



GWA
Group Limited

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20 February 2017

ASX On-Line
Manager Company Announcements
Australian Securities Exchange

Dear Sir

Financial Results for the Half Year Ended 31 December 2016

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

- Appendix 4D Half Year Report
- Appendix 4D Commentary
- Interim Financial Report

On 20 February 2017 at 10:00 am (AEDT), GWA will be hosting a webcast of its FY17 half year results briefing. The webcast is accessible via the GWA website at www.gwagroup.com.au.

Yours faithfully

A handwritten signature in black ink, appearing to read 'R J Thornton', written over a faint, large watermark of the GWA logo.

R J Thornton
Executive Director

**Appendix 4D
Half Year Report
Period Ended 31 December 2016**

GWA GROUP LIMITED

| | | | |
|-----------------------|-------------------------------------|--------------------------|------------------------------------|
| ABN | Half Yearly | Preliminary Final | Half year ended ('current period') |
| 15 055 964 380 | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 31 December 2016 |

Results for announcement to the market

| \$A'000 | | | | 31 Dec 2016 | 31 Dec 2015 |
|--|-----------|-------------|-----------|--------------------|--------------------|
| <u>Statutory Reported Revenue</u> | | | | | |
| Total revenues from ordinary activities ¹ | Down | -0.7% | to | 223,432 | 224,961 |
| <u>Statutory Reported Profit</u> | | | | | |
| Net profit for the period from continuing operations attributable to members | Up | 7.5% | to | 26,002 | 24,183 |
| Net loss for the period from discontinued operations attributable to members | Down | -100% | to | - | (424) |
| Total net profit for the period attributable to members | Up | 9.4% | to | 26,002 | 23,759 |

¹ Statutory results in the prior year include \$4,798,000 of revenue from discontinued operations. Refer to Note 10 of the attached Interim Financial Report.

Continuing Operations

| | | | | | |
|-----------------------------------|----|------|----|---------|---------|
| Revenues from ordinary activities | Up | 1.5% | to | 223,432 | 220,163 |
| Earnings before interest and tax | Up | 6.6% | to | 39,246 | 36,817 |
| Profit after tax | Up | 7.5% | to | 26,002 | 24,183 |

Discontinued Operations

| | | | | | |
|-----------------------------------|------|-------|----|---|-------|
| Revenues from ordinary activities | Down | -100% | to | - | 4,798 |
| Loss before interest and tax | Down | -100% | to | - | (606) |
| Loss after tax | Down | -100% | to | - | (424) |

| <u>Dividends</u> | Amount Per Security | Franked Amount Per Security |
|--|----------------------------|--------------------------------------|
| Current period | | |
| Final - ordinary dividend | 8.0 cents | 8.0 cents |
| Final - special dividend | 1.0 cents | 1.0 cents |
| Interim - ordinary dividend ² | 7.5 cents | 7.5 cents |
| Previous corresponding period | | |
| Ordinary dividend | 7.0 cents | 7.0 cents |
| ² The record date for determining entitlements to the dividend is 24 February 2017 and the dividend is payable on 7 March 2017. | | |
| <u>Net tangible assets</u> | Current Period | Previous Corresponding Period |
| Net tangible asset backing per ordinary security | - | \$0.02 |
| Net asset backing per ordinary security | \$1.19 | \$1.17 |
| Brief explanation of the figures reported above: | | |
| Refer to the Media Release and Appendix 4D commentary for the review of operations. | | |
| The attached Interim Financial Report has been reviewed by GWA's independent statutory auditors. | | |

This Half Year Report should be read in conjunction with the most recent Annual Financial Report.

Appendix 4D Commentary

20 February 2017

GWA increases net profit by 8% and declares fully-franked interim dividend of 7.5 cents per share

- Net Profit After Tax up 8% to \$26.0 million
- Fully-franked interim dividend of 7.5 cents per share payable on 7 March 2017; up from 7c in prior period
- Continued momentum in “back to basics” strategy:
 - building engagement with major customers
 - initiatives focused on less cyclical renovation and replacement segment
 - strengthening new product development pipeline
 - cost reductions and supply chain efficiencies assisting margin resilience and reinvestment in the business
- Earnings Before Interest and Tax (EBIT) up 7% to \$39.2 million
 - Bathrooms & Kitchens EBIT up 6%
 - Door & Access Systems EBIT down 34%
 - Continued reduction in corporate costs - down 16%
- Group EBIT margin up 0.8 ppts to 17.5%
- Revenue up 2% which exceeds the weighted average end market growth of 1%¹
- Return on Funds Employed up 1.8ppts to 19.5 per cent
- Earnings per share up 14%
- Cashflow from operations up 22%
- Strong financial position maintained - credit metrics remain in line with investment grade
- FY17 Outlook – expect 2nd half EBIT to be at or slightly ahead of first half.

Group Results²

| A\$ million | 1HFY16 | 1HFY17 | % change |
|--------------------|---------------|---------------|-----------------|
| Sales Revenue | 220.2 | 223.4 | +1.5 |
| EBITDA | 39.8 | 42.2 | +6.0 |
| EBIT | 36.8 | 39.2 | +6.6 |
| <i>EBIT Margin</i> | 16.7% | 17.5% | +0.8pp |
| NPAT | 24.2 | 26.0 | +7.5 |

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

² Unless specified, all amounts and comparisons are based on results for Continuing Operations which exclude the Gliderol Garage Doors business which was divested on 31 July 2015

GWA Group Limited, a leading supplier of fixtures and fittings to Australian and New Zealand households and commercial premises, today announced an 8 per cent increase in net profit after tax to \$26.0 million for the half-year ended 31 December 2016.

Revenue increased by 2 per cent, which was ahead of the market growth of the key end markets for GWA products which increased by approximately 1 per cent for the period.

EBIT increased by 7 per cent to \$39.2 million, driven by improved earnings in the Bathrooms & Kitchens' division and a continued reduction in corporate costs, partially offset by a decline in earnings in Door & Access Systems.

GWA's continued focus on higher margin product categories and cost-out initiatives resulted in Group EBIT margin increasing by 0.8 percentage points to 17.5 per cent from 16.7 per cent previously.

Earnings per share of 9.9 cents were 14 per cent above the prior period, reflecting increased profitability and the reduced weighted average number of shares on issue following the completion of the accretive on-market share buyback programme in June 2016.

Market conditions

In total, GWA estimates that the increase in market activity weighted across its key end markets³ was approximately 1 per cent for the period.

Market activity for home renovations and replacements, (approximately 52% of GWA revenue) is forecast to have remained steady.

Detached house completions (representing approximately 22 per cent of GWA revenue) is forecast to have declined by 4 per cent, while medium and high-density dwelling completions (approximately 11% of GWA revenue) is forecast to have increased by 18 per cent.

On a value of work done basis, non-residential building activity (approximately 15% of GWA revenue) is forecast to have declined by 3 per cent.

Financial Position and Capital Management

GWA remains in a strong financial position with credit metrics continuing to be consistent with investment grade.

Net debt of \$92 million at 31 December 2016 was in line with the previous corresponding period (\$91 million).

³ Based on GWA estimates for Australia market B&K only (Moving Annual Total (MAT) data). Source for data is BIS Shrapnel.

The company's gearing ratio was 23 per cent at 31 December 2016 compared to 22 per cent previously with a leverage ratio of 1.1 times compared to 1.2 times for the prior corresponding period.

Interest cover ratio was 15.8 times at 31 December 2016 compared to 14.8 times for the prior comparable period.

GWA's syndicated banking facility was extended in October 2016 to a single, three-year revolving \$225 million facility which matures in October 2019. GWA continues to have substantial headroom within its banking facilities, providing significant financial flexibility for the group.

Cashflow from operations improved by 22 per cent to \$39.6 million driven by increased EBITDA and effective working capital utilisation compared to the prior period.

Capital expenditure increased to \$2.7 million from \$0.9 million in the previous corresponding period reflecting investment in plastics tooling and IT-related investment in GWA's Integrated Business Planning project. For the full year GWA continues to expect capital expenditure in the range of \$7-9 million.

GWA continues its focus on generating strong returns on capital employed in the business with Return on Funds Employed (ROFE) increasing by 1.8 percentage points on the prior corresponding period to 19.5 per cent.

Dividend

The Board resolved to pay an interim dividend of 7.5 cents per share, fully-franked, compared to 7 cents per share for the prior corresponding period.

The record date for entitlement to receive the interim dividend will be 24 February 2017 with the dividend being paid on 7 March 2017. The Dividend Reinvestment Plan will not be offered to shareholders for the interim dividend.

Segment Results

Bathrooms & Kitchens

| A\$ million | 1HFY16 | 1HFY17 | % change |
|--------------------------|---------------|---------------|-----------------|
| Sales Revenue | 169.8 | 174.3 | +2.7 |
| EBIT | 41.0 | 43.4 | +5.9 |
| EBIT Margin | 24.2% | 24.9% | +0.7pp |
| Return on Funds Employed | 23.0% | 25.0% | +2.0pp |

The Bathrooms & Kitchens division delivered solid revenue increase which was ahead of market growth, together with an improvement in earnings and margins as GWA continues to focus on higher margin product categories.

Revenue in the Bathrooms & Kitchens division increased by 3 per cent to \$174.3 million reflecting improved mix and partial recovery of the impact of the lower Australian dollar in the prior period.

Revenue growth was ahead of the market.

Sales growth was particularly strong across the eastern seaboard with NSW (up 13 per cent), QLD (up 5 per cent) and Victoria (up 5 per cent), partially offset by a significant decline in WA of 21 per cent, where construction activity was significantly below the prior corresponding period and where GWA has a strong market position.

EBIT of \$43.4 million was 6 per cent higher than the prior corresponding period's earnings of \$41.0 million.

GWA's continued focus on higher margin product categories and ongoing cost discipline resulted in an increase in EBIT margin of 0.7 percentage points to 24.9 per cent compared to 24.2 per cent for the prior corresponding period.

Meanwhile, Return on Funds Employed of 25.0 per cent was 2 percentage points higher than the prior period.

Sales of the new Caroma Cleanflush rimless toilet range continue to be at the top end of expectations with ongoing positive feedback from the market. Following the success of the initial launch, GWA is launching two new Cleanflush ranges.

Door & Access Systems

| A\$ million | 1HFY16 | 1HFY17 | % change |
|--------------------------|--------|--------|----------|
| Sales Revenue | 50.4 | 49.1 | (2.6) |
| EBIT | 3.8 | 2.5 | (34.2) |
| EBIT Margin | 7.6% | 5.0% | (2.6)pp |
| Return on Funds Employed | 14.3% | 9.4% | (4.9)pp |

The result in the Door & Access Systems business was impacted by the significant decline in WA construction markets where GWA has a strong market position.

Revenue in Door and Access Systems declined by 3 per cent on the prior corresponding period to \$49.1 million.

Sales grew approximately 2% across the eastern seaboard. However, the significantly weaker construction markets in Western Australia, where GWA has a strong market position, saw revenue from WA decline by 29 per cent which impacted overall revenue.

EBIT declined by 34 per cent to \$2.5 million compared to \$3.8 million in the prior corresponding period, with a decline in EBIT margin to 5.0 per cent from 7.6 per cent previously.

Progress on Strategy

GWA Managing Director, Tim Salt, said the business continued to make good progress on its strategy which was reflected in the improved result on the previous corresponding period.

"It's pleasing to see the company grow ahead of the market at the top line, while continuing our strong focus on margin resilience at the bottom line.

"While the significant decline in construction activity in Western Australia has had some impact on our first half results, particularly in Doors and Access Systems, I am pleased with the progress we are making across our business.

"We are continuing to gain momentum with our 'back to basics' execution in simplifying the business, addressing the cost base and improving our supply chain.

"We continue to address our cost base and remain on track to deliver \$13-15 million in cost savings by FY19 through a combination of SG&A and supply chain efficiencies. These savings will be used to reinvest in growth initiatives as well as providing margin resilience and to offset cost inflation.

"On supply chain, the new international sea freight partnership is delivering improvements in container yield and we are in the process of establishing consolidation centres in Asia to further reduce freight costs and enable shipping of our product direct to ports across Australia.

Through supply chain improvements, we expect to reduce working capital by approximately \$5 million in the second half compared to the first half.

"We are also strengthening our new product development pipeline with the launch of two new ranges of Caroma Cleanflush this year.

"Meanwhile, we continue to build our internal capability focused on adding value to our customers through joint planning initiatives and agreed business plans with our major merchant partners.

"Our customer and consumer initiatives are focused on the less cyclical renovation and replacements segment, where we have significant opportunity to grow.

"I am encouraged by the stronger platform we're creating across the business to deliver on each of our strategic priorities to improve returns to shareholders over the medium term," he said.

FY17 Outlook

GWA expects to see a slow-down in residential construction activity, however the pipeline of building work yet to be completed remains reasonably strong to the end of the current financial year.

More importantly just over half of GWA's group revenue is derived from the renovation and replacements segment which is expected to remain stable for the remainder of FY17.

Construction activity in Western Australia is expected to remain weak and is expected to level out in the second half of FY17/first half of FY18.

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

GWA monitors exchange rates closely and as at 20 February 2017, approximately 69 per cent of foreign exchange exposure is hedged at US72 cents for FY17.

Based on current market conditions, EBIT in the second half for FY17 is expected to be at or slightly ahead of first half EBIT FY17.

GWA Group Limited and its controlled entities

**31 December 2016
Interim Financial Report**

ABN 15 055 964 380

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Directors' Report

For the Half Year Ended 31 December 2016

Your directors submit their report on the consolidated entity of GWA Group Limited (the 'Group') and the entities it controlled for the half year ended 31 December 2016.

Directors

The names of the directors of the Group during the half year and up to the date of this report are listed below. Directors were in office for this entire period unless otherwise stated.

D D McDonough, Chairman and Non-Executive Director
J F Mulcahy, Deputy Chairman and Non-Executive Director
T R Salt, Managing Director (appointed 1 July 2016)
W J Bartlett, Non-Executive Director
P A Birtles, Non-Executive Director
S T Goddard, Non-Executive Director (appointed 28 October 2016)
J M McKellar, Non-Executive Director (appointed 28 October 2016)
R J Thornton, Executive Director
R M Anderson, Non-Executive Director (retired 28 October 2016)

Review of Operations

A review of operations for the Group for the half year ended 31 December 2016 and the results of those operations are set out in the Media Release and Appendix 4D commentary.

Interim Dividend

The directors have declared a fully franked interim dividend to shareholders of 7.5 cents per share. The record date for the interim dividend is 24 February 2017 and is payable on 7 March 2017. The Dividend Reinvestment Plan will not be offered to shareholders for the interim dividend.

Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration forms part of the Directors' Report for the half year ended 31 December 2016.

Rounding

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

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



Darryl D McDonough
Chairman

Sydney, 20 February 2017



Tim R Salt
Managing Director

Consolidated statement of profit or loss and other comprehensive income

GWA Group Limited and its controlled entities

For the half year period ended 31 December

In thousands of AUD

| | Note | 2016 | 2015 |
|---|------|-----------|-----------|
| Continuing operations | | | |
| Sales revenue | 5 | 223,432 | 220,163 |
| Cost of sales | | (131,542) | (130,584) |
| Gross profit | | 91,890 | 89,579 |
| Other income | | 216 | 608 |
| Selling expenses | | (31,748) | (31,079) |
| Administrative expenses | | (20,762) | (22,275) |
| Other expenses | | (350) | (16) |
| Operating profit | | 39,246 | 36,817 |
| Finance income | | 249 | 262 |
| Finance expenses | | (3,008) | (3,553) |
| Net financing costs | | (2,759) | (3,291) |
| Profit before tax | | 36,487 | 33,526 |
| Income tax expense | 6 | (10,485) | (9,343) |
| Profit from continuing operations | | 26,002 | 24,183 |
| Discontinued operations | | | |
| Loss from discontinued operations, net of income tax | 10 | - | (424) |
| Profit for the period | | 26,002 | 23,759 |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of foreign subsidiaries, net of tax | | (39) | 26 |
| Cashflow hedges, net of tax | | 3,481 | (899) |
| Other comprehensive income / (loss), net of tax | | 3,442 | (873) |
| Total comprehensive income for the period | | 29,444 | 22,886 |
| Earnings per share (cents) | | | |
| Total | | | |
| - Basic | | 9.85 | 8.52 |
| - Diluted | | 9.80 | 8.48 |
| Continuing operations | | | |
| - Basic | | 9.85 | 8.67 |
| - Diluted | | 9.80 | 8.63 |

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

Consolidated statement of financial position

GWA Group Limited and its controlled entities

As at

In thousands of AUD

| | Note | 31 Dec 2016 | 30 June 2016 |
|--------------------------------------|------|----------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | | 27,146 | 35,696 |
| Trade and other receivables | | 54,264 | 51,983 |
| Inventories | | 85,100 | 76,361 |
| Other | | 4,241 | 2,267 |
| Total current assets | | 170,751 | 166,307 |
| Non-current assets | | | |
| Deferred tax assets | | 16,561 | 18,189 |
| Property, plant and equipment | | 11,269 | 11,281 |
| Intangible assets | | 314,746 | 314,894 |
| Other | | 393 | 188 |
| Total non-current assets | | 342,969 | 344,552 |
| Total assets | | 513,720 | 510,859 |
| Current liabilities | | | |
| Trade and other payables | | 44,928 | 40,510 |
| Employee benefits | | 7,052 | 6,889 |
| Income tax payable | | 4,712 | 1,851 |
| Provisions | | 17,578 | 22,430 |
| Total current liabilities | | 74,270 | 71,680 |
| Non-current liabilities | | | |
| Trade and other payables | | 703 | 432 |
| Loans and borrowings | 7 | 115,000 | 120,000 |
| Employee benefits | | 8,218 | 8,447 |
| Provisions | | 2,018 | 2,602 |
| Total non-current liabilities | | 125,939 | 131,481 |
| Total liabilities | | 200,209 | 203,161 |
| Net assets | | 313,511 | 307,698 |
| Equity | | | |
| Issued capital | | 307,838 | 307,877 |
| Reserves | | 45 | (3,356) |
| Retained earnings | | 5,628 | 3,177 |
| Total equity | | 313,511 | 307,698 |

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

Consolidated statement of cash flows

GWA Group Limited and its controlled entities

For the half year period ended 31 December

In thousands of AUD

Cash flows from operating activities

| | 2016 | 2015 |
|---|---------------|--------------|
| Receipts from customers | 246,353 | 259,030 |
| Payments to suppliers and employees | (213,183) | (235,925) |
| Cash generated from operations | 33,170 | 23,105 |
| Interest and facility fees paid | (3,058) | (3,394) |
| Interest received | 249 | 262 |
| Income taxes paid | (7,474) | (11,415) |
| Net cash from operating activities | 22,887 | 8,558 |

Cash flows from investing activities

| | | |
|--|----------------|--------------|
| Proceeds from sale of property, plant and equipment | 3 | 30 |
| Acquisition of property, plant and equipment | (1,495) | (722) |
| Acquisition of intangible assets | (1,171) | (244) |
| Proceeds from business disposals, net of transaction costs | - | 3,833 |
| Net cash (used in) / from investing activities | (2,663) | 2,987 |

Cash flows from financing activities

| | | |
|--|-----------------|----------------|
| Proceeds from borrowings | 15,000 | - |
| Repayment of borrowings | (20,000) | - |
| Dividends paid | (23,755) | - |
| Capital return to holders of LTI grants | (39) | (44) |
| Payment for on-market share buy-back | - | (7,647) |
| Net cash used in financing activities | (28,794) | (7,691) |

Net (decrease) / increase in cash and cash equivalents

| | | |
|---|---------------|---------------|
| Cash and cash equivalents at the beginning of the year | 35,696 | 33,043 |
| Effect of exchange rate changes | 20 | 206 |
| Cash within assets held for sale on the statement of financial position | - | 1,327 |
| Cash and cash equivalents at 31 December | 27,146 | 38,340 |

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

The cash flows of Gliderol are included in the consolidated statement of cash flows for the period ended 31 December 2015 only for the part of the period that they were owned by GWA Group Limited and its controlled entities. Accordingly, the consolidated statements of cash flows for the periods ended 31 December 2016 and 31 December 2015 are not comparable (Refer to Note 10).

Consolidated statement of changes in equity

GWA Group Limited and its controlled entities

For the half year period ended 31 December 2016

In thousands of AUD

| | Share Capital | Translation Reserve | Hedging Reserve | Equity Compensation Reserve | Retained Earnings | Total |
|---|----------------|---------------------|-----------------|-----------------------------|-------------------|----------------|
| Balance as at 1 July 2016 | 307,877 | (1,072) | (3,931) | 1,647 | 3,177 | 307,698 |
| Total comprehensive income for the period | | | | | | |
| Profit for the period | - | - | - | - | 26,002 | 26,002 |
| <i>Other comprehensive income</i> | | | | | | |
| Exchange differences on translation of foreign subsidiaries, net of tax | - | (39) | - | - | - | (39) |
| Cash flow hedges, net of tax | - | - | 3,481 | - | - | 3,481 |
| Total other comprehensive income | - | (39) | 3,481 | - | - | 3,442 |
| Total comprehensive income | - | (39) | 3,481 | - | 26,002 | 29,444 |
| Transaction with owners, recorded directly in equity | | | | | | |
| Share-based payments, net of tax | (39) | - | - | (41) | 204 | 124 |
| Dividends declared | - | - | - | - | (23,755) | (23,755) |
| Total transactions with owners | (39) | - | - | (41) | (23,551) | (23,631) |
| Balance at 31 December 2016 | 307,838 | (1,111) | (450) | 1,606 | 5,628 | 313,511 |

For the half year period ended 31 December 2015

In thousands of AUD

| | Share capital | Translation reserve | Hedging reserve | Equity compensation reserve | (Accumulated losses) / Retained earnings | Total |
|---|----------------|---------------------|-----------------|-----------------------------|--|----------------|
| Balance at 1 July 2015 | 337,942 | (1,150) | (1,081) | 2,180 | (31,997) | 305,894 |
| Total comprehensive income for the period | | | | | | |
| Profit for the period | - | - | - | - | 23,759 | 23,759 |
| <i>Other comprehensive income</i> | | | | | | |
| Exchange differences on translation of foreign subsidiaries, net of tax | - | 26 | - | - | - | 26 |
| Cash flow hedges, net of tax | - | - | (899) | - | - | (899) |
| Total other comprehensive income | - | 26 | (899) | - | - | (873) |
| Total comprehensive income | - | 26 | (899) | - | 23,759 | 22,886 |
| Transaction with owners, recorded directly in equity | | | | | | |
| Share-based payments, net of tax | (44) | - | - | (1,026) | 211 | (859) |
| On-market share buy-back, net of tax | (7,645) | - | - | - | - | (7,645) |
| Total transactions with owners | (7,689) | - | - | (1,026) | 211 | (8,504) |
| Balance at 31 December 2015 | 330,253 | (1,124) | (1,980) | 1,154 | (8,027) | 320,276 |

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

Condensed notes to the consolidated interim financial statements

GWA Group Limited and its controlled entities

1. Reporting entity

GWA Group Limited (the 'Company') is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the half year period ended 31 December 2016 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity').

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2016 is available from the Company's website www.gwagroup.com.au.

2. Statement of compliance

The consolidated interim financial report has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2016.

This consolidated interim financial report was approved for issue by the Board of Directors on 20 February 2017.

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 have been rounded to the nearest thousand dollars, unless otherwise stated.

3. Significant accounting policies

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2016, except as noted below.

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 in the half year period ended 31 December 2016:

- AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*
- AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*
- AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 Presentation of Financial Statements*
- AASB 1057 *Application of Australian Accounting Standards and AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs*

The initial adoption of the above revisions has not had a material impact on the amounts reported or disclosures made in the consolidated interim financial report.

4. Estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2016.

Condensed notes to the consolidated interim financial statements (continued)

GWA Group Limited and its controlled entities

5. Operating segments

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

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

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

Discontinued operations in the prior period include the sale of Gliderol Garage Doors (Refer to Note 10).

For the half year period ended 31 December

In thousands of AUD

| | Bathrooms & Kitchens | | Door & Access Systems | | Discontinued Operations | | Total | |
|---|----------------------|--------------------|-----------------------|--------------------|-------------------------|--------------------|--------------------|--------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Sales revenue | 174,305 | 169,753 | 49,127 | 50,410 | - | 4,798 | 223,432 | 224,961 |
| Segment profit/(loss) before income tax | 43,359 | 41,000 | 2,457 | 3,829 | - | (606) | 45,816 | 44,223 |
| Depreciation | 986 | 1,001 | 516 | 464 | - | 103 | 1,502 | 1,568 |
| Amortisation | - | - | 203 | 203 | - | 41 | 203 | 244 |
| Capital expenditure | 1,239 | 317 | 256 | 348 | - | 44 | 1,495 | 709 |
| As at | 31 Dec 2016 | 30 Jun 2016 | 31 Dec 2016 | 30 Jun 2016 | 31 Dec 2016 | 30 Jun 2016 | 31 Dec 2016 | 30 Jun 2016 |
| Reportable segment assets | 402,645 | 389,947 | 60,928 | 61,157 | - | - | 463,573 | 451,104 |
| Reportable segment liabilities | 54,660 | 49,673 | 10,566 | 9,816 | - | - | 65,226 | 59,489 |

Reconciliations of reportable segment revenues and profit or loss

For the half year period ended 31 December

In thousands of AUD

| | 2016 | 2015 |
|--|---------|---------|
| Revenues | | |
| Total revenue for reportable segments | 223,432 | 224,961 |
| Elimination of discontinued operations | - | (4,798) |
| Consolidated revenue - continuing operations | 223,432 | 220,163 |
| Profit | | |
| Total profit for reportable segments | 45,816 | 44,223 |
| Elimination of discontinued operations | - | 606 |
| Unallocated amounts: corporate expenses | (6,570) | (8,012) |
| Profit from operating activities | 39,246 | 36,817 |
| Net financing costs | (2,759) | (3,291) |
| Consolidated profit before tax - continuing operations | 36,487 | 33,526 |

Condensed notes to the consolidated interim financial statements (continued)

GWA Group Limited and its controlled entities

6. Income tax expense

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

For the half year period ended 31 December

In thousands of AUD

Current tax expense

| | 2016 | 2015 |
|-----------------------------|--------|-------|
| Current year | 12,573 | 7,252 |
| Adjustments for prior years | (460) | - |
| | 12,113 | 7,252 |

Deferred tax (benefit) / expense

| | | |
|---|---------|-------|
| Origination and reversal of temporary differences | (1,628) | 2,091 |
|---|---------|-------|

Tax expense from continuing operations

| | | |
|--|---|-------|
| Tax expense / (benefit) from discontinued operations | - | (182) |
|--|---|-------|

Total tax expense

| | | |
|--|--------|-------|
| | 10,485 | 9,161 |
|--|--------|-------|

Numerical reconciliation between tax expense and pre-tax net profit

For the half year period ended 31 December

In thousands of AUD

| | 2016 | 2015 |
|--|--------|--------|
| Profit from continuing operations before tax | 36,487 | 33,526 |
| Loss from discontinued operations before tax | - | (606) |
| Profit before tax | 36,487 | 32,920 |
| Tax expense using the domestic rate of 30% (2015: 30%) | 10,946 | 9,876 |
| Tax expense / (benefit) due to: | | |
| Non-deductible expenses | 94 | 54 |
| Non-assessable accounting gain on disposal of capital gains tax assets | - | (419) |
| Other items | (95) | (350) |
| | 10,945 | 9,161 |
| (Over) / under provided in prior years | (460) | - |
| Income tax expense on pre-tax net profit | 10,485 | 9,161 |

7. Loans and borrowings

On 19 October 2016, GWA successfully completed the extension of its syndicated banking facility. The facility comprises a single revolving facility of \$225,000,000 which matures in October 2019. Prior to 19 October 2016 and for the year ended 30 June 2016, the facility matured in October 2018.

The consolidated entity has unsecured bank loans of \$115,000,000 as at 31 December 2016 (30 June 2016: \$120,000,000). The notional amount of the interest-bearing loans is deemed to reflect the fair value.

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.

Condensed notes to the consolidated interim financial statements (continued)

GWA Group Limited and its controlled entities

8. Dividends

The following dividends were paid by the consolidated entity:

For the half year period ended 31 December

In thousands of AUD

| | 2016 | 2015 |
|--|--------|------|
| Franked dividends paid: | | |
| Final 2016 ordinary (paid 16 September 2016, 8.0c per share) | 21,116 | - |
| Special 2016 (paid 16 September 2016, 1.0c per share) | 2,639 | - |
| Total dividends paid | 23,755 | - |

On 20 February 2017, the Board declared a fully franked interim ordinary dividend of 7.5 cents per share with the record date for entitlement to dividends being 24 February 2017. Based on 263,947,630 shares outstanding at 31 December 2016, the aggregate dividend payable would be \$19,796,072.

9. Financial instruments Estimation of fair values

Financial assets and liabilities that are not measured at cost or amortised cost in the half year financial report comprise forward foreign exchange contracts and interest rate swaps. 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.

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

As at 31 December 2016

| | Level 1 | Level 2 | Level 3 | Total |
|---|---------|---------|---------|-------|
| Interest rate swaps used for hedging | - | (460) | - | (460) |
| Forward exchange contracts used for hedging | - | (183) | - | (183) |
| | - | (643) | - | (643) |

As at 30 June 2016

| | | | | |
|---|---|---------|---|---------|
| Interest rate swaps used for hedging | - | (1,705) | - | (1,705) |
| Forward exchange contracts used for hedging | - | (3,944) | - | (3,944) |
| | - | (5,649) | - | (5,649) |

Condensed notes to the consolidated interim financial statements (continued)

GWA Group Limited and its controlled entities

10. Discontinued operations

During the period ended 31 December 2015, the Gliderol business was sold with an effective date of 31 July 2015. The operating activities of Gliderol were classified as a discontinued operation in the prior period.

A. Results of discontinued operations

For the half year period ended 31 December

In thousands of AUD

| | 2016 | 2015 |
|-------------------------------|------|--------|
| Loss for the period | - | (424) |
| Loss per share (cents) | | |
| - Basic | - | (0.15) |
| - Diluted | - | (0.15) |

B. Cash flow from discontinued operations

For the half year period ended 31 December

In thousands of AUD

| | 2016 | 2015 |
|---------------------------------------|------|-------|
| Net cash from operating activities | - | 1,745 |
| Net cash from investing activities | - | 3,790 |
| Net cash from discontinued operations | - | 5,535 |

11. Subsequent events

To the Directors' best knowledge, there are no events that have arisen subsequent to 31 December 2016 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 financial statements and notes 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 31 December 2016 and of its performance for the half year ended on that date; and
 - b) complying with Australian Accounting Standard AASB134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
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.

Dated at Sydney on 20 February 2017.

Signed in accordance with a resolution of the directors:



Darryl D McDonough
Director



Tim R Salt
Director



Independent auditor's review report to the members of GWA Group Limited

Report on the financial report

We have reviewed the accompanying half-year financial report of GWA Group Limited, which comprises the consolidated statement of financial position as at 31 December 2016, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Responsibility of the Directors for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of GWA Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of GWA Group Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

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

Julie Cleary

Partner

Sydney

20 February 2017



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 review for the half-year ended 31 December 2016 there have been:

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

KPMG

KPMG

A handwritten signature in blue ink that reads 'Julie Cleary'.

Julie Cleary

Partner

Sydney

20 February 2017