572
Interest expense on swaps	910	331
Fees on financial liabilities including amortisation	297	272
Interest on lease liabilities	2,683	2,050
	8,800	6,225
Net financing costs	8,644	5,811

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.

Notes to the Consolidated Financial Statements

SECTION II: RESULTS FOR THE YEAR CONTINUED

5. Income tax expenses

In thousands of AUD	2020	2019
Current tax expense from continuing operations		
Current year	17,792	17,997
Adjustments for prior years	(945)	(81)
	16,847	17,916
Deferred tax (benefit)/expense from continuing operations		
Origination and reversal of temporary differences	920	2,411
Tax expense from continuing operations	17,767	20,327
Tax (benefit)/expense from discontinued operations	–	(742)
Total tax expense for the consolidated entity	17,767	19,585

Numerical reconciliation between tax expense and pre-tax profit

In thousands of AUD		
Profit from continuing operations before tax	61,653	63,569
Profit from discontinued operations before tax	–	50,060
Profit before tax for the consolidated entity	61,653	113,629
Tax expense using the domestic rate of 30%	18,496	34,089
Tax expense/(benefit) due to:		
Non-deductible expenses	256	196
Effect of tax rate in foreign jurisdictions	(178)	(24)
Non-deductible transaction & integration costs on business combination	71	1,454
Non-assessable accounting gain on disposal of discontinued operations on capital account	–	(15,760)
Rebateable research and development	(129)	(158)
Other items	196	(131)
	18,712	19,666
(Over)/under provided in prior years	(945)	(81)
Income tax expense on pre-tax profit for the consolidated entity	17,767	19,585

In thousands of AUD		
Cash flow hedges	(1,396)	(1,320)
Share buy-back costs (2019: share buy-back and capital return costs)	2	25
	(1,394)	(1,295)

Current tax liability

In thousands of AUD		
Current tax liability	137	947

Notes to the Consolidated Financial Statements

SECTION II: RESULTS FOR THE YEAR CONTINUED

5. Income tax expenses continued

Income tax

Tax expense comprises current and deferred tax. Current and deferred taxes are recognised in profit or loss except to the extent that they relate 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 judgements regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

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

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

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

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

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.

Notes to the Consolidated Financial Statements

SECTION II: RESULTS FOR THE YEAR CONTINUED

6. Earnings per share

In cents	2020	2019
Total		
– Basic	16.6	35.6
– Diluted	16.5	35.5
Continuing operations		
– Basic	16.6	16.4
– Diluted	16.5	16.3
- Basic (excluding transaction & integration costs)	17.0	19.3
- Diluted (excluding transaction & integration costs)	16.9	19.2
Discontinued operations		
– Basic	–	19.2
– Diluted	–	19.2

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

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

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

Profit attributable to ordinary shareholders – basic and diluted

In thousands of AUD	2020	2019
Continuing operations		
Profit before transaction & integration costs	44,923	50,839
Net transaction & integration costs	(1,037)	(7,597)
Profit for the year from continuing operations	43,886	43,242
Profit for the year from discontinued operations	–	50,802
Profit for the year	43,886	94,044

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	2020	2019
Issued ordinary shares at 1 July	263,948	263,948
Weighted average number of ordinary shares	263,948	263,948

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	2019	2018
Weighted average number of ordinary shares (basic)	263,948	263,948
Effect of performance rights on issue	1,306	1,197
Weighted average number of ordinary shares (diluted)	265,254	265,145

Notes to the Consolidated Financial Statements

SECTION III: ASSETS AND LIABILITIES CONTINUED

7. Cash and cash equivalents

(a) Balances

In thousands of AUD	**2020**	**2019**
Bank balances	32,359	39,637
Cash and cash equivalents	32,359	39,637

Cash and cash equivalents comprise cash balances and call deposits with an original maturity date of three months or less.

The consolidated entity's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 19.

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

In thousands of AUD	**2020**	**2019**
Profit for the year	43,886	94,044
Adjustments for:		
Depreciation	18,259	13,685
Amortisation	2,107	1,224
Share-based payments	(1,719)	(1,624)
Unrealised foreign exchange loss/(gain)	(713)	(36)
Loss/(gain) on sale of PP&E and intangible assets	429	(160)
Gain on sale of the Door & Access Systems' business	–	(50,802)
Cash flow hedge movements	4,523	4,413
Other non-cash movements	(4,177)	2,799
Changes in assets and liabilities:		
Decrease in trade and other receivables	14,429	4,938
(Increase)/Decrease in inventories	(3,521)	15,879
Decrease in prepayments	478	328
(Decrease) in trade payables and accrued expenses	(11,759)	(8,299)
(Decrease) in deferred taxes and in taxes payable	(1,288)	(7,032)
Increase/(Decrease) in provisions and employee benefits	18	(1,727)
Net cash flows from operating activities	60,952	67,630

8. Trade and other receivables

In thousands of AUD	**2020**	**2019**
Net trade receivables	56,080	70,151
Other	548	906
	56,628	71,057

Trade receivables are initially measured at the transaction price determined under AASB 15 (refer to Note 4(a)) and subsequently measured at amortised cost using the effective interest rate (EIR) method and are subject to impairment. Impairment losses are recognised in profit or loss and reflected in an allowance account against trade receivables.

The consolidated entity recognises an allowance for expected credit losses (ECLs) for trade receivables. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows expected to be received, discounted at an approximation of the original EIR.

The consolidated entity applies a simplified approach in calculating ECLs. Therefore, the consolidated entity does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The consolidated entity has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The consolidated entity's exposure to credit and currency risk and impairment loss related to trade and other receivables are disclosed in Note 19.

Notes to the Consolidated Financial Statements

SECTION III: ASSETS AND LIABILITIES CONTINUED

9. Inventories

In thousands of AUD	2020	2019
Raw materials and consumables	4,268	3,861
Work in progress	181	466
Finished goods	74,333	70,935
	78,782	75,262

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

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

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

10. 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	2020	2019	2020	2019	2020	2019
Property, plant & equipment	1,141	1,348	(1,273)	(924)	(132)	424
Non-indefinite life intangibles	660	732	(960)	(777)	(300)	(45)
Indefinite life intangibles	–	–	(102,846)	(102,842)	(102,846)	(102,842)
Inventories	4,661	4,294	–	–	4,661	4,294
Employee benefits	2,816	2,934	–	–	2,816	2,934
Provisions	2,914	3,070	–	–	2,914	3,070
Leases	1,449	652	–	–	1,449	652
Other items	4,831	4,183	(249)	–	4,582	4,183
Tax assets/(liabilities)	18,472	17,213	(105,328)	(104,543)	(86,856)	(87,330)
Set off of tax	(2,482)	(1,701)	2,482	1,701	–	–
Net tax assets/(liabilities)	15,990	15,512	(102,846)	(102,842)	(86,856)	(87,330)

Notes to the Consolidated Financial Statements

SECTION III: ASSETS AND LIABILITIES CONTINUED

10. Deferred tax assets and liabilities continued

Movement in temporary differences during the year

In thousands of AUD	Balance 1 July 19	Recognised in income	Recognised in equity	Exchange differences	Balance 30 June 20
Property, plant & equipment	424	(539)	–	(17)	(132)
Non-indefinite life intangibles	(45)	(257)	–	2	(300)
Indefinite life intangibles	(102,842)	–	–	(4)	(102,846)
Inventories	4,294	386	–	(19)	4,661
Employee benefits	2,934	(110)	–	(8)	2,816
Provisions	3,070	(132)	–	(24)	2,914
Leases	652	787	–	10	1,449
Other items	4,183	(988)	1,394	(7)	4,582
	(87,330)	(853)	1,394	(67)	(86,856)

In thousands of AUD	Balance 1 July 18	Recognised in income	Recognised in equity	Exchange differences	Acquisition of subsidiary	Balance 30 June 19
Property, plant & equipment	(311)	(626)	–	(5)	1,366	424
Non-indefinite life intangibles	752	(21)	–	2	(778)	(45)
Indefinite life intangibles	(85,247)	–	–	68	(17,663)	(102,842)
Inventories	2,763	(1,430)	–	(5)	2,966	4,294
Employee benefits	2,638	(184)	–	(1)	481	2,934
Provisions	3,229	(1,434)	–	(1)	1,276	3,070
Leases	491	273	–	(2)	(110)	652
Other items	1,104	975	1,295	206	603	4,183
	(74,581)	(2,447)	1,295	262	(11,859)	(87,330)

Unrecognised deferred tax assets

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

In thousands of AUD	2020	2019
Capital losses	15,203	15,203
Revenue losses from foreign jurisdictions	–	–

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

Refer to Note 5 for the consolidated entity's accounting policy on deferred tax.

Notes to the Consolidated Financial Statements

SECTION III: ASSETS AND LIABILITIES CONTINUED

11. Property, plant and equipment

In thousands of AUD	Plant and equipment	Work in progress	Total
Cost			
Balance at 1 July 2019	47,311	2,342	49,653
Additions	11,507	232	11,739
Disposals	(9,466)	–	(9,466)
Transfers	681	(681)	–
Exchange rate movements	(1,167)	(26)	(1,193)
Balance at 30 June 2020	48,866	1,867	50,733
Balance at 1 July 2018	39,712	961	40,673
Additions	2,614	504	3,118
Acquisition of controlled entities	4,648	1,656	6,304
Disposals	(680)	–	(680)
Transfers	828	(828)	–
Exchange rate movements	189	49	238
Balance at 30 June 2019	47,311	2,342	49,653
Accumulated depreciation			
Balance at 1 July 2019	(28,849)	–	(28,849)
Depreciation	(5,303)	–	(5,303)
Disposals	8,205	–	8,205
Exchange rate movements	44	–	44
Balance at 30 June 2020	(25,903)	–	(25,903)
Balance at 1 July 2018	(25,767)	–	(25,767)
Depreciation	(3,734)	–	(3,734)
Disposals	680	–	680
Exchange rate movements	(28)	–	(28)
Balance at 30 June 2019	(28,849)	–	(28,849)
Carrying amounts			
As at 30 June 2020	22,963	1,867	24,830
As at 30 June 2019	18,462	2,342	20,804

Notes to the Consolidated Financial Statements

SECTION III: ASSETS AND LIABILITIES CONTINUED

11. Property, plant and equipment continued

Recognition and measurement

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

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

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

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

Depreciation

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

- plant and equipment 3-15 years

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

Impairment

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

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

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

Notes to the Consolidated Financial Statements

SECTION III: ASSETS AND LIABILITIES CONTINUED

12. Intangible assets

In thousands of AUD	Software	Brand names	Trade names, designs and patents	Goodwill	Total
Cost					
Balance at 1 July 2019	31,618	346,968	5,007	67,246	450,839
Additions	1,615	–	291	–	1,906
Disposals	(178)	–	(168)	–	(346)
Exchange rate movements	(10)	(113)	(103)	(310)	(536)
Balance at 30 June 2020	33,045	346,855	5,027	66,936	451,863
Balance at 1 July 2018	30,202	284,181	–	–	314,383
Acquisition of controlled entities	474	63,208	4,654	68,505	136,841
Additions	950	–	478	–	1,428
Disposals	–	–	(50)	–	(50)
Exchange rate movements	(8)	(421)	(75)	(1,259)	(1,763)
Balance at 30 June 2019	31,618	346,968	5,007	67,246	450,839
Accumulated amortisation					
Balance at 1 July 2019	(28,748)	–	–	–	(28,748)
Amortisation	(1,423)	–	(684)	–	(2,107)
Disposals	52	–	160	–	212
Exchange rate movements	2	–	4	–	6
Balance at 30 June 2020	(30,117)	–	(520)	–	(30,637)
Balance at 1 July 2018	(27,575)	–	–	–	(27,575)
Amortisation	(1,224)	–	–	–	(1,224)
Disposals	–	–	–	–	–
Exchange rate movements	51	–	–	–	51
Balance at 30 June 2019	(28,748)	–	–	–	(28,748)
Carrying amounts					
As at 30 June 2020	2,928	346,855	4,507	66,936	421,226
As at 30 June 2019	2,870	346,968	5,007	67,246	422,091

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

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

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

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

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

Notes to the Consolidated Financial Statements

SECTION III: ASSETS AND LIABILITIES CONTINUED

12. Intangible assets continued

Amortisation

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

- goodwill indefinite
- brand names indefinite
- software 3-5 years
- trade names 10-20 years
- designs 15 years
- patents 3-19 years (based on patent term)

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

Impairment

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

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

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

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

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or 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 CGU's) on a pro rata basis.

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

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

In thousands of AUD	**2020**	**2019**
Water Solutions (2019: Bathroom & Kitchens)	413,791	284,199
Unallocated	–	130,015
	413,791	414,214

Unallocated brand names and goodwill for 2019 pertained to provisional purchase price accounting for the business combination of Methven Limited. Refer to Note 3 for further information.

Notes to the Consolidated Financial Statements

SECTION III: ASSETS AND LIABILITIES CONTINUED

12. Intangible assets continued

Impairment testing for brand names and goodwill

The recoverable amounts of Water Solutions' brand names and goodwill were assessed as at 30 June 2020 based on internal value in use calculations and no impairment was identified (2019: 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 names and goodwill are attached and was based on the following assumptions:

- Cash flows were projected based on actual operating results and business plans of the units, with projected cash flows to five years before a terminal value was calculated. Maintainable earnings were adjusted for an allocation of corporate overheads.
- Management used a constant growth rate of 2.7% (2019: 2.6%) in calculating the terminal value, which does not exceed the long-term average growth rate for the industry.
- A pre-tax discount rate of 9.1% was used (2019: 12.8%).

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 Water Solutions industry and are based on both external sources and internal sources (historical data).

The recoverable amount of the CGU exceeds its carrying values as at 30 June 2020 and there are no reasonably possible changes in any of the key assumptions that would cause the CGU's recoverable amount to be less than its carrying amount. Sensitivities included reasonably possible changes in the discount rate (including applying the prior year discount rate), and included sensitivities considering the economic uncertainties due to the coronavirus pandemic based on information available to date.

13. Leases

Transition to AASB 16 Leases

The consolidated entity has applied AASB 16 Leases using the full retrospective approach, which required restatement of comparative information (30 June 2019 results and balances in these financial statements), including an adjustment to the comparative year's opening retained earnings (1 July 2018).

On transition, the consolidated entity recorded the following adjustments as at 1 July 2018:

In thousands of AUD	**Adjustment**
Increase to right of use assets	47,549
Increase to lease liabilities	(51,280)
Decrease to payables and provisions	2,117
Increase to deferred tax assets	491
Decrease to retained earnings	1,123

The statement of financial position as at 30 June 2019 has been restated as follows:

In thousands of AUD	**Adjustment**
Increase to right of use assets	48,288
Increase to lease liabilities	(52,668)
Decrease to payables and provisions	1,940
Increase to deferred tax assets	652
Increase to translation reserves	(253)
Decrease to retained earnings	2,041

Notes to the Consolidated Financial Statements

SECTION III: ASSETS AND LIABILITIES CONTINUED

13. Leases continued

The income statement for the year ended 30 June 2019 has been restated as follows:

In thousands of AUD	**Adjustment**
Increase to EBITDA	(11,017)
Increase to operating profit	(736)
Increase to financing costs	2,050
Decrease to profit before tax	1,314
Decrease to profit after tax	918

Policy

The consolidated entity enters into non-cancellable lease contracts, largely for the use of office and warehouse facilities. The leases typically run for a period of three to ten years.

The consolidated entity recognises a right of use asset and a lease liability at the lease commencement date.

The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, and an estimate for site restoration, less any lease incentives received.

The right of use asset is subsequently depreciated using the straight line method from commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the consolidated entity by the end of the lease term or the cost of the right of use asset reflects that the consolidated entity will exercise a purchase option. In that case the right of use asset will be depreciated over the useful life of the underlying asset. The right of use asset is also adjusted for certain remeasurements of the lease liability, and for any impairment losses recognised.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the consolidated entities' incremental borrowing rate (adjusted to reflect the lease terms, for example, the lease period). The consolidated entity assesses whether it is reasonably certain to exercise the extension options, and if so, includes the option period into the calculation of the lease liability.

The lease liability is remeasured when there is a change in future payments arising from a change in an index or rate, or if there is a changed assessment as to whether it will exercise an extension option.

The consolidated entity has elected not to recognise right of use assets and lease liabilities for leases of low value and/or those that are short term.

The principal component of leased payments forms part of financing cash flows, and the interest component forms part of operating cash flows in the statement of cash flows.

In thousands of AUD	**2020**	**2019**
For the year ended 30 June		
Amounts recognised in the profit or loss statement		
Interest on lease liabilities	2,683	2,058
Depreciation of right of use assets	12,956	9,951
Payments made for low value leases	752	634
	16,391	12,643
Amounts recognised in the statement of cash flows		
Payments of lease liability principal	(8,384)	(11,452)
Payments of lease liability interest	(2,683)	(2,058)
	(11,067)	(13,510)

Notes to the Consolidated Financial Statements

SECTION III: ASSETS AND LIABILITIES CONTINUED

13. Leases continued

In thousands of AUD	**2020**	**2019**
Right of use assets		
Balance as at 1 July	48,288	47,549
Additions to right of use assets	32,340	10,982
Depreciation for the period	(12,956)	(9,951)
Exchange rate movements	161	(292)
Balance as at 30 June	67,833	48,288
Lease liabilities		
Balance as at 1 July	(52,668)	(51,280)
Additions to lease liabilities	(30,145)	(13,159)
Accretion of interest	(2,683)	(2,058)
Payments made	11,067	13,510
Exchange rate movements	(167)	319
Balance as at 30 June	(74,596)	(52,668)
Current lease liabilities	(11,458)	(8,325)
Non-current lease liabilities	(63,138)	(44,343)
	(74,596)	(52,668)

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be made after the reporting date (and therefore differs from the carrying amount of lease liabilities).

In thousands of AUD	**2020**	**2019**
Less than one year		
One to two years	13,904	11,210
Two to five years	11,767	9,003
More than five years	29,905	21,347
Total	29,608	21,944
	85,184	63,504

14. Trade and other payables

In thousands of AUD	**2020**	**2019**
Current		
Trade payables and accrued expenses	43,699	55,495
Non-current		
Trade payables and accrued expenses	696	659

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

The consolidated entity's exposure to currency risk and liquidity risk related to trade and other payables are disclosed in Note 19.

Notes to the Consolidated Financial Statements

SECTION III: ASSETS AND LIABILITIES CONTINUED

15. Employee benefits

In thousands of AUD	2020	2019
Current		
Liability for annual leave	4,065	4,837
Liability for long service leave	1,055	949
	5,120	5,786
Non-current		
Liability for long service leave	4,310	3,884

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

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

16. Provisions

In thousands of AUD	Warranties	Restructuring	Site restoration	Other	Total
Balance at 1 July 2019	4,693	1,693	3,438	488	10,312
Additional provisions made/(written back)	(221)	–	1,883	–	1,662
Provisions used	–	(351)	(998)	(19)	(1,368)
Exchange rate differences	(33)	–	(3)	–	(36)
Balance at 30 June 2020	4,439	1,342	4,320	469	10,570
Current	4,439	1,342	551	106	6,438
Non-current	–	–	3,769	363	4,132
	4,439	1,342	4,320	469	10,570

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

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

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

Notes to the Consolidated Financial Statements

SECTION III: ASSETS AND LIABILITIES CONTINUED

16. Provisions continued

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.

SECTION IV: FUNDING AND RISK MANAGEMENT

17. 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, refer to Note 19.

In thousands of AUD	**2020**	**2019**
Current – unsecured bilateral loan facilities	27,000	–
Non-current – unsecured syndicated loan facilities	148,400	177,759
	175,400	177,759
Facilities available		
Unsecured loan facilities	283,400	250,000
Bank guarantees and standby letters of credit	7,125	7,418
	290,525	257,418
Facilities utilised at reporting date		
Unsecured loan facilities	175,400	177,759
Bank guarantees and standby letters of credit	1,800	3,808
	177,200	181,567
Facilities not utilised at reporting date		
Unsecured loan facilities	108,000	72,241
Bank guarantees and standby letters of credit	5,325	3,610
	113,325	75,851

Recognition and Measurement

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are measured at amortised cost using the effective interest rate (EIR) method. The EIR amortisation is included as finance costs in profit or loss.

Unsecured loan facility

On 11 October 2019 the consolidated entity successfully completed the refinance of its syndicated banking facility (multicurrency revolving facility) which matures in October 2022. On 8 April 2020 the facility was increased from $210,000,000 to $243,340,000. For the period 10 April 2019 to 10 October 2019 the facility was $250,000,000, and for the period 1 July 2018 to 9 April 2019 the facility was $225,000,000.

On 11 October 2019 the consolidated entity put in place a one year multicurrency revolving bilateral facility of $40,000,000 which matures in October 2020.

The facilities were drawn in the following currencies:

In thousands of AUD	**2020**	**2019**
AUD	142,000	115,000
NZD	30,000	61,500
GBP	3,000	2,200

The loan bears interest at market rates and interest is typically payable every 30 to 90 days. The consolidated entity partially hedges its exposure to variable interest rates through interest rate swap transactions (refer Note 19(d)).

Bank guarantee and standby letter of credit facilities

The bank guarantee and standby letter of credit facilities 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

SECTION IV: FUNDING AND RISK MANAGEMENT CONTINUED

18. Capital and reserves

Share capital

	Ordinary shares			
	Number of shares		AUD	
In thousands of shares	**2020**	**2019**	**2020**	**2019**
On issue at 1 July – fully paid	263,948	263,948	307,790	307,790
On issue at 30 June – fully paid	263,948	263,948	307,790	307,790

Ordinary Shares

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

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

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

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

Translation reserve

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

Hedging reserve

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

Equity compensation reserve

The equity compensation reserve represents the fair value of the cumulative net charges of performance rights granted (refer Note 20).

Dividends

Dividends recognised in the current year are:

	Costs per share (In cents)	**Total amount** (In thousands of AUD)	**Franked**	**Date of Payment**
2020				
Interim 2020 ordinary	8.0	21,116	100%	4th March 2020
Final 2019 ordinary	9.5	25,075	100%	4th September 2019
Total amount	17.5	46,191		
2019				
Interim 2019 ordinary	9.0	23,755	100%	5th March 2019
Final 2018 ordinary	9.5	25,075	100%	6th September 2018
Total amount	18.5	48,830		

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

After the balance date the following dividends were determined by the directors. These will be paid out of the parent entity's retained earnings in accordance with the *Corporations Act 2001*. The dividends have not been provided for as at the balance date. The determination and payment of the dividend has no income tax consequences.

Notes to the Consolidated Financial Statements

SECTION IV: FUNDING AND RISK MANAGEMENT CONTINUED

18. Capital and reserves continued

	Costs per share (In cents)	Total amount (In thousands of AUD)	Franked	Date of Payment
Final 2020 ordinary	3.5	9,238	100%	16th October 2020

The financial effect of these dividends has not been brought to account in the financial statements for the financial year ended 30 June 2020 and will be recognised in subsequent financial reports.

Dividend franking account

	The Company	
In thousands of AUD	**2020**	**2019**
30 per cent franking credits available to shareholders of GWA Group Limited for subsequent financial years (i.e. prior to payment of final 2020 ordinary dividend.)	9,759	13,371

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

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

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

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

19. Financial instruments and financial risk management

(a) Policies

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

Risk management policy

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

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

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

Capital management policy

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

The Board focuses on growing shareholder wealth by monitoring the performance of the consolidated entity by reference to the return on funds employed. The Board defines return on funds employed as operating profit (earnings before interest and tax) divided by net assets after adding back net debt and net AASB 16 Leases balances.

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

Derivative financial instruments

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

Notes to the Consolidated Financial Statements

SECTION IV: FUNDING AND RISK MANAGEMENT CONTINUED

19. Financial instruments and financial risk management continued

(a) Policies continued

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

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

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 hedged items. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variation in cash flows that could ultimately affect reported profit or loss.

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

SECTION IV: FUNDING AND RISK MANAGEMENT CONTINUED

19. Financial instruments and financial risk management continued

(b) Credit risk

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

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

The consolidated entity maintains an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. To date, the economic uncertainties caused by coronavirus pandemic have not led to any 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 four major customers which comprise 85% of the trade receivables carrying amount at 30 June 2020 (2019: four customers comprising 83% of trade receivables).

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	**2020**	**2019**
Cash and cash equivalents	32,359	39,637
Net trade receivables	56,080	70,151
Other receivables	548	906
	88,987	110,694

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

In thousands of AUD	**2020**	**2019**
Not yet due	58,203	67,283
Past due 0-30 days	14,389	18,545
Past due 31-60 days	446	1,296
Past due 61-120 days	250	109
Past due 120+ days	195	225
Less accrued rebates	(17,376)	(17,236)
	56,107	70,222

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	**2020**	**2019**
Balance at 1 July	(71)	(1)
Acquisition of controlled entities	–	(33)
Impairment losses written back/(recognised)	(44)	(62)
Provisions used during the year	88	25
Balance at 30 June	(27)	(71)

Notes to the Consolidated Financial Statements

SECTION IV: FUNDING AND RISK MANAGEMENT CONTINUED

19. Financial instruments and financial risk management continued

(c) Liquidity risk

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

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

Maturity analysis *In thousands of AUD*	**Carrying amount**	**Contractual cash flows**	**0-6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**5+ years**
2020							
Non-derivative financial liabilities							
Unsecured cash advance facilities	(175,400)	(182,515)	(28,552)	(1,552)	(3,105)	(149,306)	–
Trade and other payables	(44,395)	(44,899)	(44,197)	–	(117)	(351)	(234)
Derivative financial instruments							
Interest rate swaps used for hedging (net)	(2,940)	(2,940)	(597)	(448)	(896)	(999)	–
Forward exchange contracts used for hedging (net)	(1,375)	(1,375)	(1,031)	(344)	–	–	–
Total at 30 June 2020	(224,110)	(231,729)	(74,377)	(2,344)	(4,118)	(150,656)	(234)
2019							
Non-derivatives financial liabilities							
Unsecured cash advance facilities	(177,759)	(185,869)	(3,139)	(3,139)	(179,591)	–	–
Trade and other payables	(56,154)	(56,657)	(55,839)	–	(117)	(351)	(351)
Derivative financial instruments							
Interest rate swaps used for hedging (net)	(1,448)	(1,448)	(293)	(299)	(466)	(390)	–
Forward exchange contracts used for hedging (net)	1,656	1,656	1,408	248	–	–	–
Total at 30 June 2019	(233,705)	(242,319)	(57,863)	(3,190)	(180,174)	(741)	(351)

(d) Market risk

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

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

(i) Interest rate risk

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

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 and New Zealand dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure.

As at 30 June 2020, the consolidated entity had interest rate swaps in operation with a notional contract amount of $118,686,000 (2019: $119,117,000). These swaps have fixed rates ranging from 0.88% to 2.30% (2019: 1.49% to 2.30%) and mature over the next four years.

The consolidated entity also has a replacement interest rate swap effective in the following financial year with a notional contract amount of $25,000,000. This swap has a fixed rate of 0.43% and matures over the next four years.

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

Notes to the Consolidated Financial Statements

SECTION IV: FUNDING AND RISK MANAGEMENT CONTINUED

19. Financial instruments and financial risk management continued

(d) Market risk continued

(i) Interest rate risk continued

The net fair value of swaps as at 30 June 2020 of $2,940,000 was recognised as a fair value derivative liability (2019: $1,448,000 liability). No hedge ineffectiveness was recognised, and therefore the full movement in the value of the hedging instrument was recognised in Other Comprehensive Income.

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

In thousands of AUD	**2020 Notional value**	**2020 Carrying amount**	**2019 Notional value**	**2019 Carrying amount**
Variable rate financial instruments				
Unsecured cash advance facilities	(175,400)	(175,400)	(177,759)	(177,759)
Cash	32,359	32,359	39,637	39,637
	(143,041)	(143,041)	(138,122)	(138,122)
Fixed rate financial instruments				
Interest rate swap derivatives	143,686	(2,940)	144,117	(1,448)
Total	645	(145,981)	5,995	(139,570)

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

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

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

In thousands of AUD – Higher/(Lower)	**2020 Post Tax Profit**	**2020 OCI(i)**	**2019 Post Tax Profit**	**2019 OCI(i)**
AUD denominated loans				
+50 basis points (2019: +75 basis points)	(160)	458	53	1,293
-25 basis points (2019: -75 basis points)	80	(865)	(53)	(1,293)
NZD denominated loans				
+50 basis points (2019: +75 basis points)	(67)	128	(84)	342
-25 basis points (2019: -75 basis points)	34	(255)	84	(342)
GBP denominated loans				
+50 basis points (2019: +50 basis points)	(17)	–	(3)	–
-25 basis points (2019: -50 basis points)	8	–	3	–

(i) Other Comprehensive Income: cash flow hedges, net of tax

(ii) Foreign currency risk

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

Notes to the Consolidated Financial Statements

SECTION IV: FUNDING AND RISK MANAGEMENT CONTINUED

19. Financial instruments and financial risk management continued

(d) Market risk continued

(ii) Foreign currency risk continued

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

Forward exposure for the 12 months after the balance date covered by forward exchange contracts	2020	2019
AUD:USD	74%	77%
AUD:RMB	71%	78%
NZD:USD	91%	82%
GBP:USD	82%	83%

The consolidated entity classifies forward exchange contracts as cash flow hedges and states them at fair value. The net fair value of contracts as at 30 June 2020 of $1,375,000 was recognised as a fair value derivative liability (2019: $1,656,000 asset).

The consolidated entity is also exposed to foreign currency risk on retranslation of the financial statements of foreign subsidiaries into AUD. The currencies giving rise to this risk are NZD, GBP and RMB. The consolidated entity hedges this exposure by holding net borrowings in foreign currencies, and designates these as net investment hedges.

Sensitivity analysis

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

The impact on the consolidated entity's other comprehensive income ('OCI') is due to changes in the fair value of forward exchange contracts designated as cash flow hedges, as well as from changes in the net borrowings in foreign currencies designated as net investment hedges (these movements will offset the translation of the financial statements foreign subsidiaries into AUD).

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

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

In thousands of AUD – Higher/(Lower)	2020	2019
USD		
20% increase in USD:AUD – OCI (cash flow hedges, net of tax) (2019: 10% increase in USD:AUD)	10,709	5,573
10% decrease in USD:AUD – OCI (cash flow hedges, net of tax)	(3,894)	(4,961)
20% increase in USD:NZD – OCI (cash flow hedges, net of tax) (2019: 10% increase in USD:NZD – OCI)	1,207	485
10% decrease in USD:NZD – OCI (cash flow hedges, net of tax)	(439)	(593)
20% increase in USD:GBP – OCI (cash flow hedges, net of tax) (2019: 10% increase in USD:GBP – OCI)	1,683	451
10% decrease in USD:GBP – OCI (cash flow hedges, net of tax)	(612)	(551)
RMB		
20% increase in RMB:AUD – OCI (cash flow hedges, net of tax) (2019: 10% increase in RMB:AUD – OCI)	4,083	2,500
10% decrease in RMB:AUD – OCI (cash flow hedges, net of tax)	(1,485)	(2,045)
NZD		
10% increase in NZD:AUD – OCI (net investment hedge, net of tax)	(2,180)	(2,230)
10% decrease in NZD:AUD – OCI (net investment hedge, net of tax)	1,784	1,825
GBP		
10% increase in GBP:AUD – OCI (net investment hedge, net of tax)	(348)	(309)
10% decrease in GBP:AUD – OCI (net investment hedge, net of tax)	285	253

Notes to the Consolidated Financial Statements

SECTION IV: FUNDING AND RISK MANAGEMENT CONTINUED

19. Financial instruments and financial risk management continued

(e) Fair values

The carrying value of financial assets and liabilities as at 30 June 2020 equalled fair value (30 June 2019: equalled fair value).

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

(i) Derivatives

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

(ii) Loans and borrowings

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

(iii) Trade and other receivables/payables

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

(iv) Interest rates used for determining fair value

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

	2020	**2019**
Derivatives	0.2% – 0.4%	2.0% – 2.1%
Loans and borrowings denominated in AUD	1.5% – 1.7%	3.3% – 3.8%
Loans and borrowings denominated in NZD	1.6% – 1.8%	3.2% – 3.7%
Loans and borrowings denominated in GBP	1.5% – 1.7%	2.1% – 2.6%

(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 2020				
Forward contracts used for hedging	–	(1,375)	–	(1,375)
Interest rate swaps used for hedging	–	(2,940)	–	(2,940)
	–	(4,315)	–	(4,315)
30 June 2019				
Forward contracts used for hedging	–	1,656	–	1,656
Interest rate swaps used for hedging	–	(1,448)	–	(1,448)
	–	208	–	208

Notes to the Consolidated Financial Statements

SECTION V. OTHER INFORMATION

20. Share-based payments

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

The performance hurdles in relation to performance rights granted to executives in the 2019/20 year and 2018/19 year are subject to financial performance conditions which measure growth in Return on Funds Employed (ROFE) and Total Shareholder Return (TSR) compared to a peer group of companies. The performance hurdles are challenging but achievable and focus executives on sustained long term growth consistent with shareholder wealth creation.

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

For performance rights granted to executives in the 2019/20 year and 2018/19 year, the performance hurdles and vesting proportions for the ROFE performance measure and TSR performance measure are outlined in the tables below.

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

TSR of GWA Group Limited relative to TSRs of Comparator Companies	Proportion of Performance Rights to Vest if TSR hurdle is met
Less than the 50th percentile	0%
50th percentile	12.5%
Between the 50th percentile and 75th percentile	Straight line vesting between 12.5% and 50%
75th percentile or higher	50% (i.e. 50% of total grant)

Recognition and Measurement

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

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

Fair Value

During the year 749,500 performance rights were granted to employees (2019: 617,000) at a weighted average fair value of $2.71 (TSR) and $3.54 (ROFE) (2019: $2.23 (TSR) and $2.92 (ROFE)).

The fair value of the performance rights granted subject to the ROFE hurdle was determined by using a Black Scholes Model. The fair value of the performance rights granted subject to the TSR hurdle for vesting was determined by using a Monte Carlo simulation. When determining the fair values it was assumed the Company would have a dividend yield of 4.65%, the risk free rate was 0.75% and annualised share price volatility was 30% for the Company and its comparator companies listed for the TSR hurdle.

The amount recognised as personnel expenses (Note 4(e)) in the current financial year was $1,431,000 (2019: $1,113,000).

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

Notes to the Consolidated Financial Statements

SECTION V. OTHER INFORMATION CONTINUED

20. Share-based payments continued

In number of performance rights	Grant date	Expiry date	Balance at beginning of the year	Granted during the year	Vested during the year	Forfeited during the year	Balance at end of the year
2020							
	24/02/2017	30/06/2019	461,222	–	(461,222)	–	–
	19/02/2018	30/06/2020	537,000	–	–	–	537,000
	18/02/2019	30/06/2021	617,000	–	–	(85,000)	532,000
	14/02/2020	30/06/2022	–	749,500	–	(77,000)	672,500
			1,615,222	749,500	(461,222)	(162,000)	1,741,500
2019							
	23/03/2016	30/06/2018	767,750	–	(767,750)	–	–
	24/02/2017	30/06/2019	464,972	–	–	(3,750)	461,222
	19/02/2018	30/06/2020	537,000	–	–	–	537,000
	18/02/2019	30/06/2021	–	617,000	–	–	617,000
			1,769,722	617,000	(767,750)	(3,750)	1,615,222

21. Related parties

Key management personnel compensation

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

In AUD	2020	2019
Short-term employee benefits	3,214,647	4,252,324
Post-employment benefits	175,906	165,453
Share-based payments	1,102,449	784,921
Other long term employee benefits	71,102	6,325
	4,564,104	5,209,023

Individual directors and executives compensation disclosures

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

Notes to the Consolidated Financial Statements

SECTION V. OTHER INFORMATION CONTINUED

22. Auditor's remuneration

In AUD	2020	2019
The auditor of GWA Group Limited is KPMG Australia.		
Audit services		
KPMG Australia:		
Audit and review of financial reports	351,200	403,710
Other assurance services	16,000	15,965
Overseas KPMG Firms:		
Audit of financial reports	18,500	17,000
	385,700	436,675
Overseas non-KPMG audit firms:		
PwC – audit of financial reports	122,600	181,900
PwC – other assurance services	12,200	–
	134,800	181,900
Total audit services	520,500	618,575
Other services		
KPMG Australia:		
Other services	–	–
Overseas KPMG Firms:		
Taxation services	–	9,118
Network firm of overseas non-KPMG audit firms:		
PwC – internal audit services	261,000	309,000
PwC – other services	25,000	7,000
Total other services	286,000	325,118

23. Capital commitments

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

In thousands of AUD	2020	2019
Less than one year	942	3,438
	942	3,438

Notes to the Consolidated Financial Statements

SECTION V. OTHER INFORMATION CONTINUED

24. Consolidated entities

	Parties to cross guarantee	Country of incorporation	Ownership Interest 2020	Ownership Interest 2019
Parent entity				
GWA Group Limited	Y	Australia		
Subsidiaries				
Austral Lock Pty Ltd[(b)(c)]	N	Australia	100%	100%
Canereb Pty Ltd[(c)]	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[(b)]	N	Australia	100%	100%
Corille Limited[(b)(c)]	N	Australia	100%	100%
Deva Tap Company Ltd	N	United Kingdom	100%	100%
Dorf Clark Industries[(c)]	N	Australia	100%	100%
G Subs Pty Ltd[(b)(c)]	N	Australia	100%	100%
GWA Finance Pty Limited	Y	Australia	100%	100%
GWA Group Holdings Limited	Y	Australia	100%	100%
GWAIL (NZ) Ltd	N	New Zealand	100%	100%
GWA Taps Manufacturing Limited[(b)(c)]	N	Australia	100%	100%
GWA Trading (Shanghai) Co Ltd	N	China	100%	100%
Heshan Methven Bathroom Fittings Co. Limited	N	China	100%	100%
Industrial Mowers (Australia) Limited[(c)]	N	Australia	100%	100%
Methven Australia Pty Limited[(a)]	Y	Australia	100%	100%
Methven Hotel Solutions Pty Ltd[(c)]	N	Australia	100%	100%
Methven Limited	N	New Zealand	100%	100%
Methven UK Limited	N	United Kingdom	100%	100%
Methven USA Inc	N	USA	100%	100%
McIlwraith Davey Pty Ltd[(b)(c)]	N	Australia	100%	100%
Plumbing Supplies (NZ) Ltd	N	New Zealand	100%	100%
Sebel Furniture Holdings Pty Ltd[(b)]	N	Australia	100%	100%
Starion Tapware Pty Ltd[(b)(c)]	N	Australia	100%	100%
Stylus Pty Ltd[(b)(c)]	N	Australia	100%	100%

(a) Entity joined the Deed via a Deed of Variation dated 24 May 2019.

(b) Entities removed from the Deed via a Deed of Variation dated 24 May 2019.

(c) Entities entered into liquidation on 23 June 2020.

Notes to the Consolidated Financial Statements

SECTION V. OTHER INFORMATION CONTINUED

25. Deed of cross guarantee

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

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

A consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2020, is set out in the table below.

Summarised statement of profit or loss and other comprehensive income

In thousands of AUD	**2020**	**2019**
Sales revenue	323,263	342,321
Cost of sales	(189,937)	(196,292)
Gross profit	133,326	146,029
Operating expenses	(70,952)	(79,139)
Finance income	1,717	1,687
Finance expenses	(8,693)	(5,628)
Profit before tax	55,398	62,949
Tax expense	(17,135)	(19,776)
Profit from continuing operations, net of tax	38,263	43,173
Profit from discontinued operations, net of tax	–	50,802
Net profit	38,263	93,975
Other comprehensive income, net of tax	(3,056)	(3,494)
Total comprehensive income, net of tax	35,207	90,481
Retained earnings at beginning of the year	347,659	388,697
Transition impact of AASB16 leases	–	(1,064)
Impact on adoption of IFRS IC decision	–	(85,119)
Net profit	38,263	93,975
Dividends received during the year	88,031	–
Dividends paid during the year	(46,191)	(48,830)
Retained earnings at end of the year	427,762	347,659

Notes to the Consolidated Financial Statements

SECTION V. OTHER INFORMATION CONTINUED

25. Deed of cross guarantee continued

Statement of financial position

In thousands of AUD	**2020**	**2019**
Assets		
Cash and cash equivalents	20,777	29,486
Trade and other receivables	44,466	57,690
Inventories	60,029	59,093
Derivative financial instruments	–	1,570
Other	3,128	3,390
Total current assets	128,400	151,229
Investments	449,313	449,313
Intercompany receivable	73,218	75,360
Deferred tax assets	12,511	11,478
Property, plant and equipment	20,971	15,239
Intangible assets	386,140	385,844
Right of use assets	59,429	38,349
Total non-current assets	1,001,582	975,583
Total assets	1,129,982	1,126,812
Liabilities		
Trade and other payables	32,616	40,640
Loans and borrowings	27,000	–
Intercompany payable	–	89,396
Employee benefits	4,151	4,693
Income tax payable	715	1,618
Lease liabilities	11,005	7,925
Provisions	4,700	7,018
Derivative financial instruments	4,738	1,415
Total current liabilities	84,925	152,705
Deferred tax liabilities	100,569	100,590
Loans and borrowings	148,400	177,759
Lease liabilities	54,976	34,509
Employee benefits	4,201	3,778
Provisions	3,324	1,071
Total non-current liabilities	311,470	317,707
Total liabilities	396,395	470,412
Net assets	733,587	656,400
Equity		
Issued capital	307,790	307,790
Reserves	(1,965)	951
Retained earnings	427,762	347,659
Total equity	733,587	656,400

Notes to the Consolidated Financial Statements

SECTION V. OTHER INFORMATION CONTINUED

26. Parent entity disclosures

As at, and throughout, the financial year ended 30 June 2020 the parent company of the consolidated entity was GWA Group Limited.

	The Company	
In thousands of AUD	**2020**	**2019**
Results of the parent entity		
Profit for the year	78,775	79,244
Other comprehensive income	–	–
Total comprehensive income for the year	78,775	79,244
Financial position of the parent entity		
Current assets	446	848
Total assets	885,212	852,486
Current liabilities	–	–
Total liabilities	419,162	419,162
Equity of the parent entity		
Share Capital	307,790	307,790
Equity compensation reserve	1,352	1,211
Retained earnings	156,908	124,323
Total equity	466,050	433,324

Parent entity contingencies

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

Contingent liabilities
The directors are not aware of any contingent liabilities of the parent entity as at reporting date (2019: $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 (2019: $nil).

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

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

27. Discontinued Operations

A discontinued operation is a component of the consolidated entity's business that represents a separate line of business operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale if earlier. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the period.

The Door & Access Systems' business (comprising of Gainsborough Hardware Industries Limited and API Services and Solutions Pty Ltd) was sold with an effective date of 3 July 2018.

Refer to the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2019 for details of the prior period financial results and cash flows of the discontinued operations which only included the net proceeds from the sale of the business. There were no financial results nor cash flows of the discontinued operations for the year ended 30 June 2020.

Notes to the Consolidated Financial Statements

SECTION V. OTHER INFORMATION CONTINUED

28. Subsequent events

The Directors' continue to assess the uncertain and evolving impact of the coronavirus pandemic on GWA's operations.

To the Directors' best knowledge, there are no events that have arisen subsequent to 30 June 2020 that will, or may, significantly affect the operation or results of the consolidated entity.

Directors' Declaration

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

1. The consolidated financial statements and notes, and the Remuneration Report in the Directors' Report, are in accordance with the *Corporations Act 2001* including:
   a) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2020 and of its performance for the year ended on that date; and
   b) complying with Australian Accounting Standards and the Corporations Regulations 2001;
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
3. There are reasonable grounds to believe that the Company and the group entities identified in Note 24 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418;
4. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Managing Director and the Chief Financial Officer for the financial year ended 30 June 2020; and
5. The directors draw attention to Note 1(a) to the consolidated financial statements which includes a statement of compliance with International Financial Reporting Standards (IFRS).

Dated on 17 August 2020.

Signed in accordance with a resolution of the directors:

Darryl D McDonough
Director

Tim R Salt
Director

Independent Auditor's Report

To the Shareholders of GWA Group Limited

Report on the audit of the Financial Report

OPINION

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

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

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated Statement of Financial Position as at 30 June 2020;
- Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statement of Cash Flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

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

BASIS FOR OPINION

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

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

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

KEY AUDIT MATTERS

The ***Key Audit Matters*** we identified is:

- Valuation of Inventory.

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

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

VALUATION OF INVENTORY $78.8M

Refer to Note 9 to the Financial Report

The key audit matter	How the matter was addressed in our audit
The valuation of inventory is a key audit matter as inventory is a significant asset in the financial report and the net realisable value is impacted by the building industry cycles, changes in consumer preferences and economic instability as a result of the coronavirus pandemic. This necessitated an additional focus on excess and discontinued inventory SKU's (stock keeping unit) and judgemental valuation assumptions. These conditions gave rise to additional audit effort, including greater involvement by our senior team members, to gather evidence over the estimation of the valuation of inventory.	Our procedures included: • We assessed the accuracy of previous Group forecasts by inventory SKU by comparing forecast demand to actual sales in the prior period. This informed our evaluation of forecasts incorporated in the inventory provision calculation in the current year; • We tested the completeness of inventory identified as excess or fast moving and discontinued as follows: » We assessed the Group's calculation for identifying excess inventory. We did this by performing our own calculation based on sales data for the last 12 months and comparing the results. We considered the impact on our audit of any exceptions. Where relevant, we obtained underlying documentation from the Group to evaluate exceptions; and » We compared inventory SKU's to be discontinued to the approved discontinued inventory report used by the Group in assessing the recoverable value of inventory.

Independent Auditor's Report

To the Shareholders of GWA Group Limited (continued)

VALUATION OF INVENTORY $78.8M

Refer to Note 9 to the Financial Report

The key audit matter	How the matter was addressed in our audit
We focused on the following elements of the Group's estimation of the valuation of inventory: • Criteria for categorisation of inventory SKU's by risk, such as discontinued, new products, excess or fast moving range, as they attribute different values due to the differing provision policy rates; • Expected forecast demand which is based on the last 12 months' sales, as this determines the categorisation of inventory SKU's as excess or fast moving; and • Assessing the impact of inventory sold in the current year below cost.	• We assessed the write off history for the last 3 years against the provision to determine the adequacy of the inventory provision; • For certain components, we independently developed an expected inventory valuation range by considering the following: » Inventory turnover rate by inventory SKU; » Recovery rates achieved historically when selling discontinued inventory. We considered the historical quantum recovered compared to the original cost; and » Overall recoveries achieved for sales recorded below original cost; • We compared our estimated inventory valuation range to the inventory value recorded by the Group; • For other components, we tested a sample of inventory items to purchase invoices and sales invoices to determine the recoverability and valuation of inventory in line with accounting standards.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL REPORT

The Directors are responsible for:

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

Our objective is:

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

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

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

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

Independent Auditor's Report
To the Shareholders of GWA Group Limited (continued)

REPORT ON THE REMUNERATION REPORT

Opinion

In our opinion, the Remuneration Report of GWA Group Limited for the year ended 30 June 2020, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in the Annual report for the year ended 30 June 2020.

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

KPMG

KPMG

Julie Cleary
Partner

Sydney, 17 August 2020

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

To the Directors of GWA Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of GWA Group Limited for the financial year ended 30 June 2020 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

Julie Cleary
Partner

Sydney, 17 August 2020

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Other Statutory Information

As at 14 August 2020

STATEMENT OF SHAREHOLDING

In accordance with the Australian Securities Exchange Listing Rules, the directors state that, as at 14 August 2020, the share capital in the Company was held as follows:

Range	Ordinary Shareholders	Ordinary Shares	%
1 – 1,000	1,662	724,330	0.27
1,001 – 5,000	3,168	8,805,544	3.34
5,001 – 10,000	1,358	9,981,054	3.78
10,001 – 100,000	983	20,647,369	7.82
100,001 and over	77	223,789,333	84.79
Total	**7,248**	**263,947,630**	**100.00**

The number of shareholders with less than a marketable parcel of 182 shares is 524.

VOTING RIGHTS

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

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

SUBSTANTIAL SHAREHOLDERS

The following information is extracted from the Company's Register of Substantial Shareholders as at 14 August 2020:

Shareholder	Number of Shares	% Shares on Issue
Ethical Partners Funds Management Pty Ltd	18,506,941	7.01%
Mitsubishi UFJ Financial Group, Inc	16,352,838	6.20%
The Vanguard Group, Inc	15,925,463	6.03%
Franklin Resources, Inc	15,804,194	5.99%

20 LARGEST SHAREHOLDERS AS AT 14 August 2020

Shareholder	Number of Shares	% Shares on Issue
HSBC Custody Nominees (Australia) Limited	64,505,733	24.44
Citicorp Nominees Pty Limited	33,801,094	12.81
J P Morgan Nominees Australia Pty Limited	32,752,169	12.41
HGT Investments Pty Ltd	10,000,000	3.79
KFA Investments Pty Ltd	9,200,684	3.49
JMB Investments Pty Ltd	6,884,655	2.61
National Nominees Limited	6,581,988	2.49
Mr Peter Zinn <Carol Zinn Family No 2 A/C>	5,898,176	2.23
Ashberg Pty Ltd	5,887,783	2.23
Theme (No 3) Pty Ltd	5,100,000	1.93
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	4,780,998	1.81
ITA Investments Pty Ltd	4,688,628	1.78
Dabary Investments Pty Ltd	3,178,986	1.20
CJZ Investments Pty Ltd	2,841,565	1.08
BNP Paribas Noms Pty Ltd <DRP>	2,049,392	0.78
Eidde Pty Ltd <Duncan Family A/C>	2,019,940	0.77
Mr Michael John McFadyen <Michael McFadyen A/C>	1,975,734	0.75
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	1,736,886	0.66
Neale Edwards Pty Ltd	1,352,500	0.51
AMP Life Limited	1,272,883	0.48
Total	**206,509,794**	**78.24**

Shareholder Information

Annual General Meeting

The Annual General Meeting of GWA Group Limited will be held via a virtual platform at https://web.lumiagm.com/ on Friday 30 October 2020 commencing at 10:00am (AEST). Shareholders will be mailed their Notice of Annual General Meeting and Proxy Form during September 2020.

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 in March and September each year following the release of the Company's half and full year financial 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 (DRP) was reintroduced by the Board in August 2020 to provide funds for future growth opportunities. The DRP will apply for the FY20 final dividend to be paid on 16 October 2020 and to participate in the DRP, shareholders must make their election online at www.investorcentre.com or submit an election form on or before the record date. DRP election forms can be obtained from the Company's share registry or online at www.investorcentre.com. For further details, please refer to the DRP Rules which can be found on the Company's website at www.gwagroup.com.au.

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 2020

30 June	Financial year end
17 August	FY20 full year results and final dividend announcement
8 September	Ex dividend date for final dividend
9 September	• Record date for determining final dividend entitlement • DRP election must be received by 5:00pm AEST on the record date
16 October	Final dividend paid
25 September	Notice of Annual General Meeting and Proxy Form mailed to shareholders
28 October	Proxy returns close 10:00am AEST
30 October	Annual General Meeting
31 December	Half year end

Head Office Locations

GWA GROUP LIMITED

Building 3B, 200 Holt Street
Pinkenba QLD 4008
AUSTRALIA

Telephone 61 7 3109 6000
Facsimile 61 7 3852 2201

www.gwagroup.com.au

GWA BATHROOMS & KITCHENS AUSTRALIA

Caroma Industries Limited
Level 24, 100 Mount Street
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AUSTRALIA

Telephone 61 2 8825 4400
Facsimile 61 2 8825 4567

www.caroma.com.au
specify.caroma.com.au
www.smartcommand.com.au
www.methven.com/au
www.dorf.com.au
www.clark.com.au
www.flexispray.com.au

GWA BATHROOMS & KITCHENS UNITED KINGDOM

Methven UK Limited
Methven Experience Centre
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Yew Tree Way, Golborne, Warrington,
WA3 3JD
UNITED KINGDOM

Telephone 0800 195 1602

www.methven.com/uk
www.deva-uk.com

GWA BATHROOMS & KITCHENS NEW ZEALAND

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www.caroma.co.nz

GWA BATHROOMS & KITCHENS CHINA

Heshan Methven Bathroom Fitting Co Ltd
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Zhishan Town, Heshan City,
Guangdong Province, 529729
China

Telephone +86 750 866 6318

www.methven.com.cn

Corporate Directory

Directors
D D McDonough, Chairman
J F Mulcahy, Deputy Chairman
T R Salt, Managing Director
P A Birtles, Non-Executive Director
J M McKellar, Non-Executive Director
A J Barrass, Non-Executive Director
S T Goddard, Non-Executive Director
R J Thornton, Executive Director

Chief Financial Officer
P A Gibson
BA, FCMA, CGMA, FAICD, FGIA, FCIS

Company Secretary
R J Thornton
CA, BCom (Acc), LLB (Hons), LLM

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