



GWA
Group Limited

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18 February 2019

ASX On-Line
Manager Company Announcements
Australian Securities Exchange

Dear Sir

Financial Results for the Half Year Ended 31 December 2018

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

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

On 18 February 2019 at 10:00 am (AEDT), GWA will be hosting a webcast of its FY19 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'.

R J Thornton
Executive Director

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GWA GROUP LIMITED

ABN: 15 055 964 380

Appendix 4D
Half Year Report - 31 December 2018
 Results for announcement to the market

For the half year period ended 31 December				2018	2017
Revenue (\$'000)					
Revenue from continuing operations	Up	2.6%	to	182,647	178,102
Revenue from discontinued operations ¹	Down	-100.0%	to	-	48,237
Total revenue from ordinary activities	Down	-19.3%	to	182,647	226,339
Earnings before interest and tax ('EBIT') (\$'000)					
EBIT from continuing operations excluding transaction costs ²	Up	3.0%	to	38,740	37,627
EBIT from continuing operations	Down	-1.0%	to	37,245	37,627
EBIT from discontinuing operations ¹	Up	1109.8%	to	50,060	4,138
Total EBIT from ordinary activities	Up	109.0%	to	87,305	41,765
Net Profit (\$'000)					
Net profit from continuing operations excluding transaction costs ²	Up	7.3%	to	26,635	24,826
Net profit from continuing operations	Up	1.4%	to	25,185	24,826
Net profit from discontinued operations ¹	Up	1648.2%	to	50,802	2,906
Total net profit from ordinary activities	Up	174.0%	to	75,987	27,732

¹ Discontinued operations include the Door & Access Systems business (comprising of Gainsborough Hardware Limited and API Services and Solutions Ltd) that was sold with an effective date of 3 July 2018 (date of loss of control).

² \$1.5m transaction costs incurred during the period in relation to the proposed acquisition of Methven Limited announced on 14 December 2018.

Dividends (cents per share)

Interim ordinary dividend ³ - 100% franked	9.0	8.5
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³ The record date for determining entitlements to the dividend is 22 February 2019 and the dividend is payable on 5 March 2019.

Net tangible asset and net asset backing (cents per share)

Net tangible asset backing	36.4	-
Net asset backing	144.9	123.0

Brief explanation of the figures reported above

Refer to the 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.

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18 February 2019

GWA increases net profit by 7%¹ and declares fully-franked interim dividend of 9 cents per share, up 6%

Continuing to drive profitable share growth with EBIT margins maintained creates strong platform to continue to deliver through the cycle

- Normalised Continuing Operations Net Profit After Tax¹ up 7.3% to \$26.6 million
- Reported Net Profit of \$76.0m (includes the gain on sale of the Door & Access Systems' business)
- Fully-franked interim dividend of 9 cents per share, up 5.9% payable on 5 March 2019
- Group Earnings Before Interest and Tax¹ (EBIT) up 3.0% to \$38.7 million
 - Bathrooms & Kitchens EBIT up 2.5% to \$45.5 million - continued momentum in driving profitable share growth with EBIT margin maintained at 24.9%
- Share gains from revenue growth ahead of market
- Strong turnaround in cashflow generation – operating cashflow up 31.6%
- Profit on sale of Door & Access Systems – proceeds used to repay debt
- Proposed acquisition of Methven strengthens water solutions strategy – expect transaction to complete mid-April 2019, subject to regulatory/shareholder approvals
- FY19 Outlook – expect 2H FY19 Group EBIT (pre-significant items) to be similar to 1H FY19 (excluding any earnings contribution from Methven).

Market conditions

GWA estimates that the increase in market activity weighted across its key end markets was flat for the period. While GWA's largest segment, Renovations and Replacements, remains relatively steady, new residential construction activity has reduced but continues to remain at historically high levels with a significant pipeline of work yet to be completed. The Commercial segment continues to grow strongly.

- Market activity for home **Renovations and Replacements**, (approximately 52% of GWA revenue) increased by ~1% per cent.
- **Detached house** completions (representing approximately 21 per cent of GWA revenue) decreased by ~4% per cent.
- **Medium and high-density** dwelling completions (approximately 12% of GWA revenue) decreased by ~9% per cent.
- On a value of work done basis, **Commercial** building activity (approximately 15% of GWA revenue) increased by ~7% per cent.

¹ From Continuing Operations and before Significant Items. Continuing Operations exclude the Door & Access Systems' business which was sold on 3 July 2018. Significant Items of \$1.5m pre-tax relate to costs associated with the proposed acquisition of Methven Ltd.

Against that background GWA recorded revenue growth of 2.6 per cent in the period.

Commentary on Result

Managing Director, Tim Salt, said GWA had delivered another solid result, continuing the strong momentum in building a more competitive and sustainable platform through the cycle.

"We are continuing to grow the top line ahead of the market through profitable share gains in our core segments of Renovations and Replacements, Commercial and Detached housing.

"Importantly, we are also maintaining EBIT margins, through a consistent focus on sales in higher value categories and cost management.

"We continue to improve our customer engagement resulting in enhanced ranging of existing products and listing of new products in showrooms and trade counters.

"We are working more collaboratively with customers on programs to target specific growth segments such as Aged Care and Commercial Renovation and Replacement opportunities.

"At the same time, we are investing for future growth.

"We have re-aligned our brand portfolio to target distinct consumer groups with brand relaunches of Caroma and Clark, supported by increased investment in marketing and media to improve consumer engagement.

"Our two flagship stores in Adelaide and Sydney provide a strong physical brand and product experience for our customers and consumers alike.

"Meanwhile, GWA has now successfully launched Caroma Smart Command® to the market. This is an intelligent bathroom system which includes a set of Bluetooth-enabled, touchless bathroom products that integrate into commercial building management systems to enable monitoring use and management of water.

"The system is now installed in thirteen commercial R&R locations and test sites with further installations planned for Q3 FY19.

"I am pleased with the continuing progress we're making in our strategy to deliver superior water solutions.

"That progress will be accelerated through the proposed acquisition of Methven, which we expect to complete in mid-April, subject to all conditions being satisfied.

"The acquisition of Methven strengthens GWA's core Australasian business and enhances the regional diversity of our revenue and earnings through leveraging Methven's presence in international markets to accelerate growth opportunities aligned to our core focus on water solutions.

"The acquisition will also increase our exposure to the more resilient Renovations and Replacements segment. Post transaction, GWA's exposure to the Renovations and Replacements segment in Australia will increase from 52 per cent currently to 57 per cent, while globally our exposure to this segment will be around 60 per cent," he said.

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Group Results – Continuing Operations Before Significant Items¹

A\$ million (unless specified)	1HFY18	1HFY19	% change
Sales Revenue	178.1	182.6	+2.6%
EBITDA	39.3	41.0	+4.2%
EBIT	37.6	38.7	+3.0%
<i>EBIT Margin</i>	21.1%	21.2%	+0.1ppts
NPAT	24.8	26.6	+7.3%
<i>Return on Funds Employed</i>	21.7%	20.6%	(1.1)ppts

GWA Group Limited, a leading supplier of water solutions in residential and commercial premises across Australia / New Zealand, today announced a 7.3 per cent increase in net profit after tax¹ to \$26.6 million for the half-year ended 31 December 2018.

The strong increase in net profit after tax, reflects the increase in Group EBIT, together with lower net interest expense compared to the prior corresponding period.

Group EBITDA¹ increased by 4.2 per cent to \$41.0 million while Group EBIT¹ increased by 3.0 per cent to \$38.7 million.

GWA's earnings per share¹ of 10.1 cents improved by 7.3 per cent on the prior year.

GWA continues to focus on higher value product categories and cost management, resulting in Group EBIT margin¹ increasing by 0.1 percentage points to 21.2 per cent.

Group Return on Funds Employed¹ (ROFE) was 1.1 percentage points lower on the prior corresponding period at 20.6 per cent. This reflects an increase in funds employed from higher capital expenditure focused on growth initiatives over the past 12 months and an increase in inventory to support the transition to the new Innovation and Distribution Centre in 2H FY18.

Reported Results – Continuing and Discontinued² Operations

A\$ million (unless specified)	1HFY18	1HFY19	% change
Sales Revenue	226.3	182.6	(19.3)%
EBITDA	44.2	89.5	+102.5%
EBIT	41.8	87.3	+108.9%
NPAT	27.7	76.0	+174.4%
<i>Earnings Per Share (cents)</i>	10.5	28.8	+174.4%

GWA's reported net profit after tax for the period was \$76.0 million. Reported net profit includes the \$50.8 million³ after tax profit for the period on sale of the Door & Access Systems' business which was sold on 3 July 2018, and \$(1.5) million in

² Discontinued Operations include the Door & Access Systems' business which was sold on 3 July 2018.

³ Divestment of Door & Access Systems' had a total gain on sale of \$49.1m.

significant items (after tax) relating to legal / transaction costs incurred for the proposed acquisition of Methven.

Reported earnings per share were 28.8 cents compared to 10.5 cents in the prior corresponding period.

Dividend

The Board resolved to pay an interim dividend of 9 cents per share, fully franked, compared to 8.5 cents per share for the prior corresponding period.

The record date for entitlement to receive the interim dividend will be 22 February 2019 with the dividend being paid on 5 March 2019. The Dividend Reinvestment Plan will not be offered to shareholders for the interim dividend.

Financial Position and Capital Management

GWA remains in a very strong financial position.

Proceeds from the sale of Door & Access Systems were applied to reduce net debt and as a result, GWA had net cash of \$7.1 million as at 31 December 2018.

GWA maintains significant headroom within its three-year revolving \$225 million facility maturing in October 2020 which provides significant financial flexibility to support strategic growth initiatives through the market cycle.

The acquisition of Methven will be funded from GWA's existing facilities and post-acquisition GWA will remain in a strong financial position with pro forma FY18 Net Debt / normalised EBITDA estimated to be approximately 1.6x.⁴

Strong turnaround in Operating Cashflow

GWA continues to focus on effective inventory control and working capital management which has assisted in a 31.6 per cent increase in cashflow from operations to \$48.6 million for the first half.

The transition to the new 30,000 square metre Innovation and Distribution Centre at Prestons, NSW, has been successful and is driving more efficient working capital and inventory management.

Debtor management also contributed to improved working capital.

Capital expenditure was \$1.0 million for the first half FY19 compared to \$3.8 million for the prior corresponding period. The reduction in capital expenditure reflects timing of specific projects and management's decision to delay some specific projects in light of the proposed Methven acquisition.

As a result, GWA now expects capital expenditure for the full year (FY19) to be in the range of \$5-7 million compared to previous guidance of \$10-12 million.

⁴ Pro-forma FY18 net debt is GWA and Methven's FY18 reported net debt adjusted for net proceeds (after transaction costs) of the Door & Access Systems' divestment and adjusted for the acquisition costs of Methven including estimated transaction costs.

Segment Result

Bathrooms & Kitchens

The Bathrooms & Kitchens division continues to deliver solid revenue growth through market share gains and new product development. The ongoing focus on profitable segments and cost discipline continues to drive earnings growth and margin resilience.

A\$ million (unless specified)	1HFY18	1HFY19	% change
Sales Revenue	178.1	182.6	+2.6%
EBITDA	45.4	47.1	+3.8%
EBIT	44.4	45.5	+2.5%
<i>EBIT Margin</i>	24.9%	24.9%	n/a
Return on Funds Employed	25.2%	24.1%	(1.1)ppts

For the 5th consecutive period, GWA's Bathrooms & Kitchens' business increased market share, driving revenue growth of 2.6 per cent compared to the prior corresponding period.

Net sales continue to grow ahead of the market which has remained steady when compared to the prior period.

Sales growth was particularly strong in Victoria (up 19 per cent), New Zealand (up 8 per cent), South Australia (up 6 per cent) and NSW (up 3 per cent), partially offset by declines in QLD (down 10 per cent) and Western Australia (down 13 per cent).

GWA continues to invest behind its core brand portfolio to align its brands more effectively with distinct consumer groups in core segments. The Caroma and Clark brands were relaunched during the period, supported by increased investment in marketing, including digital and traditional media.

Sales of Caroma and Clark increased by 6 and 11 per cent respectively.

EBIT increased by 2.5 per cent to \$45.5 million from improved volume and mix, primarily in sanitaryware.

Ongoing cost discipline and a focus on higher margin segments has enabled GWA to increase its investment in marketing, flagship stores and new product development while maintaining margin.

As a result, EBIT margin of 24.9 per cent remained in line with the prior corresponding period.

FY19 Outlook

The 2HFY19 market conditions are expected to be similar to 1HFY19.

The Renovation and Replacement segment, the largest segment accounting for just over half of GWA's revenue, is expected to remain relatively stable for FY19.

However, GWA expects new residential construction to slow, especially multi-residential, however a significant pipeline of work remains.

In contrast, the commercial new build and renovation sector is expected to continue to grow and GWA's commercial forward order book remains solid with several major Commercial projects secured, primarily across the eastern states.

GWA monitors foreign exchange rates closely and adopts appropriate mitigation strategies. For 2HFY19, approximately 74 per cent of US dollar exposure is hedged to 30 June 2019 at US\$77 cents.

Based on current market conditions, normalised EBIT in the second half for FY19 (pre-significant items) is expected to be similar to the first half FY19 normalised EBIT. This guidance excludes any FY19 earnings contribution from the proposed acquisition of Methven.

Update on proposed Acquisition of Methven Ltd

On 14 December 2018, GWA advised that it had taken a significant step towards strengthening its water solutions strategy and accelerating growth opportunities with the proposed acquisition of Methven Ltd.

Methven is a leading New Zealand-based designer and manufacturer of showers, taps and valves which also has a strong presence in the Australian market and an international footprint.

The proposed acquisition values Methven at NZ\$118 million on an equity value basis and NZ\$140 million on an enterprise value basis (excluding transaction and integration costs) and will be funded from GWA's existing debt facilities.

The proposed transaction remains subject to obtaining New Zealand OIO consent and customary completion conditions (including Methven shareholder approval and court approval).

Currently the shareholder meeting is scheduled on 12 March 2019 with the initial court hearing having occurred on the 7th February 2019 and the final court hearing scheduled on 27 March 2019. Subject to timing of receipt of OIO consent the scheme is expected to be implemented in mid-April.

GWA will continue to advise the market of updates on the transaction.

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GWA Group Limited
and its controlled entities

ABN 15 055 964 380

31 December 2018
Interim Financial Report

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Directors' Report

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 2018.

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 the entire period.

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

Review of Operations

A review of operations for the Group for the half year ended 31 December 2018 and the results of those operations are set out in the Appendix 4D commentary.

On 14 December 2018 the Group announced its proposed acquisition of Methven Limited.

Interim Dividend

The directors have declared a fully franked interim dividend to shareholders of 9.0 cents per share. The record date for the interim dividend is 22 February 2019 and is payable on 5 March 2019. 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 2018.

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, 18 February 2019



Tim R Salt
Managing Director

Consolidated statement of profit or loss and other comprehensive income

For the half year period ended 31 December In thousands of AUD	Note	2018	2017 * Restated
Profit or loss			
Continuing operations			
Sales revenue		182,647	178,102
Cost of sales		(104,415)	(100,104)
Gross profit		78,232	77,998
Other income		1,458	209
Selling expenses		(23,931)	(23,757)
Administrative expenses		(17,005)	(16,585)
Other expenses		(14)	(238)
Operating profit (excluding transaction costs)		38,740	37,627
Transaction costs on proposed business combination		(1,495)	-
Operating profit	5	37,245	37,627
Finance income		211	221
Finance expenses		(1,352)	(2,606)
Net financing costs		(1,141)	(2,385)
Profit before tax	5	36,104	35,242
Income tax expense	8	(10,919)	(10,416)
Profit from continuing operations		25,185	24,826
Discontinued operations			
Profit from discontinued operations, net of income tax	6	50,802	2,906
Profit for the period		75,987	27,732
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign subsidiaries, net of tax		288	(211)
Cashflow hedges, net of tax		(358)	872
Other comprehensive income, net of tax		(70)	661
Total comprehensive income for the period		75,917	28,393
Earnings per share (cents)			
Total			
- Basic		28.8	10.5
- Diluted		28.7	10.5
Continuing operations (excluding transaction costs)			
- Basic		10.1	9.4
- Diluted		10.0	9.4
Continuing operations			
- Basic		9.5	9.4
- Diluted		9.5	9.4

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

* The Door & Access Systems' business was sold with an effective date of 3 July 2018 and is classified as a discontinued operation, including for comparative purposes, in the above statement. Refer to Note 6 for further information regarding discontinued operations. Refer to Note 3 for information on the impact of the adoption of AASB 15 Revenue from Contracts with Customers, including restatement of comparatives.

Consolidated statement of financial position

As at	Note	31 Dec 2018	30 June 2018
In thousands of AUD			
Current assets			
Cash and cash equivalents		32,875	27,860
Trade and other receivables		52,406	66,253
Inventories		65,492	70,029
Other		3,812	2,413
Assets classified as held for sale*	6	-	61,912
Total current assets		154,585	228,467
Non-current assets			
Deferred tax assets		9,057	10,175
Property, plant and equipment		14,413	14,906
Intangible assets		286,498	286,808
Other		202	297
Total non-current assets		310,170	312,186
Total assets		464,755	540,653
Current liabilities			
Trade and other payables		41,176	46,200
Employee benefits		4,117	4,371
Income tax payable		1,641	6,532
Provisions		4,697	6,348
Liabilities classified as held for sale*	6	-	12,025
Total current liabilities		51,631	75,476
Non-current liabilities			
Trade and other payables		720	718
Loans and borrowings	7	25,000	125,000
Employee benefits		3,871	4,427
Provisions		1,067	1,631
Total non-current liabilities		30,658	131,776
Total liabilities		82,289	207,252
Net assets		382,466	333,401
Equity			
Issued capital		307,790	307,790
Reserves		2,604	4,451
Retained earnings		72,072	21,160
Total equity		382,466	333,401

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

* The Door & Access Systems' business was sold with an effective date of 3 July 2018 and is classified as a discontinued operation. The assets and liabilities associated with the Door & Access Systems' business were classified as held for sale as at 30 June 2018. Refer to Note 6 for further information regarding discontinued operations. Refer to Note 3 for information on the impact of the adoption of AASB 15 Revenue from Contracts with Customers, including restatement of comparatives.

Consolidated statement of cash flows

For the half year period ended 31 December
In thousands of AUD

	2018	2017
Cash flows from operating activities		
Receipts from customers	216,280	263,419
Payments to suppliers and employees	(169,697)	(220,270)
Cash generated from operations	46,583	43,149
Interest and facility fees paid	(1,568)	(2,818)
Interest received	211	221
Income taxes paid	(13,341)	(14,057)
Net cash from operating activities	31,885	26,495
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	-	7
Acquisition of property, plant and equipment	(769)	(2,773)
Acquisition of intangible assets	(240)	(998)
Proceeds from business disposal, net of transaction costs	99,282	-
Net cash from / (used in) investing activities	98,273	(3,764)
Cash flows from financing activities		
Proceeds from borrowings	20,000	6,000
Repayment of borrowings	(120,000)	(3,000)
Dividends paid	(25,075)	(23,755)
Capital return to holders of LTI grants	-	(48)
Net cash used in financing activities	(125,075)	(20,803)
Net increase in cash and cash equivalents	5,083	1,928
Cash and cash equivalents at the beginning of the year	27,860	36,360
Effect of exchange rate changes	(68)	(129)
Cash and cash equivalents at 31 December	32,875	38,159

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

The Door & Access Systems' business was sold with an effective date of 3 July 2018 and is classified as a discontinued operation. The above cash flows are inclusive of discontinued operations. Refer to Note 6 for further information regarding discontinued operations including summarised cash flow information.

Consolidated statement of changes in equity

For the half year period ended 31 December 2018

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
Total comprehensive income for the period						
Profit for the period	-	-	-	-	75,987	75,987
Other comprehensive income						
Exchange differences on translation of foreign subsidiaries, net of tax	-	288	-	-	-	288
Cash flow hedges, net of tax	-	-	(358)	-	-	(358)
Total other comprehensive income	-	288	(358)	-	-	(70)
Total comprehensive income	-	288	(358)	-	75,987	75,917
Transaction with owners, recorded directly in equity						
Share-based payments, net of tax	-	-	-	(1,777)	-	(1,777)
Dividends paid	-	-	-	-	(25,075)	(25,075)
Total transactions with owners	-	-	-	(1,777)	(25,075)	(26,852)
Balance at 31 December 2018	307,790	(873)	2,877	600	72,072	382,466

For the half year period ended 31 December 2017

In thousands of AUD

	Share capital	Translation reserve	Hedging reserve	Equity compensation reserve	Retained earnings	Total
Balance as at 1 July 2017	307,838	(993)	(1,785)	2,444	13,099	320,603
Total comprehensive income for the period						
Profit for the period	-	-	-	-	27,732	27,732
Other comprehensive income						
Exchange differences on translation of foreign subsidiaries, net of tax	-	(211)	-	-	-	(211)
Cash flow hedges, net of tax	-	-	872	-	-	872
Total other comprehensive income	-	(211)	872	-	-	661
Total comprehensive income	-	(211)	872	-	27,732	28,393
Transaction with owners, recorded directly in equity						
Share-based payments, net of tax	(48)	-	-	(505)	-	(553)
Dividends paid	-	-	-	-	(23,755)	(23,755)
Total transactions with owners	(48)	-	-	(505)	(23,755)	(24,308)
Balance at 31 December 2017	307,790	(1,204)	(913)	1,939	17,076	324,688

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

Notes to the interim financial statements

1. Reporting entity

GWA Group Limited (the 'Company') is a for-profit company domiciled in Australia. The consolidated interim financial report of the Company as at and for the half year period ended 31 December 2018 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 2018 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 2018.

This consolidated interim financial report was approved for issue by the Board of Directors on 18 February 2019.

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 2018, 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 2018:

-) AASB 9 Financial Instruments
-) AASB 15 Revenue from Contracts with Customers ⁽¹⁾
-) AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions
-) AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration

Except for AASB 15 detailed below, the initial adoption of the above Standards and Interpretations have not had a material impact on the amounts reported, or disclosures made, in the consolidated interim financial report.

⁽¹⁾ AASB 15 Revenue from Contracts with Customers

The full retrospective transition method has been applied in adopting AASB 15. The measurement and recognition impact of this standard is currently limited to accounting for estimated future stock returns.

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

The impact accounted for in the consolidated interim financial report is a \$0.8m decrease to sales revenue and cost of sales for the 31 December 2017 Income Statement, and increases in inventories (\$1.9m), trade and other receivables (\$2.8m), and trade and other payables (\$4.7m) for the 30 June 2018 Balance Sheet.

The consolidated entity's revised revenue accounting policy in accordance with AASB 15 is as follows:

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. Key components of the transaction price include the price for the goods, along with retrospective rebates and stock return estimates.

Notes to the interim financial statements (continued)

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 2018.

5. Operating segments

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

Discontinued operations includes the Door & Access Systems' business that was sold with an effective date of 3 July 2018. Refer to Note 6 for further information regarding discontinued operations.

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

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

in thousands of AUD	Bathrooms & Kitchens		Discontinued		Total	
	2018	2017	2018	2017	2018	2017
For the half year period ended 31 December						
Sales revenue	182,647	178,102	-	48,237	182,647	226,339
Segment EBIT before gain on sale	45,539	44,426	-	4,138	45,539	48,564
Gain on sale ⁽¹⁾	-	-	50,060	-	50,060	-
Segment EBIT	45,539	44,426	50,060	4,138	95,599	48,564
Depreciation	1,596	963	-	591	1,596	1,554
Amortisation	-	-	-	203	-	203
Capital expenditure	767	2,248	-	473	767	2,721
As at	31 Dec 2018	30 June 2018	31 Dec 2018	30 June 2018	31 Dec 2018	30 June 2018
Reportable segment assets	413,215	430,765	-	57,612	413,215	488,377
Reportable segment liabilities	41,564	46,758	-	12,025	41,564	58,783

⁽¹⁾ Gain on sale of discontinued operations excluding tax benefit. Refer to Note 6 for further information regarding the gain on sale of discontinued operations.

Continuing sales revenue by geographical location of customer

In thousands of AUD	Australia		New Zealand		Total	
	2018	2017	2018	2017	2018	2017
For the half year period ended 31 December						
Sales revenue	169,846	165,939	12,801	12,163	182,647	178,102

Notes to the interim financial statements (continued)

5. Operating segments (continued)

Reconciliations of reportable segment revenues and profit or loss

In thousands of AUD	2018	2017
Revenues		
Total revenue for reportable segments	182,647	226,339
Elimination of discontinued operations	-	(48,237)
Consolidated revenue	182,647	178,102
Profit		
Total EBIT for reportable segments	95,599	48,564
Elimination of discontinued operations	(50,060)	(4,138)
Transaction costs	(1,495)	-
Unallocated amounts: corporate expenses	(6,799)	(6,799)
EBIT from operating activities	37,245	37,627
Net financing costs	(1,141)	(2,385)
Consolidated profit before tax	36,104	35,242

6. 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, and classified as held for sale as at 30 June 2018. The comparative statement of comprehensive income has therefore been re-presented to show discontinued operations separately from continuing operations.

(a) Results of discontinued operations

In thousands of AUD	2018	2017
For the half year period ended 31 December		
Revenue	-	48,237
Expenses	-	(44,099)
Profit before tax from operating activities	-	4,138
Tax expense on operating activities	-	(1,232)
Profit from operating activities	-	2,906
Gain on sale of discontinued operations ⁽¹⁾	50,802	-
Profit	50,802	2,906
Basic earnings per share (cents per share)	19.2	1.1
Diluted earnings per share (cents per share)	19.2	1.1

⁽¹⁾ Gain on sale of discontinued operations

For the half year period ended 31 December 2018	
Consideration proceeds	105,370
Net assets and liabilities	(50,595)
Disposal costs	(4,715)
Tax benefit on disposal costs	742
	50,802
For the year ended 30 June 2018	
Disposal costs	(1,860)
Tax benefit on disposal costs	188
	(1,672)
Total gain on sale of discontinued operations	49,130

Notes to the interim financial statements (continued)

6. Discontinued operations (continued)

(b) Cash flows from discontinued operations

In thousands of AUD

For the half year period ended 31 December	2018	2017
Net cash from operating activities	-	5,784
Net cash from / (used in) investing activities ⁽²⁾	99,282	(469)
Net cash from discontinued operations	99,282	5,315

⁽²⁾ Including net cash inflow from disposal of discontinued operations:

Consideration proceeds	105,370	-
Cash and cash equivalents disposed of	(1,210)	-
	104,160	-
Disposal costs cash flows	(4,878)	-
Proceeds from business disposal, net of transaction costs	99,282	-

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

In thousands of AUD	As at 30 June
	2018
Cash	1,210
Trade and other receivables	10,027
Inventories	17,106
Other assets	136
Property, plant and equipment	3,530
Intangible assets	26,803
Net deferred tax assets	3,100
Assets classified as held for sale	61,912
Trade and other payables	(6,380)
Employee benefits	(4,625)
Provisions	(1,020)
Liabilities classified as held for sale	(12,025)

7. Loans and borrowings

The consolidated entity has unsecured bank loans of \$25,000,000 as at 31 December 2018 (30 June 2018: \$125,000,000). The notional amount of the interest-bearing loans is deemed to reflect the fair value.

The syndicated banking facility comprises a single revolving facility of \$225,000,000 which matures in October 2020.

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.

Notes to the interim financial statements (continued)

8. Income tax expense

Recognised in profit or loss

In thousands of AUD	2018	2017
For the half year period ended 31 December		
Current tax expense from continuing operations	9,648	9,299
Current year	-	-
Adjustments for prior years	9,648	9,299
Deferred tax expense from continuing operations		
Origination and reversal of temporary differences	1,271	1,117
Tax expense from continuing operations	10,919	10,416
Tax (benefit) / expense from discontinued operations	(742)	1,232
Total tax expense for the consolidated entity	10,177	11,648

Numerical reconciliation between tax expense and pre-tax profit

For the half year period ended 31 December	2018	2017
In thousands of AUD		
Profit from continuing operations before tax	36,104	35,242
Profit from discontinued operations before tax	50,060	4,138
Profit before tax for the consolidated entity	86,164	39,380
Tax expense using the domestic rate of 30% (2017: 30%)	25,849	11,814
Tax expense / (benefit) due to:		
Non-deductible expenses	57	60
Non-deductible transaction costs on proposed business combination	404	-
Non-assessable accounting gain on disposal of discontinued operations on capital account	(15,760)	-
Other items	(373)	(226)
	10,177	11,648
(Over) / under provided in prior years	-	-
Income tax expense on pre-tax profit for the consolidated entity	10,177	11,648

9. Dividends

Dividends recognised and paid:	Cost per share In cents	Total amount In thousands of AUD
For the half year period ended 31 December 2018:		
Final 2018 ordinary dividend paid 6 September 2018	9.5	25,075
For the half year period ended 31 December 2017:		
Final 2017 ordinary dividend paid 5 September 2017	9.0	23,755

Dividends declared after the balance date:

On 18 February 2019, the Board declared a fully franked interim ordinary dividend of 9.0 cents per share with the record date for entitlement to dividends being 22 February 2019 and is payable on 5 March 2019. Based on 263,947,630 shares outstanding at 31 December 2018, the aggregate dividend payable will be \$23,755,287.

Notes to the interim financial statements (continued)

10. 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	Level 1	Level 2	Level 3	Total
As at 31 December 2018				
Forward exchange contracts used for hedging	-	4,289	-	4,289
Interest rate swaps used for hedging	-	(178)	-	(178)
	-	4,111	-	4,111
As at 30 June 2018				
Forward exchange contracts used for hedging	-	4,777	-	4,777
Interest rate swaps used for hedging	-	(156)	-	(156)
	-	4,621	-	4,621

11. Subsequent events

To the Directors' best knowledge, there are no events that have arisen subsequent to 31 December 2018 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 2018 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 18 February 2019.

Signed in accordance with a resolution of the directors:



Darryl D McDonough
Chairman



Tim R Salt
Managing Director



Independent Auditor's Review Report

To the members of GWA Group Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying **Interim Financial Report** of GWA Group Limited (the Group).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of GWA Group Limited 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 2018 and of its performance for the **Interim Period** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 2018;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Interim Period ended on that date;
- Notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The **Group** comprises GWA Group Limited (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

The **Interim Period** is the 6 months ended on 31 December 2018.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

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Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim 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 Interim 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 2018 and its performance for the interim period 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 an Interim Period 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.

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

KPMG

KPMG

Julie Cleary

Partner

Sydney

18 February 2019

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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 of GWA Group Limited for the half-year ended 31 December 2018 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

Julie Cleary
Partner

Sydney
18 February 2019

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