

# **Appendix 4E**

## **Annual Financial Report**

**GUD Holdings Limited**  
**(ABN 99 004 400 891)**

**Year Ended 30 June 2019**

**Previous corresponding period:**  
**Year Ended 30 June 2018**

## Results for Announcement to the Market

### For the year ended 30 June 2019

| Results from operations   | Change to/from<br>\$'000 prior year |        |    | \$'000  |
|---|-------------------------------------|--------|----|---------|
| Revenue   | Up                                  | 9%     | to | 434,077 |
| Profit / (loss) from operations after tax   | Down                                | 42,288 | to | 59,558  |
| Reported operating profit from continuing operations before interest and tax          | Up                                  | 13%    | to | 87,037  |
| Add back: Restructuring and transaction costs, before tax                             |                                     |        |    | 1,868   |
| Underlying profit from continuing operations before interest and tax*                 | Up                                  | 6%     | to | 88,905  |
| Reported net profit from continuing operations for the period attributable to members | Up                                  | 18%    | to | 59,558  |
| Add back: Restructuring and transaction costs, after tax                              |                                     |        |    | 1,322   |
| Underlying profit from continuing operations after tax attributable to members        | Up                                  | 10%    | to | 60,880  |
| Operating cash flows  | Down                                | 25%    | to | 44,524  |

\* Underlying profit after tax and underlying profit before interest and tax are non-IFRS measures that have not been subject to audit or review.

| Earnings per Share (EPS)                              | Year ended 30 June |                 |
|---|--------------------|-----------------|
|   | 2019               | 2018            |
|   | Cents per share    | Cents per share |
| <b>Earnings per share from continuing operations:</b> |                    |                 |
| Basic EPS   | 68.9               | 58.6            |
| Diluted EPS   | 68.4               | 58.1            |
| Underlying basic EPS                                  | 70.4               | 64.1            |
| Underlying diluted EPS                                | 69.9               | 63.5            |

| Dividends  | Amount per security | Percentage franked        |
|--|---------------------|---------------------------|
| Final dividend   | 31 cents            | 100%                      |
| Date the dividend is payable                                 |                     | 30 August 2019            |
| Record date for determining entitlements to the dividend     |                     | 16 August 2019            |
| Trading ex-dividend  |                     | 15 August 2019            |
| <b>Interim Dividend</b>                                      |                     | <b>Percentage franked</b> |
| In respect of the 2019 financial year as at 31 December 2018 | 25 cents            | 100%                      |
| In respect of the 2018 financial year as at 31 December 2017 | 24 cents            | 100%                      |
| <b>Final Dividend</b>  |                     |                           |
| In respect of the 2019 financial year as at 30 June 2019     | 31 cents            | 100%                      |
| In respect of the 2018 financial year as at 30 June 2018     | 28 cents            | 100%                      |

| Net debt | As at 30 June |        |
|----------|---------------|--------|
|          | 2019          | 2018   |
| Net debt | 132,721       | 92,454 |

| Net Tangible Assets (NTA) | As at 30 June |        |
|---------------------------|---------------|--------|
|                           | 2019          | 2018   |
| NTA                       | 28,927        | 30,515 |
| NTA per share             | 0.33          | 0.35   |

This preliminary final report is based on financial statements which have been audited.

Refer to the media release for a brief explanation of the figures reported above.



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26 July 2019

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**GUD Holdings Limited results for year ended 30 June 2019**

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**GUD reports 10% growth in Underlying NPAT from continuing operations and increased full year dividends**

GUD Holdings Limited today announced a reported net profit after tax, for the year ended 30 June 2019, of \$59.6 million. This result is down \$42.2 million from a profit of \$101.8 million in the previous corresponding period which included a contribution from discontinued operations, being Oates of \$51.4 million of which \$51.5 million was the gain from the sale of the Oates business. Reported net profit after tax from continuing operations was up 18% to \$59.6 million.

Underlying NPAT from continuing operations of \$60.9 million was up 10% on the result for the same period last year. The continuing operations include the Automotive businesses and Davey, with Oates being re-classified in the prior year result as a discontinued operation following the November 2017 announcement of its sale. Underlying NPAT excludes pre-taxation non-recurring items of \$1.9 million involving Davey restructuring costs and onerous lease and relocation cost accruals related to the FY20 relocation into a single New Zealand automotive distribution facility and a tax benefit of \$2.5 million from the release of a tax provision.

Revenue from continuing operations was up 9% to \$434 million generated from the Automotive and Davey businesses recording limited organic growth and stronger growth from acquisition. Underlying EBIT from continuing operations was \$88.9 million, an increase of 6% from last year's \$83.5 million.

Net debt increased to \$132.7 million from \$92.4 million following the acquisition of Disc Brakes Australia, an earn-out payment for IM Group in respect of their FY18 performance, a further investment in Liftango, and an increase in net working capital in the first half of the year.

A final dividend of 31 cents per share fully franked was announced, an increase of 11% on last year's final dividend. The full year dividend increased to 56 cents, fully franked, up from 52 cents previously which represents a payout of 80% on underlying basic earnings per share from continuing operations and an increase in full year dividends of 8%. The dividend is payable on 30 August 2019.

"I'd like to acknowledge the hard work of the GUD team in delivering the overall results and note there is more to do next year. The year ended much softer than it started with business conditions challenging us. The top-line increase of 12% primarily came from acquired businesses and much less so our existing businesses. The resulting NPAT increase of 18% was a solid outcome, even stripping out the beneficial tax provision release we still achieved a 13% improvement. It was pleasing to deliver a strong full year dividend to our shareholders with a payout ratio in-line with previous years" said Mr Whickman.

Mr Whickman went on to say “I am heartened our businesses won a range of customer awards demonstrating our strong customer focus, product excellence and service delivery excellence. Securing government innovation grant funding in two automotive businesses and Davey’s product expansion “green shoots” are positive signs for the future. Finally, I am particularly encouraged by the leadership team changes, which have overwhelming been from within the Group, and how they have settled in their new roles.”

### Segment Summary - for the year to 30 June 2019

| \$ million                         | Revenue      |              |           | Underlying EBIT |             |           |
|------------------------------------|--------------|--------------|-----------|-----------------|-------------|-----------|
|                                    | 2018         | 2019         | % change  | 2018            | 2019        | % change  |
| <b>Automotive</b>                  | 295.6        | 330.0        | 12%       | 83.2            | 87.4        | 5%        |
| <b>Davey</b>                       | 101.1        | 104.1        | 3%        | 9.2             | 9.4         | 3%        |
| <b>Unallocated</b>                 | -            | -            |           | (8.9)           | (7.9)       |           |
| <b>Total Continuing Operations</b> | 396.7        | 434.1        | 9%        | 83.5            | 88.9        | 6%        |
| <b>Discontinued Operations</b>     | 36.1         | -            |           | 4.6             | -           |           |
| <b>Total</b>                       | <b>432.7</b> | <b>434.1</b> | <b>0%</b> | <b>88.1</b>     | <b>88.9</b> | <b>1%</b> |

Notes: Minor differences are due to rounding.

Further information in relation to the above is available in Note 7: Segment Information in Appendix 4E – Annual Financial Report.

### Automotive Products Underlying EBIT increased 5% to \$87.4 million

The Automotive business reported sales growth of 12%, which consisted of organic growth of 1% and the balance coming from the acquired businesses involving an additional five months’ contribution from AA Gaskets and a full twelve months from Disc Brakes Australia.

Wesfil’s revenue and EBIT contributions continued to grow again, underpinned by filtration and product range expansion in both hard parts and accessories dedicated to their independent reseller customer base. Wesfil was awarded the Queensland Auto One Supplier of the Year.

Sales growth in the Ryco filter business continues to flow from part number expansion to meet the changing needs of the car population and Ryco’s unrivalled user conversion program again with over 400 “conquest” customer workshop gains during the year. In addition, Ryco again introduced new filter ranges and continued its expansion into light truck applications, and introduced other new innovative products. Ryco once again received several supplier awards from its customer base.

Disc Brakes Australia, which was acquired on 2 July 2018, finished the year well ahead of expectations with double digit growth in both domestic and export sales. DBA’s excellent export result was recognised by the Automobile Aftermarket Association of Australia who awarded them a Silver Award for exporter of the year.

AA Gaskets was impacted by new commercial terms for a major reseller as part of a five-year exclusive supplier agreement and is implementing a multi-initiative change program to recover lost ground in the mid-term. IM Group was also impacted by a major customer giving preference to home brands over the Goss offering, resulting in loss of market share. IM Group is using Wesfil more actively to reach other customers and is assessing profit improvement opportunities for its remanufacturing and repair activities in the near to mid-term.

Brown & Watson’s (BWI) sales were flat over the prior year, impacted by the loss of some low complexity commodity items to home brands and reseller inventory holding level caution in the second half which is also reflected in disappointing sales from the new catalogue product items. BWI was also awarded PACCAR’s Parts Supplier of the Year and Kenworth’s Supplier of the Year (Category B).

### **Davey Underlying EBIT increased 3% to \$9.4 million**

Davey reported a 3% increase in full year sales to \$104.0 million, with sales growth in all regions.

The full year underlying EBIT was up 3% to \$9.4 million compared to \$9.2 million in the previous corresponding period, notwithstanding resources committed to innovation and product cycle plan efforts. The reported EBIT for Davey of \$8.6 million includes one-off costs, principally from moving the fire fighter range from own to contract assembly.

Davey is continuing to focus on its business fundamentals including operational effectiveness, design for manufacture and supply chain efficiency, product innovation, refreshing existing products, and the commercialisation of the Modular Water Treatment technology. Davey received the Supplier of the Year from Taylex.

### **Outlook**

GUD remains well positioned for the medium to long term horizon. The automotive division maintains strong brands, products and customer service in support of a large and proliferated Car parc which GUD believes is strongly defensible. We are also pleased with recent multi-year preferred supplier agreements and will work to provide strong partnership outcomes as we move forward.

Davey has a clear strategic vision and is focused to execute its strategic plan with urgency. We expect to see continuing green shoots as Davey progresses over the next 24 months and pull through the potential value of the water segment.

In 2019-20 we expect further revenue and EBIT growth in both the automotive and water businesses, although economic sentiment and recent demand suggests growth will be modest.

We will not reduce our innovation, new product development or renewal, or acquisition activity. However, we are expanding efforts to address operating efficiency utilising our growing scale and commonality.

We remain committed to ensuring we have the right foundations in place for long-term growth and shareholder value. In the current environment, during FY20 we expect to focus on the fundamentals for long term value balanced against short term EBIT growth.

Mr Whickman noted “after nine months in the business, the challenges we face in the year ahead are clear to me. I am excited by the opportunities we face, and the foundational steps we have taken in FY19. We have a seasoned leadership team, engaged employees, many enviable market and product positions, but note that FY20 will be a year of consolidation to position the company to achieve sustainable profitable growth and continuing solid shareholder returns.”

### **For further information:**

Graeme Whickman

Managing Director

GUD Holdings Limited

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## Directors' Report

The Directors of GUD Holdings Limited (the Company) present their report on the consolidated entity, being the Company and its subsidiaries, for the year ended 30 June 2019.

### Directors

The names of the Directors who held office during the financial year and details of their qualifications, experience and special responsibilities are as follows:

**M G Smith\***

***Dip. Business (Marketing) FAMI CPM FIML FAICD***

Appointed Non-Executive Director on 26 May 2009 and Chairman

Mr Smith is currently a Non-Executive Director and Chairman of Australian Pharmaceutical Industries Limited (appointed 6 September 2017). He is a former Non-Executive Director and Chairman of Patties Foods Limited (retired September 2017), a former Non-Executive Director of Toll Holdings Limited (retired May 2015), and a former Non-Executive Director and Chairman of Food Holdings Limited (retired August 2011).

Mr Smith was Managing Director of Cadbury Schweppes Australia and New Zealand (2003 to 2007) and a member of the Asia Pacific Regional Board. Over a 16-year career with the Cadbury Schweppes group he held senior management positions in Australia, the UK and North America. Prior to joining Cadbury Schweppes Mr Smith's career included senior management roles with Unilever and Uncle Toby's.

**A L Templeman-Jones\***

***BComm MRM EMBA CA FAICD***

Appointed Non-Executive Director on 1 August 2015, and Chair of the Risk and Compliance Committee

Ms Templeman-Jones is currently a Non-Executive Director of Commonwealth Bank of Australia (appointed 5 March 2018), a Non-Executive Director of Worley Parsons Limited (appointed 1 November 2017) and a Non-Executive Director of The Citadel Group Limited (appointed 8 September 2017), where she is Chair of the Audit, Risk and Compliance Committee. Anne previously served as a Non-Executive Director of HT & E Limited (formerly APN News & Media Limited) (retired May 2018), Cuscal Limited (retired March 2018), Pioneer Credit Limited (retired November 2016), Notre Dame University (retired December 2016) and HBF Health Limited (retired October 2014).

Ms Templeman-Jones has considerable executive experience in institutional and commercial banking, wealth management and insurance, having previously held a number of senior executive roles within Westpac and ANZ.

**G A Billings\***

***BCom FCA MAICD***

Appointed Non-Executive Director on 20 December 2011, and Chair of the Audit Committee

Mr Billings retired from PricewaterhouseCoopers in 2011 after 34 years, where he was head of the Melbourne Assurance practice as well as heading the firm's Australian and Global Industrial Products business.

Mr Billings is currently a Non-Executive Director of Korvest Limited (appointed May 2013) and became Chairman of that company in September 2014, a Non-Executive Director and Chairman of Azure Healthcare Ltd (appointed 21 October 2015), a Non-Executive Director of Clover Corporation Limited (appointed 20 May 2013) where he is Chair of the Audit Committee, and a Non-Executive Director of DomaCom Limited (appointed 23 February 2015) where he is Chair of the Audit Committee.

**D D Robinson\***

***BSc MSc***

Appointed Non-Executive Director on 20 December 2011, and Chair of the Remuneration Committee

Mr Robinson spent the past 22 years prior to joining the Board with global automotive parts, general industrial and consumer products manufacturer and marketing company Robert Bosch GmbH.

In that time he has worked in the USA, Germany and Australia and had responsibility for sales, marketing, engineering, manufacturing, accounting and personnel. He was President of Robert Bosch Australia and Robert Bosch New Zealand.

## **G Whickman**

**B Bus MAICD**

Appointed Managing Director and Chief Executive Officer of the Company with effect from 1 October 2018. Mr Whickman was previously President and Chief Executive Officer of Ford Australia and New Zealand (2015 – 2018). He had a 20-year career with Ford with senior executive roles in Asia Pacific, Europe and North America.

## **J P Ling**

**BEng MBA FAICD**

Former Managing Director and Chief Executive Officer from 1 August 2013 to 30 September 2018.

Mr Ling is a Non-Executive Director of Pact Group Holdings Ltd.

Mr Ling was previously CEO and Managing Director of Fletcher Building Limited (2006 to 2012).

\* All Non-Executive Directors are independent.

## **Corporate Executives**

### **Chief Financial Officer**

#### **M A Fraser**

**B Bus EMBA GAICD FCA**

Mr Fraser's early career was with Coopers & Lybrand in Australia, followed by over 25 years in senior finance and operational roles in Asia and Europe with McIntosh Hamson Hoare Govett, Jardine Matheson Ltd and the Schindler Group.

### **Company Secretary**

#### **M G Tyler**

**LLB BCom (Hons) MBA AGIA MAICD**

Mr Tyler is an associate of Governance Institute Australia, a former partner with Freehills and general counsel with Southcorp Limited. He has held a legal practicing certificate in Victoria for 33 years.

## **Directors' Attendances at Meetings**

The Board held nine meetings during the year.

Meetings are generally held monthly, with ad hoc meetings called to consider specific or urgent matters.

|                         | Board |          | Audit Committee |          | Risk & Compliance Committee |          | Nominations Committee |          | Remuneration Committee |          |
|-------------------------|-------|----------|-----------------|----------|-----------------------------|----------|-----------------------|----------|------------------------|----------|
| Directors               | Held  | Attended | Held            | Attended | Held                        | Attended | Held                  | Attended | Held                   | Attended |
| M G Smith               | 9     | 9        | 4               | 4        | 4                           | 4        | 1                     | 1        | 7                      | 7        |
| A L Templeman-Jones     | 9     | 9        | 4               | 4        | 4                           | 4        | 1                     | 1        | 7                      | 7        |
| G A Billings            | 9     | 9        | 4               | 4        | 4                           | 4        | 1                     | 1        | 7                      | 7        |
| D D Robinson            | 9     | 9        | 4               | 4        | 4                           | 4        | 1                     | 1        | 7                      | 7        |
| G Whickman <sup>1</sup> | 7     | 7        | -               | -        | -                           | -        | -                     | -        | -                      | -        |
| J P Ling <sup>2</sup>   | 2     | 1        | -               | -        | -                           | -        | -                     | -        | -                      | -        |

<sup>1</sup> G Whickman joined the Board on 1 October 2018 on his appointment as Managing Director and Chief Executive Officer. He attends committee meetings by invitation

<sup>2</sup> J P Ling retired as Managing Director on 30 September 2018

It is the Board's practice that the Non-Executive Directors meet regularly without the presence of Management.



## Directors' Interests and Benefits

Directors are not required to hold shares in the Company. The current shareholdings are shown in the table below.

| Directors                | Shares held beneficially |                         |                    |                    |
|--------------------------|--------------------------|-------------------------|--------------------|--------------------|
|                          | Own name                 | Private company / trust | Total 30 June 2019 | Total 30 June 2018 |
| A L Templeman-Jones      | 540                      | 5,902                   | 6,442              | 5,042              |
| M G Smith                | -                        | 58,000                  | 58,000             | 41,000             |
| G A Billings             | -                        | 11,250                  | 11,250             | 11,250             |
| D D Robinson             | -                        | 13,000                  | 13,000             | 13,000             |
| G. Whickman <sup>1</sup> | 2,000                    | -                       | 2,000              | -                  |
| J P Ling <sup>2</sup>    | 100,894                  | -                       | 100,894            | 306,532            |

<sup>1</sup> Appointed as director on 1 October 2018

<sup>2</sup> Ceased as a director on 30 September 2018

## Corporate Governance Statement

The Corporate Governance Statement of the Directors, is separately lodged with ASX, and forms part of this Directors' Report. It may also be found on the Company's website at [www.gud.com.au](http://www.gud.com.au).

## Principal Activities

The principal activities of the consolidated entity during the course of the financial year were the manufacture and importation, distribution and sale of automotive products, pumps, pool and spa systems, and water pressure systems, with operations in Australia, New Zealand, France and Spain.

Other than as referred herein and in the Operating and Financial Review set out on pages 7-14, there were 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 the financial year forms part of this Directors' Report.

## Significant Changes

On 2 July 2018, the Company completed the acquisition of Disc Brakes Australia Pty Ltd ("DBA") for \$22.128 million. The business will be positioned as a premium disc rotors and pads supplier across Australia, New Zealand, USA and Europe.

### Share Capital

At 30 June 2019, there were 86,485,972 (2018: 86,185,698) ordinary shares on issue.

### Dividends

During and since the end of the financial year, the following dividends have been paid or declared.

- A final ordinary dividend of 28 cents per share in respect of the year ended 30 June 2018 was declared on 27 July 2018, and paid on 31 August 2018 amounting to \$24,216,072. This dividend was fully franked.
- An interim ordinary dividend of 25 cents per share in relation to the half year ended 31 December 2018 was declared on 30 January 2019 and paid on 1 March 2019, amounting to \$ 21,514,275. This dividend was fully franked.
- A final ordinary dividend of 31 cents per share in respect of the year ended 30 June 2019 was determined on 26 July 2019, and is payable on 30 August 2019 to shareholders registered on 16 August 2019. This dividend will be fully franked. Shares will trade ex-dividend on 15 August 2019. The GUD Dividend Reinvestment Plan remains suspended for this dividend.

### Auditor Independence

There is no current or former partner or director of KPMG, the Company's auditors, who is or was at any time during the financial year an officer of the consolidated entity.

The auditor's independence declaration made under section 307C of the *Corporations Act 2001* is set out on page 97 of the accompanying Financial Statements and forms part of this Report.

### Non-Audit Services

Details of the amounts paid or payable to the Company's auditors, KPMG, for non-audit services provided during the year are shown in Note 6 to the financial statements, which accompany this Directors' Report.

The Directors are satisfied that the provision of such non-audit services is compatible with the general standard of independence for auditors imposed by, and did not compromise the auditor independence requirements of, the *Corporations Act 2001* in view of both the amount and the nature of the services provided, and that all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor.

### Options and Rights

During the year a total of 253,762 Performance Rights were granted to executives under the GUD Holdings 2021 Long Term Incentive Equity Plan. This included 30,134 Performance Rights granted to the Managing Director in October 2018 after receiving approval of shareholders at the 2018 Annual General Meeting.

As a result of meeting TSR targets, 215,202 performance rights granted in July 2016 vested and 101,346 performance rights lapsed in relation to the GUD Holdings 2019 Long Term Incentive Equity Plan.

In addition, as a result of executives departing the Group during the year, a total of 84,221 Performance Rights were determined by the Board to have lapsed.

Details of the Performance Rights granted to key management personnel are included in the Remuneration Report, which forms part of this Directors' Report.

Except as above, no options or rights were granted during the year and no options or rights have been granted or lapsed since the end of the financial year. No options were exercised during the financial year. There are no unissued shares or interests under option as at the date of this Report.

### Derivatives and Other Financial Instruments

It is the consolidated entity's policy to use derivative financial instruments to hedge cash flows subject to interest rate and foreign exchange risk according to a policy approved by the Board.

Derivative financial instruments are not held for speculative purposes. Exposures, including related derivative hedges, are reported to the Board on a monthly basis.

Financial facilities and operating cash flows are managed to ensure that the consolidated entity is not exposed to any adverse liquidity risks. Adequate standby facilities are maintained to provide strategic liquidity to meet cash flows in the ordinary course of business.

### Environmental Regulation

Some of the consolidated entity's activities are subject to various environmental regulations under both Commonwealth and State legislation. The Directors are not aware of any breaches of those environmental regulations during the financial year. The consolidated entity endorses an Environmental Policy of compliance and open communication on environmental issues.

### Proceedings on behalf of the Company

There were no proceedings brought on behalf of the Company, nor any persons applying for leave under section 237 of the *Corporations Act 2001* to bring proceedings on behalf of the Company.

### Indemnity and Insurance

The Company has, pursuant to contractual arrangements, agreed to indemnify the current and a number of former Directors of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as a Director of the Company and its subsidiaries, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current Directors of its subsidiaries, the Company Secretary and certain Senior Executives for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Pursuant to this indemnification, the Company has paid a premium for an insurance policy for the benefit of Directors, Secretaries and Executives of the Company and related bodies corporate of the Company. In accordance with common practice, the insurance policy prohibits disclosure of the nature of the liability covered and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

### Remuneration Policy for Directors and Executives

The policy for determining the nature and amount of remuneration for Directors and Executives is described in the Remuneration Report, which forms part of this Directors' Report.

### Director and Executive Benefits

Details of the benefits paid or provided to Directors and specified Executives are included in the Remuneration Report, which forms part of this Directors' Report, and in summary in Note 35 to the financial statements.

### Rounding Off

The Company is a company of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and, in accordance with that Rounding Instrument, amounts in this Report and the accompanying financial statements have been rounded off to the nearest one thousand dollars unless otherwise stated.

### Significant Events after Year End

In the opinion of the Directors, no matters or circumstances have arisen since the end of the year which significantly affected or may affect the operations of the consolidated entity which have not been outlined in this report.

## Directors' Report



This Directors' Statutory Report is signed on behalf of the Directors in accordance with a resolution of Directors made pursuant to section 298(2) of the *Corporations Act 2001*.

A handwritten signature in black ink, appearing to read 'Mark G Smith'.

**M G Smith**  
Chairman of Directors

A handwritten signature in black ink, appearing to read 'G Whickman'.

**G Whickman**  
Managing Director

Dated at Melbourne, 26 July 2019

## Operating and Financial Review 2018-19

### 1. Overview

In 2018-19, GUD's performance was solid in the face of some challenging business conditions. Overall, GUD delivered just over 9% revenue growth with an underlying EBIT growth from Continuing Operations of 6%, and NPAT improvement of 13% excluding a beneficial tax provision release. As you examine the results in more detail, you will notice the automotive divisional results set an all-time record of Revenue, Underlying EBIT and NPAT. Separately our Water segment grew modestly, however this should be set against a down domestic market in the broader Pool, Spa and Home Water Pressure systems industry.

As a consequence, the overall basic earnings per share reached a record high of 69 cps. This was reflected in the final dividend payment to our shareholders, who in respect of this financial year received a record high 56 cps (excluding special dividends), which was 8% higher than the previous Financial year.

Our balance sheet remained strong with gearing, being net debt against net debt and equity, of approximately 32%, robust interest cover and available banking lines well in excess of \$80 million, which can fully support future bolt-on acquisitions.

2018 – 2019 was characterised as a year where the confluence of economic and industry challenges constrained the larger automotive gains seen in previous years. Although robust growth was achieved it must also be recognised this was led largely by the acquired businesses with a modest contribution from our continuing businesses.

As the year progressed it became clearer that further opportunities exist for operational efficiencies across our businesses and must be pursued in the short to medium term to mitigate any continuing adverse business conditions.

Whilst a slow-down in the new vehicles sales has been reported, the Automotive Aftermarket is still a positive and defendable position for GUD to operate within. The 5-year-old plus Car parc is in excess of 15 million vehicles and the growing composition of SUVs and pick-ups within the Car parc plays to some of the strengths of businesses such as BWI and DBA.

GUD recognises the long-term future change in terms of Electric and Autonomous vehicles. As part of the recent national debate on electric vehicles, GUD modelled the potential adoption rates leading up to 2030. We concluded the addressable market of 5-year-old plus vehicles with internal combustion engines (ICE) would remain largely consistent with today's 15 million units, as new vehicles continue to flow into this cohort range. GUD already generates less than 50% of its automotive revenue from products discrete to ICE vehicles and can see a strong and evolving aftermarket within the future EV landscape.

Importantly, GUD maintained a strong safety focus during the year and continued to develop and implement initiatives intended to drive a strong level of engagement, ownership and accountability for health and safety. Across all of GUD, we saw a small lift in the lost time injury frequency rate (LTIFR). This was due to an increase of 1 lost time injury case (LTI) over the 4 experienced in 2018. Positively, the GUD LTIFR rate is less than half of the Safe Work Australia industry benchmark rate. Naturally our attention remains focussed on further improvements with the rollout of a safety reporting application (Vault), increased safety and wellbeing education and the outstanding participation in the GUD safety and innovation awards. Additional detail is contained in our Sustainability Review.

We are proud of the latest employee satisfaction survey outcomes. We remain committed in our desire to improve; similar to safety, we don't feel the job is ever complete. The survey outcome in the key measure of 'employee engagement' rated GUD in the top 30% of the global IBM Kenexa's Normative Benchmarks and Survey Content.

As well as seeing employee outcomes as critical, we also know how customers view us is an important indicator of future success. We were proud to continue to receive customer accolades in 2018 - 2019 with Ryco being awarded 'Exceptional Service to Store Network Award' at Repco, 'Outstanding Customer Solutions Award' at Supercheap Auto, BWI being awarded PACCAR Parts Supplier of the Year and Kenworth Supplier of the Year (Category B), Wesfil being awarded Auto One Queensland Supplier of the Year and, finally Davey being awarded Taylex's Supplier of the year.

The portfolio is now centred on the core automotive and water businesses. Unlike the last two years, the current year did not see further business portfolio disposals and now we have a core portfolio which we will

grow both organically and by acquisition. We completed the previously announced acquisition of Disc Brakes Australia on 2 July 2018. In the remainder of the year, we have explored and evaluated other acquisitions without finding opportunities at prices which would deliver compelling value for GUD shareholders. The acquisition appetite hasn't changed, nor has the funding availability or consolidation opportunities. Management remain committed to automotive acquisitions, however, we will not choose to secure new businesses without a clear integration and margin uplift pathway.

With the commencement of a new Managing Director and CEO on 1 October 2018, we outlined a focus on five key topic areas to further strengthen the business foundation. We have achieved progress on all five areas being:



1. **Customer relationships** – we have recently agreed multi-year preferred supplier agreements across select automotive categories with two of our critical automotive customer reseller groups securing considerable revenue streams for the next three years. We also deepened our working relationship with original equipment companies Toyota and Paccar and developed new customers and channels in select export markets.
2. **Supplier engagement** – with the rapidly growing automotive aftermarket component sector in China and a weakening Australian dollar, we worked with a number of critical suppliers to confirm sourcing security, in many cases achieving prospective cost reductions to help defray currency impacts. We are also co-operating with one major China-based supplier who is building a new factory in Vietnam to ensure supply capacity.
3. **People cycle planning** – we are working diligently to develop future leaders for our current businesses and future acquisitions and ensure we have the right balance and focus at the executive leadership level. The early results are evident in a number of moves including our first leader of automotive Acquisition and Strategy, the appointment of our first Group Logistics Manager, the appointment of our first Chief People Officer, the promotion of the former Innovation Officer to run Ryco Filters, and the elevation of the leaders of Ryco Filters, IM Group, AA Gaskets and Disc Brakes Australia to report directly to the Managing Director and Chief Executive Officer. The previous position of the Ryco Group CEO has been disbanded effective 1 July 2019, and the number of Key Management Personnel has reduced but the Executive Leadership Team has been expanded. The changes see a broader range of skills, more executive leadership team capacity, and a flatter and more responsive structure.
4. **Product cycle planning** – we have complemented the existing innovation focus with a broader engagement on the renewal or broadening of existing products. This has seen some exciting new products come to market such as Davey's Tank Sense product which remotely monitors water levels or Ryco's Catch Can which removes partially burnt fuel or other contaminants which would otherwise be recycled through the engine, thus minimising potential engine damage and expensive repairs. Towards the end of the year, our innovation pipeline was also acknowledged by two government grants matching the expenditure on innovative initiatives on a dollar for dollar basis. More details of the recent innovation activities and outputs are outlined in the separate Sustainability Review.
5. **Operational Efficiency** - in light of an ever demanding competitive and customer landscape, the need for increased operational efficiencies is clear. The need to further leverage the wider GUD group of businesses is before us and we see potential to achieve cost savings through leveraging greater commonality and scale. To this end, we have reallocated and appointed a key finance and operational leader in support of the operational efficiency taskforce and further business transformation projects. We believe this can be achieved, however not at the expense of customer service and satisfaction.

Each of GUD's larger automotive businesses continues to enjoy a strong and unique market position, with market-leading brands enjoying high brand equity and a healthy track record of both product and service innovation and pricing power. That said, Ryco Filters has seen a long-standing global competitor try to secure market share through expanded distribution and price reductions which is setting a pricing ceiling in the near term for filtration. This is not the first time we have seen a global brand try to penetrate the market, and we have a clear defensive plan to ensure Ryco's position in the market place is not materially impacted, as we did when we face a similar challenge several years ago.

Two of the smaller acquisitions have experienced some notable headwinds as one of the major resellers launched house brand products which has created volume challenges for IM Group and AA Gaskets. We have consequently revised our business acquisition evaluation and integration criteria, and this has been applied successfully when acquiring Disc Brakes Australia.

The recent acquisition of Disc Brakes Australia (DBA) has been a welcome addition to the growing automotive portfolio. DBA have delivered an excellent year and exceeded our collective expectations. DBA's performance is a result of both domestic and international sales. The latter now sees DBA products being sold in Europe, the Middle East, USA and other smaller countries around the world. In addition, DBA was delighted to receive the Australian Automotive Aftermarket Association's (AAAA) Silver Award for Exporter of the Year.

Our brands continue to be demanded by end users; in recent brand surveys, we saw many of our brands in the top quartile of their respective segments. This is supported by a strong pull model, where in some businesses, an active field force visits many thousands of workshops per annum to educate workshops and conquest competing brands.

The year also saw much activity around building a foundation within Davey for profitable mid-term growth. We are encouraged with the early progress at Davey. While Revenue and EBIT growth was modest, the EBIT result contained a significant amount incurred in the commercialisation and market introduction of new products, signifying that we have been reinvesting for future growth.

We have started to observe some early green shoots of the Davey product creation outcomes. Davey has now been successful in securing farm trials of Modular Water Treatment products (MWT) at one of the world's biggest dairy cooperatives, sold out its entire allocation in Europe of its new Nipper chlorinator and delivered the launch of the Tank Sense product.

Davey remains committed to its recently approved strategic plan and now is in execution mode. This focuses management efforts around the strategic priorities of design for manufacture, supply chain optimisation, commercialisation of product innovation, diversifying channels to market and improving people and culture outcomes.

## 2. Financial Performance Review

Prior to commenting on financial performance for 2018-19, it is important to note that there were no business portfolio sales in the year. The accounts for the previous financial year report the Oates contribution for that year under discontinued operations and GUD's remaining automotive and Davey businesses are classified as continuing operations.

### Revenue

Total group revenue from continuing operations increased 9% on the prior year's level. The Automotive businesses reported revenue growth of 12% of which 1% was organic and 11% through acquisition. Davey's revenue grew by 3%, all organic.

The primary features of the continuing revenue trends in the year are detailed below.

1. A full year of revenue contribution came from AAG compared with seven month's revenue in the prior year. Disc Brakes Australia, which was acquired on 2 July 2018, contributed a full twelve months of revenue.
2. All businesses except Davey, implemented price increases in 2018-19 to offset the higher cost of products from offshore suppliers.
3. There were also some specific initiatives taken to expand each automotive business unit's revenue, including:
  - Ryco introduced crankcase ventilator catch cans to catch potentially damaging particulates for modern diesel vehicles and continued to broaden its range. Ryco continued with its successful customer acquisition program which aims to convert service garages to using the market-leading Ryco brand of automotive filters.
  - AAG continued to expand its product offering, including into light duty truck applications.
  - Wesfil continued to broaden the product range it offers to its independent reseller customers.
  - BWI released the 3 yearly Narva catalogue featuring over 700 new products, although demand was limited as resellers applied caution in committing to inventory or actively ran down their inventory levels prior to year-end.
4. Davey reported a 3% increase in sales revenue to \$104.1 million in 2018-19 driven by several factors including:
  - A successful launch of their Nipper salt water chlorinator range in Europe. Davey is now working on further product expansion in that category.
  - Field trials of its Modular Water Treatment equipment with a major dairy cooperative and meanwhile found new applications for the product technology including hospitality, industrial, and commercial applications – also actively exploring Modular Water Treatment technology in potable water applications.
  - Pleasingly, growth was seen in all key geographic regions.

### Profitability

The Group reported a net profit after tax of \$59.6 million. This compares with the prior year's result of a net profit after tax of \$101.8 million which included a contribution from the Oates business of \$51.4 million of which \$51.5 million was the gain on the sale of the Oates business. Excluding the Oates impact in FY18, reported net profit in FY19 increased by \$9.1 million or 18%. The taxation expense benefited from the release of a tax provision of \$2.5 million which had been held over pending the final clarification of potential capital gains liabilities in relation to the sale of the various businesses in recent years – excluding that release, net profit increased by 13%. The result included Davey one-off costs of \$0.6 million after tax primarily related to outsourcing the Fire Fighter range production to reduce both assembly costs and production overhead recovery variability.

Underlying net profit after tax from the continuing operations, which include the automotive businesses and Davey, improved by 10% on the prior year to \$60.9 million, or 6% excluding the tax provision release.

Underlying Earnings Before Interest and Tax (underlying EBIT) from the continuing businesses improved by 6% to \$88.9 million driven from organic growth of both the Davey and the automotive businesses and the acquisition of Disc Brakes Australia.

The primary factors affecting the profitability of each of the reporting entities are detailed below:

1. The 12% revenue uplift in Automotive came from a combination of organic growth of 1% and 11% from acquisitions. The headwinds noted earlier for IM Group and AA Gaskets masked the growth in the Ryco and Wesfil businesses. Disc Brakes Australia also exceeded expectations adding to the acquired growth contribution. Overall, Automotive Underlying EBIT grew by 5% over the prior year.
2. Davey reported a 3% growth in underlying EBIT driven by organic sales growth of 3%. This met expectations given the resources committed concurrently to bringing some of Davey's new product offerings through commercialisation and market introduction.



### Dividends

The total dividend for 2018-19 was 56 cents per share consisting of an interim dividend of 25 cents per share and a final dividend of 31 cents per share. Both dividends were fully franked. This compares with total dividends of 52 cents per share in the previous financial year and is an increase of 8%.

The Dividend Reinvestment Plan remains suspended.

### Cash Generation and Capital Management

Cash flow from operating activities was \$44.5 million, down from \$59.4 million in the prior year, including an increase of \$11.6 million in tax payments. On a pre-tax basis, the Operating cash flow was \$71.7 million, representing a cash conversion of 78% compared to the 2017-18 result of \$75.0 million or 86%. The lower cash conversion was driven by higher inventory levels across several businesses to support growth and reflected the impact of a number of resellers either destocking or holding back on orders and, finally also a level of pre-production of Davey fire fighters to give time for the contract manufacturer to ramp up production.

Net debt was \$132.7 million, an increase of \$40.3 million including acquisition and investment related payments of \$23.1 million net of cash acquired.

Net working capital as at 30 June 2019 increased by \$30.4 million over prior year levels of which \$7.9 million was related to the net working capital acquired through the Disc Brakes Australia acquisition. The businesses continued to address several themes in relation to managing net working capital in 2018-19, including:

- Further rebalancing inventory levels in Automotive and Davey by reducing the level of slower moving inventory while ensuring the businesses were well positioned to support new product introductions.
- Further supporting sales growth, especially in the automotive businesses, and, where necessary, extending debtor days to selected resellers in exchange for broader ranging and sell-through support.
- Further improving BWI's supplier terms, where historically a lower percentage of suppliers have provided payment terms we are generally accustomed to receive.

As noted earlier, at a financial level the Group continued to demonstrate both organic and acquired growth in revenues and profitability. We continued to produce robust cash flows although inventory levels finished well above last year's level. Cash conversion finished at 78% in line with internal targets.

Net 2018-19 cash outflows associated with acquisition and investments included:

- The purchase of Disc Brakes Australia \$21.2 million.
- An IM Group earn-out of \$1.6 million in respect of the 2017-18 business performance which was the first of three earn-out measurement periods. The business failed to trigger a similar potential earn out for 2018-2019 and is carried over to the potential 2019-20 result.
- A further non-controlling interest investment in Liftango of \$0.3 million where we exercised our rights in a further equity raising round.

### External Financing

The Company is now four years into a five-year debt financing facility of \$245.0 million involving Westpac, National Australia Bank and the Commonwealth Bank which expires on 1 July 2020. This comprises a core tranche of \$185 million, and an acquisition tranche of \$60 million. The facility provides capacity for logical bolt-on acquisitions through the balance of the financing facility. We will commence a refinancing exercise during the first quarter of 2019-20 and expect a commercially favourable outcome.

### 3. Strategy Review

#### Overview

The Board and Management have been engaged in a portfolio and individual business unit strategy review in the second half of the year, including an overseas study tour to Israel to better understand the innovation approach applied by companies and better understand the potential commercial application of technologies in both the Water and Automotive segments. The review concluded that we remain comfortable with the current business portfolio and remain willing to make logical automotive acquisitions.

At an individual business level, we continue to apply the GUD high-performance approach for strategy execution. In 2019 we have introduced the Roger Martin “where to play and how to win” framework to guide strategy development and are working with the Ignition Institute to embed the associated strategy framework tools and approach in the businesses. This is critical as we reinforce the need to ‘futureproof’ our individual businesses.

Earlier we detailed our view on strengthening five business foundations. As this gains traction we are committed to sharpening our **strategic direction**, at the **GUD group-wide, individual business unit** and **future acquisition** efforts, focussing on three pillars being:



#### Core:

- Multi-year preferred supplier agreements in select automotive categories implemented commencing 2019-20.
- Quality and logistics councils introduced to leverage scale and skills.
- Internal management resources pivoting to address operational and leverage efficiencies in logistics and information technology.
- Increased emphasis on achieving supplier cost downs.
- First shared logistics facility opening in Auckland, first quarter 2019-20; will build capability which could be applied elsewhere.

#### Growth:

- Individual business unit competitive strategies.
- Addressing new organic growth pathways, including a broader focus on exports.
- Strengthened resources dedicated to innovation and product development, under our new Chief Innovation Officer.

#### Acquisition:

- Applying new acquisition criteria and decision thresholds including returns above the cost of capital beyond initial integration.
- Internally, developing a pool of potential managers for acquired businesses under the leadership of our new Chief People Officer.
- Securing customers but not at the expense customer and channel diversification.
- Sufficient automotive acquisition and strategy capacity under the leadership of our acquisition and strategy KMP.

We believe these key areas provide a good level of opportunity for further top and bottom-line growth. These are not overnight solutions and require a steady and thoughtful approach across the next 12 to 36 months. Importantly we have reallocated resource, utilised cost-efficient external expertise and commenced harvesting the wider group management team to drive our ambitious plan with good speed.

## 4. Risk Review

### Overview

2018-19 represented the first full year since the Board created a separate Board committee to focus on Risk and Compliance. Under the inaugural Committee Chair, a thorough review of risk appetite and the tools used to identify, analyse, assess, manage and monitor risk throughout the Group was undertaken during the year. As a result, the Group introduced a new cloud based interactive Risk Management tool using the software platform Alyne. The platform acts as a key risk register, tracks whether risks potentially breach the risk appetite guidelines, whether compensating controls are in place to mitigate the net risk to an acceptable level, acts as an action plan register, and accommodates recording and following actual risk events.

A broad range of risk areas is covered within Alyne, including areas such as customer risks, production and supply chain risks, reputations risks, IT and infrastructure risks, and other financial risks. As in the past, an evaluation of all organisational risks at business unit level is performed regularly for presentation to the Board Risk and Compliance Committee for review but is now aided by the Alyne tool.

In addition, there are established policies and processes in relation to specific risks, such as information technology, workplace health and safety including bullying and harassment, ethical sourcing, anti-competitive behaviour and financial risk management.

The table below details some of the identified risks and mitigating actions. The list is representative of the increasing risk management themes and efforts in GUD.

| Risk Themes                       | Key Risks   | Examples of Mitigating Actions  |
|-----------------------------------|---|---|
| Customer risks                    | Over reliance on single customers, or new entrants routes to market, or potential disruptive existing customer behaviour  | Maintain a portfolio of compelling products, broad range of customers, and continually assess both new entrants or new routes to market for GUD and respond accordingly |
| Production and Supply Chain risks | Over reliance on suppliers resulting on a loss in supply with potential sales impacts   | Multiple parallel sourcing for critical items, utilisation of a broad range of suppliers, supplier quality control processes and Quality and Supplier council           |
| Reputation risks                  | Loss of confidence by end user customers or other stakeholders triggered by an event which falls short of community or stakeholder expectations                     | Policies, education and compliance monitoring for work health and safety, anti trust, ethical sourcing, bullying and harassment, amongst others                         |
| Disruptive Technology risks       | Product technical obsolescence such as electric vehicles, new technologies such as autonomous vehicles and digital disruption impacting market and product segments | Product cycle plans, reduce over time the share of internal combustion engine component sales, and build capabilities in new segments and technologies                  |
| Financial risks                   | Variability of financial markets impacting the value of foreign currency to nominated assets and liabilities, profits, or sustainability of debt financing          | An effective financial risk management committee, long term debt financing agreements, foreign currency instruments and interest swap agreements                        |
| People and Culture risks          | Loss of key personnel due to retirement or departure of key resources   | People cycle planning, employee engagement surveys and action plans, learning and development growth plans  |

| Risk Themes                            | Key Risks  | Examples of Mitigating Actions  |
|--|--|---|
| Legal & Compliance risks               | Failure to comply with product or regulatory compliance requirements leading to fines or product recalls | Maintenance of product compliance certifications, standards and processes, internal policy management reviews and updates, management of regulatory policies (e.g. privacy) and market reporting requirements |
| Safety risks                           | Employee and contractor workplace health and safety incidents leading to injuries or death               | Regular safety risks assessments and audits, management of safety events or incidents using Vault, safety KPI's   |
| Information Technology and Cyber risks | Continuity of business or loss or reputation or other assets through physical loss or cyber penetration  | Security access controls, security monitoring, business continuity management, disaster recovery processes and off site back up facilities  |

GUD Management acknowledges that risk environments are not static and need to be monitored with appropriate responses to risk mitigating processes and action plans. GUD maintains a series of governance and compliance forums, focussed on proactive and reactive risk mitigation initiatives. These forums include:

- Regular risk reviews conducted with Business Unit Executive and Leadership team during the Monthly Business Reviews
- Reviews of financial risks tabled with Business Unit finance leaders in the monthly Financial Risk Management forums
- Technology and cyber risks reviewed regularly and monitored via the IT Council meetings
- Workplace and safety risks and action plans reviewed during monthly WHS Steering Committee meetings
- Quality and Supplier council with charter to monitor and mitigate emerging and longer-term supply and quality challenges

The key risk themes, key risks and mitigating actions are also periodically tabled with the Board Risk and Compliance Committee.

## 5. Outlook

GUD remains well positioned for the medium to long term horizon. The automotive division maintains strong brands, products and customer service in support of a large and proliferated Car parc which GUD believes is strongly defensible. We are also pleased with recent multi-year preferred supplier agreements and will work to provide strong partnership outcomes as we move forward.

Davey has a clear strategic vision which has been well communicated to all the critical stakeholders and will execute its plan with urgency. We expect to see continuing green shoots as Davey progresses over the next 24 months and pull through the potential value of the water segment.

In 2019-20 we expect further revenue growth in both the automotive and water businesses, although economic sentiment and recent demand suggests growth will be modest. With persistent domestic input inflation and a far weaker dollar, in several businesses input cost inflation will exceed the price uplift we believe will be responsible in 2019-20 without triggering a reseller or end user customer backlash, especially with Ryco filtration due to a new entrant as noted previously.

We will not reduce our innovation, new product development or acquisition activity to compensate, as we remain committed to ensuring we have the right mid-term foundations in place for long-term growth and shareholder value.

In this environment, and, while organic growth is expected from the automotive and Davey businesses, Underlying EBIT growth for 2019-20 is expected to be modest and operational efficiency, including achieving supplier cost downs, will be a key compensating work stream. Therefore, and prior to applying the new accounting standard (AASB 16) regarding leases, we expect modest Underlying EBIT growth in 2019-20 and continuing solid returns to shareholders.

## Sustainability Review 2018-19

### Highlights

|   |   |
|---|---|
| In taking a holistic view of the sustainability of GUD's business over the longer term, we conducted our first materiality assessment seeking to ensure that our sustainability disclosures remain relevant to the business and stakeholders. | Developed an Ethical Sourcing Code and implemented this in partnership with our suppliers.  |
| Safety was rated very highly by employees. We received a score that was above the global 75th percentile in our annual employee engagement survey.  | GUD was awarded 9 <sup>th</sup> most innovative company in the 2018 Australian Financial Review Most Innovative Companies List. GUD's Ryco Filters entered in 2019. |

### About this Review

This Review covers GUD's sustainability performance for the year ended 30 June 2019 across our Australian and New Zealand operations. Selected Global Reporting Initiative (GRI) Standards were leveraged to inform the content and scope of the report, and accordingly this report is a GRI-referenced claim. GUD intends to continuously improve its disclosures utilising the GRI Standards to improve the comparability of our reporting.

GUD's Board commissioned Management to prepare this Sustainability Review and sees this review as an opportunity to outline and showcase the impact GUD has on the environment, its people and the communities we operate in, as well as identifying and discussing some of the longer-term sustainability consequences for the Company.

### Focussing on the topics that matter

This year, we undertook our first materiality assessment to identify, prioritise and validate the topics that matter most to our stakeholders and our businesses. As a holding company, GUD comprises of a range of businesses that produce diverse products. We recognise that some of our businesses are more advanced than others in terms of their sustainability practices however, as an overarching entity we set minimum standards and expect all businesses to achieve these.

| 1. Identification  | 2. Prioritisation   | 3. Validation   |
|--|---|---|
| <p>We identified environmental, social and governance topics that could impact upon GUD and our stakeholders. An initial list of topics and their definitions were drafted using a range of factors, including:</p> <ul style="list-style-type: none"> <li>• Regulatory and legislative changes</li> <li>• Peer benchmarking</li> <li>• GRI Standards</li> <li>• Macroeconomic trends</li> <li>• Stakeholder feedback on prior year disclosures</li> </ul> | <p>A materiality assessment workshop was held with a cross section of employees including leaders from the automotive and water divisions, finance, human resources and legal. The initial list of topics was discussed and prioritised by rating the significance of impacts and the substantive influence on the decisions of stakeholders.</p> | <p>Following the materiality workshop, the material topics were confirmed and committed to by senior management. These agreed topics form the content of this report.</p> |

| Our material topics                  | Definitions  |
|--------------------------------------|--|
| Health and Safety                    | Embedding a positive health and safety culture in the workplace.   |
| Product Safety and Quality           | Ensuring our products are designed and manufactured to be safe and of a high quality for their intended use.   |
| Compliance and Competitive Behaviour | Complying with relevant legal requirements and regulations including ensuring that our practices are consistent with the values and policies of the Group and do not limit competition against the law |
| Innovation                           | Change that adds value - focussing on new ideas and processes that create value for our customers.   |
| Equality and Non-Discrimination      | Promoting equality and non-discrimination across our employees and wider stakeholders.   |
| Human Capital and Labour Management  | Investing in people and culture strategies to improve employee satisfaction and retention.   |
| Sustainable Procurement              | Considering legal, environmental and social factors when making procurement decisions.   |
| Water Management                     | Managing the impacts of our water use.   |

### Health and Safety

At GUD, our culture is driven by a strong level of engagement, ownership and accountability for health and safety. This year we reinforced the importance of safety leadership, enhanced business safety plans including key performance indicators, introduced a new reporting tool and recorded a wider array of metrics to improve the comparability of our safety performance.

#### Safety is driven by our leaders

Whilst health and safety is everyone's responsibility, ultimate responsibility for health and safety resides with the Managing Director and Board of Directors. Health and safety is the lead item on every Board and Executive Leadership Group meeting and forms part of the standing agenda. The Group Executive and the Board conduct regular safety walks and receive a monthly report which covers a range of leading and lagging indicators including training initiatives, audits completed, corrective action plans implemented, number of work injuries, near misses and number of other incidents.

Over the last year our expectations with respect to safety leadership, and our commitment to safe and healthy workplaces, was further reinforced when we commissioned an externally recognised Health and Safety expert to train all personnel in leadership roles including all supervisors and above concerning leaders' responsibility with respect to safety.

*"Each of you should recognise and understand the responsibility and actions needed in the pursuit of safety for yourself, your co-workers and anyone who comes into our workplaces. You have my commitment and support to take the right actions to enable a safe working environment, regardless of any business consequence."*

*Graeme Whickman, Managing Director and CEO*

#### Our health and safety management system

All workers and workplaces at GUD are covered by our workplace health and safety management system. Our management system aligns to the ISO Standard 9001, meets the legislative requirements in Australia and New Zealand; and has been regularly updated to reflect the shifting business context. Key elements prescribed in our health and safety management system and implemented in our business activities include:

- Each of our businesses have safety business plans in place where key performance indicators, responsible persons and timelines have been committed to in order to improve safety performance.
- Employees are involved in the safety decision making process through communication, consultation and training. All businesses have health and safety committees comprising representatives of management and workers, and individual sites or departments hold regular tool-box meetings to ensure safety is top of mind.

## Sustainability Review 2018-19

### Our health and safety management system (continued)

- The GUD group maintains each business' risk registers and job safety analyses. To inform this process, requirements for conducting risk assessments are contained within management system.
- Key personnel are trained on safety leadership, internal auditing and incident investigation.
- In FY19, we introduced Vault, an online reporting system for workplace incidents and accidents. Employees may report directly using an app, by their supervisors or via a member of their workplace health and safety committee.
- Where there is an incident or other safety related concern, our safety escalation process enables an individual to report a safety concern initially to his/her immediate supervisor, but if unresolved to progressively report to higher levels of management.
- Internal audits are conducted by trained personnel from within the businesses, on a rotational basis and provide opportunity for an evaluation of the effectiveness of the health and safety management system. A comprehensive internal audit schedule is in place. All businesses have emergency preparedness procedures which are audited as part of the GUD internal audit programme and is tested every six months. The provision of feedback is shared with the business being audited and with other businesses as a learning opportunity. In addition, GUD has a WHS Steering Committee for the purposes of sharing of information and learnings across the Group and recommending initiatives.
- Businesses are encouraged to introduce proactive programmes focused on engaging the complete workforce. These have seen the adoption of exercise programmes, smoking cessation and focus on healthy eating.
- Focusing beyond the core elements of a health and safety management system to ensure that wider wellbeing, including mental health is included as a key area of focus.
- Offering an employee assistance programme, provided on a confidential basis by an independent third party. Employees are encouraged to make use of this assistance whether the matter is work-related or personal.
- Engaging an external provider (for example, Beyond Blue) in sessions designed to increase awareness and understanding amongst employees, in areas of anxiety, depression and mental health, training in Mental Health First Aid, the benefits of a mentally healthy workplace and the external resources available.

### How we performed

| GRI Indicator 403-9   | FY19                                    |                             | FY18                                    |                             |
|---|---|-----------------------------|---|-----------------------------|
|   | Number                                  | Rate/1,000,000 hours worked | Number                                  | Rate/1,000,000 hours worked |
| <b>For employees</b>  |   |                             |   |                             |
| Fatalities as a result of work-related injury   | 0                                       | 0                           | 0                                       | 0                           |
| High consequence work-related injuries (excluding fatalities) – in this category we include Lost Time Injuries (LTIs) | 5                                       | 3.4                         | 4                                       | 2.9                         |
| Recordable work-related injuries – in this category we include LTIs (from above) plus Medically Treated Injuries      | 9                                       | 6.0                         | 7                                       | 5.1                         |
| Main types of work-related injuries   | Manual handling, slips, trips and falls |                             | Manual handling, slips, trips and falls |                             |
| Number of hours worked  | 1,489,008                               |                             | 1,372,811                               |                             |

## Sustainability Review 2018-19

### How we performed (continued)

| For all workers who are not employees but whose work and/or workplace is controlled by the organisation (Contractors)  |   |   |        |   |
|--|---|---|--------|---|
| Fatalities as a result of work-related injury  | 0   | 0 | 0      | 0 |
| High consequence work-related injuries (excluding fatalities)  | 0   | 0 | 0      | 0 |
| Recordable work-related injuries   | 0   | 0 | 0      | 0 |
| Main types of work-related injuries  | N/A   |   | N/A    |   |
| Number of hours worked   | 50,893  |   | 24,938 |   |
| <b>Work-related hazards</b>  | <b>FY19</b>   |   |        |   |
| The work-related hazards that pose a risk of high-consequence injury, including actions taken or underway to eliminate these hazards and minimise risks using the hierarchy of controls. | We have developed controls which respond to identified high risk workplace hazards in areas including: <ul style="list-style-type: none"> <li>• Forklift operations</li> <li>• Driving</li> <li>• Materials falling from heights</li> <li>• Individuals falling from heights</li> <li>• Electrical safety</li> <li>• Manual Handling</li> </ul> |   |        |   |

### Celebrating our achievements

In August this year GUD will be holding its 4<sup>th</sup> annual Safety and Innovation Excellence Awards. The number and quality of the nominations for these awards continues to grow. The awards are an opportunity to recognise and celebrate individuals and teams from across the businesses who have demonstrated key attributes in safety leadership.

The Safety winners at the 2018 Awards were:

- Provin Reddy from AA Gaskets who demonstrated a commitment to safety by calmly, responsibly and pro-actively enforcing site traffic management rules with a third-party truck driver;
- The team at Wesfil for launching an innovative approach to ensuring safety and effectiveness of operations, warding off complacency, developing an understanding of others' tasks and identifying opportunities for improvement
- Through a commitment to safety and innovation IMG was able to eliminate manual handling and worker exposure to hazardous chemicals in its remanufacturing process.

### Product Safety and Quality

Ensuring safe, reliable products are being designed and manufactured to meet our customers' needs is one of our key priorities. All our products are developed and tested against stringent quality control and assurance processes. Because of the diversity of our products, product safety and quality processes are managed at a local business unit level which are expected to ensure compliance with applicable ISO standards.

GUD's Quality & Supplier Council was recently established by Management to consider best practices and bring thought leadership to the Group in all aspects of product safety and quality, ethical sourcing, supplier governance, supplier risk management and sustainability. Cross-business improvement initiatives are identified to enhance the organisation system, supply chain processes, suppliers' capabilities and the knowledge of Council members in these aspects.

Our products are generally supplied to distribution agents, who then on-sell these products to retailers including workshops and trade dealers where the products are ultimately sold to the end customer. Whilst our approach to understanding customer satisfaction varies, we have close relationships with our retailers to ensure customer needs are being met.



### Compliance and Competitive Behaviour

The Board and senior management are committed to embedding compliance and competitive behaviour processes across the Group. To support this, our people, governance structures and management systems help us ensure this is part of the way we work.

For many years, online training on competitive behaviour has been undertaken by all employees as a part of the suite of on-line training offered to employees. The training exposes employees to the law, creates awareness around this topic and articulates how this impacts how we deal with competitors, suppliers and customers.

We take this seriously and understand that mismanagement may result in regulatory, financial as well as reputational impacts. In the past year, we have had no legal actions; hence our GRI Indicator 206-1 is zero.

### Innovation

GUD is committed to innovation. Our award-winning innovation program delivers a relentless focus on the customer. We tap into the creativity of our people to deliver better customer experiences. From the smallest tweak to an existing process to brand-new business units that disrupt markets, innovation is instrumental in future-proofing our businesses.

Each business has its own innovation and product development framework, one that is tailored to its specific needs. Several group-wide initiatives tie these individual programs together under a collective banner dedicated to collaboration and shared learning. For example, teams of cross-functional innovation specialists, known as Innovation Champions internally, have all been trained in the same customer-focused methodologies such as design thinking and lean start-up. The Innovation Community of Practice ties Innovation Champions from across all businesses together. It promotes collaboration and sharing of new and emerging insights. Equally, at the leadership level, GUD's Innovation Council offers a forum for our senior team to drive innovation strategy and culture.

We have partnerships with external parties including academic institutions, industry bodies, innovation labs, start-ups and specialist agencies. This includes: Planet Innovation, Myriota, Australian Automotive Aftermarket Association, Movus, University of Auckland and Callaghan Innovation.

GUD businesses conduct customer research and brand surveys, to assess the reliability, value and recognition of GUD brands. We ask our customers questions to understand how we can improve our products and customer service. When a new product is being developed, we test and experiment the idea with the customers to gauge behaviour and improve our products accordingly.

*In 2018, GUD was acknowledged by the Australian Financial Review to be the 9<sup>th</sup> most innovative company and the only manufacturing company to feature in the top 10.*

### Cranking Up the Catch Can

Ryco Filters is the leading brand for premium aftermarket filtration. The company takes pride in putting the customer at the heart when delivering a comprehensive range of products that meet or exceed genuine performance. So, when the team at Ryco Filters turned its visor to crankcase ventilation, they talked to mechanics first.

What they learned in the field, set them up for engineering success. Whilst crankcase filtration systems are not new, existing products were missing the mark—especially in the growing 4x4 diesel market. By observing mechanics at work and through customer conversations, the team identified the mix of features that workshops were looking for: easy to install, can be fitted to a large range of modern engines, effectively filters contaminants, works reliably with emissions systems, and offers internal capacity large enough to last the service interval.

Following in-depth review of technical papers and standards, the team created a new technical standard and specialised laboratory test to objectively measure and benchmark the system. Engineers took 3D-printed samples to mechanics to test ease and versatility of fitment, iterating designs along the way. As the product was co-designed with mechanics to Ryco's premium performance standards, it was no surprise that market feedback has been overwhelmingly positive. There is now strong demand to expand the Catch Can with customized fitment kits for specific vehicles along with a smaller unit for small vehicles.

## Sustainability Review 2018-19

We recognise and celebrate innovation. Innovation is key to our annual Safety and Innovation Excellence Awards. Business units nominate candidates at the individual, team and business level who have exemplified innovation throughout the year. Winners are announced at the Awards night. In addition to formal recognition, winners are awarded prize money to dedicate to furthering their innovation skills or dedicate to innovation projects of their choice.

### Safety and Innovation Award Nominations

Our Davey Water business was nominated for a 2019 Safety and Innovation Excellence Award for work on the Nipper and Lifeguard Project. Nipper is a clever and compact chlorinator which uses Davey's intelligent controls to keep pool water swim-ready, all year long. The team at Davey worked closely with end users and distribution partners to develop the next generation of chlorinators, all the while reducing product cost by one third and halving product development lead times. Designed in Australia, the ergonomic Nipper is easy to install, energy efficient, and has fully customisable chlorine outputs irrespective of the type of salt used. The product was first launched to the European market with great success.

Building on the traction of Nipper and further market research, Davey continues to progress the pipeline of pool products. The Lifeguard product will complement the Nipper chlorinator by automating the chemical control of residential pools. The WiFi-enabled chemical control unit will be launched with a companion mobile app that enables remote monitoring and control. Roy Morgan research reveals that in Australia alone, nearly 2.7 million people live in a house with a swimming pool. Nipper and Lifeguard will be available in Australia and all Davey regions worldwide.

### Equality and Non-Discrimination

We promote equal opportunity and strive to provide an equitable, inclusive and diverse work environment. In line with our Code of Conduct, this includes providing employees with a workplace free from any kind of discrimination, harassment or intimidation.

We commit to promoting fair and equal treatment in employment that does not discriminate on the basis of age, politics, ethnic background, family responsibilities, gender, physical appearance, irrelevant criminal record, marital status, pregnancy or potential pregnancy, race, religious beliefs or activity, social origin, physical or mental disability, trade union membership or activity, sexual preference or personal association with a person who is identified with any of the above. Our Equal Employment Opportunity Policy highlights this and is intended to set a shared understanding amongst all employees, temporary staff, independent contractors, volunteers and work experience personnel of expectations in regard to acceptable and appropriate behaviour within the workplace.

We are proud to disclose that there have been no incidents of discrimination reported this year; hence our GRI Indicator 406-1 is zero. Where there is an incident, we will deal with this in line with best practice investigation procedures.

### Human Capital and Labour Management

Our highly engaged employees enable us to deliver positive outcomes to our stakeholders. GUD's core values are the principles which the company and individuals live by, and which guide our decisions.

#### Our values

- **Customer Focus** – Our customers are important in our priorities; we aim to meet customers' needs.
- **Professionalism and Respect** – We encourage constructive, candid and open communications. We are accessible. We always treat our people with fairness and equality. We trust our colleagues.
- **Highest Standards of Integrity** – We always act honestly. We say what we mean.
- **High Performance and Business Success** – Business success secures our future. Our profits permit us to invest for long-term customer satisfaction, a rewarding future for our people, and a return to the shareholders. We have a bias for action, and for achieving results.
- **Innovation and Continual Improvement** – We seek new ways of doing things, taking risks where necessary in pursuing new opportunities.
- **Teamwork** – We acknowledge our interdependence. We give recognition for a job well done.

## Sustainability Review 2018-19

Our focus over many years has been to ensure that our culture fosters a high-performing and engaged workforce within each of our businesses. Increasingly we are taking strides to bring together all employees to cross pollinate ideas and share learnings. This helps bring a focus to teamwork when developing new products and bringing them to existing and new channels.

Our workforce is made up of a range of full time, part time and temporary employees.

| GRI Indicator 102-8           | FY19 |        | FY18* |        |
|-------------------------------|------|--------|-------|--------|
|                               | Male | Female | Male  | Female |
| Number of full time employees | 550  | 217    | 448   | 182    |
| Number of part time employees | 14   | 24     | 7     | 20     |
| Number of temporary employees | 21   | 16     | 24    | 13     |
| Total number of employees     | 585  | 257    | 479   | 215    |

\*GUD acquired AA Gaskets in November 2017 and DBA in July 2018; therefore AA Gaskets and DBA employees have not been included in FY18 data.

| GRI Indicator 401-1                | FY19   |                             | FY18*  |                             |
|------------------------------------|--------|-----------------------------|--------|-----------------------------|
|                                    | Number | Rate (% of total workforce) | Number | Rate (% of total workforce) |
| Employee new starters by gender    |        |                             |        |                             |
| Male                               | 91     | 11%                         | 83     | 12%                         |
| Female                             | 32     | 4%                          | 50     | 7%                          |
| Employee new starters by age group |        |                             |        |                             |
| Under 30 years old                 | 27     | 3%                          | 41     | 6%                          |
| 30 - 50 years old                  | 70     | 9%                          | 66     | 10%                         |
| Over 50 years old                  | 26     | 3%                          | 26     | 4%                          |
| Employee new starters by region    |        |                             |        |                             |
| Australia                          | 114    | 14%                         | 123    | 18%                         |
| New Zealand                        | 9      | 1%                          | 10     | 1%                          |

\*GUD acquired AA Gaskets in November 2017 and DBA in July 2018; therefore AA Gaskets and DBA employees have not been included in FY18 data.

Diversity is seen as a key driver of innovation and company performance. In the next year, we will develop and implement a diversity and inclusion program that strengthens the businesses' open culture by ensuring inclusiveness, and the contribution of all employees by leveraging differences that exist.

Training and development is a critical element of our workforce planning. We support development by training our employees within the workplace as well as supporting them to undertake further education. Courses delivered this year have included topics such as safety, first aid, forklift, fire extinguisher, mobile equipment, contractor management, evacuation, manual handling and mental health. This year, we continued to deliver our high-performance environmental systems program to tier two managers and below across our business.

We strive to provide our employees with market competitive pay rates. Annual salary reviews are conducted, and multi-tiered annual bonuses are paid across the workforce. There are five collective agreements in place across the Group. Effective relationships exist between employees, unions and the organisation; and all agreements due for renewal have successfully been renegotiated with the following agreements being in place:

- Davey Water Products Enterprise Agreement dated 2017 (Production Agreement) – expires 30 June 2020
- Davey Water Products Warehouse Enterprise Bargaining Agreement dated 2017 – expires 30 June 2020
- Ryco Filters Australia Enterprise Bargaining Agreement 2018 – expires 31 March 2021
- Ryco Filters NZ Employees Collective Agreement - expires 30 April 2020
- AA Gaskets Enterprise Bargaining Agreement 2018 – expires 30 June 2020

## Sustainability Review 2018-19

We conduct an annual employee engagement survey across the business. Seven of the seventeen areas measured showed further increase against 2018 results. Safety is rated very highly by employees with the score rating above the global 75th percentile.

The recruitment of a Chief People Officer in May 2019 will give focus to greater emphasis to talent development and to realising the full potential of the human capital of GUD. Looking forward, we will focus on implementing the following programmes over the upcoming year:

- Talent and succession plans for critical roles and key talent
- Learning and development plans to strengthen the effectiveness of leadership and leadership teams across the businesses
- Deployment of a Speak Up Policy in pursuit of an open culture where all employees feel able to, and do, raise concerns where they exist

### **Sustainable Procurement**

GUD is committed to sourcing products in a responsible manner and supporting our suppliers improve their social and environmental practices. GUD's businesses source products and services from a range of locations. Whilst 43% of our products are supplied locally in Australia, we source from other locations including Europe, New Zealand, Taiwan and China. Sourcing products from these regions creates shared economic benefits as well as allowing our businesses to provide affordable products to consumers.

We worked to develop our Ethical Sourcing Policy and Ethical Sourcing Code throughout the year, and this was approved by the Risk and Compliance Committee in December 2018. The policy articulates the minimum standards suppliers should adhere to when conducting business with GUD to ensure that products and services are sourced in a responsible and consistent manner. Our aspiration is to share our knowledge and business practices with our suppliers in an endeavour to improve the lives of workers within our supplier base as well as quality of the product. The Ethical Sourcing Code covers guidance and minimum expectations with respect to slavery practices, labour standards, health and safety, discrimination, the environment and business ethics, and is available on the GUD website.

This year, we sent a supplier self-assessment checklist to our tier one suppliers to understand their level of compliance with the minimum standards within the Ethical Sourcing Code. We are receiving responses from suppliers and are assessing their alignment with our Code. For suppliers that may not meet our requirements, we intend to investigate the key gaps and more importantly, work with them to improve their practices.

The suppliers who have conducted their operations in accordance with the Code are categorised as 'gold' suppliers in our system and when making procurement decisions they are automatically identified as preferred suppliers.

With the introduction of Modern Slavery legislation in late 2018, GUD has taken steps to integrate initiatives to understand the risk and mitigate the impacts of modern slavery. We are expecting to publish our first Modern Slavery Statement in November 2020.

### **Water Management**

We understand the challenge of water scarcity in Australian context, and through our Davey Water Products business have the capability to impact this in a positive way. To inform our product development process, we commissioned research to understand consumer attitudes toward water management and how these fit with their lives of consumers. Stemming from this, we know that water management is important to a broad cross section of our customers because of limited supply, particularly in remote areas of Australia. Water management for our customers is about knowing how much water is being used and to protect water supply through detecting leaks.

We have a number of water-saving products in our range and are continuously investing in new opportunities that seek to meet the challenges faced by our customers.

### **Monsoon IQ**

The Monsoon IQ booster system uses variable speed drives on Davey Pumps to control and cascade supply to match changing water demands. The system reaches full optimisation when connected to the cloud allowing access and peace of mind from anywhere in the world. The Monsoon IQ Cloud allows the consumer to remotely control, optimise and monitor the system from any connected device.

Davey's Monsoon IQ intelligent pump set was recently fitted at De Bortoli Wines, Yarra Valley. The vineyard has 13 irrigation dams across 11 pumping systems. This has allowed De Bortoli Wines to precisely match water needs to specific areas of a vineyard and detect temperature changes and faults. The remote monitoring capability makes this easier to check flow and pressure at any time, to maximise water efficiency.

### **RainBank**

The RainBank system is an automatic controller for rainwater harvesting. RainBank controls the water supply for toilet and laundry applications by automatically selecting the water source. Rainwater is given priority with mains water supplied seamlessly as a back up for when the tank is empty or in the event of a power outage. RainBank can save up to 40% of a household's mains water use, helping to conserve this precious resource and lower water bills.

This year we also worked on understanding our water footprint across our 30 sites across Australia and New Zealand. We are working with our business units to develop a consistent method of data collation for monitoring and reporting purposes. Across our sites we endeavour to use Davey water products to provide water saving initiatives.

## Remuneration Report

This report forms part of the Directors' Report and has been audited as required by section 308(3C) of the *Corporations Act 2001* has been prepared in accordance with the *Corporations Act 2001*.

The report is outlined in the following sections:

1. Who this Report Covers
2. Remuneration Governance
3. Senior Executive Remuneration Strategy and Structure
4. Remuneration for the Managing Director and Senior Executives
5. Link between Performance and Remuneration Outcomes
6. Service Agreements
7. Non-Executive Directors' Remuneration
8. Other KMP Transactions

### 1. Who this Report Covers

This report outlines the remuneration arrangements for the Group's Key Management Personnel (KMP).

The following individuals had authority and responsibility for planning, directing and controlling the activities of the Group for all or part of the financial year ended 30 June 2019:

| Name                    | Role  |  |
|-------------------------|---|--|
| Non-Executive Directors |   |  |
| M G Smith               | Non-Executive Director and Chairman                                     |  |
| A L Templeman-Jones     | Non-Executive Director and Chair of Risk and Compliance Committee       |  |
| G A Billings            | Non-Executive Director and Chair of Audit Committee                     |  |
| D D Robinson            | Non-Executive Director and Chair of Remuneration Committee              |  |
| Managing Director       | Role  |  |
| G Whickman              | Managing Director (Appointed on 1 October 2018)                         |  |
| J P Ling                | Managing Director (Former Managing Director – ceased 30 September 2018) |  |
| Senior Executives       | Role  | Entity                                       |
| M Fraser                | Chief Financial Officer   |  |
| G Davies                | Chief Executive Officer   | Brown & Watson International                 |
| R Pattison              | Chief Executive Officer   | GUD Automotive Division                      |
| G Nicholls              | Chief Executive Officer   | Ryco Group (Ceased to be a KMP - 6 May 2019) |
| D Worley                | Chief Executive Officer   | Davey  |
| T Cooper                | Managing Director   | Wesfil                                       |

### 2. Remuneration Governance

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Managing Director and Senior Executives (collectively, Senior Executives).

The Remuneration Committee consists of the four Non-Executive Directors and is responsible for determining a framework and broad policy for remuneration. It advises the Board on remuneration policies and practices in general, and makes specific recommendations on fees, remuneration packages, incentives and other terms of employment for Senior Executives.

A copy of the Remuneration Committee Charter is available under the Governance section of the Company's website.

The Senior Executives do not participate in any decision relating to their own remuneration.

## 3. Senior Executive Remuneration Strategy and Structure

### Remuneration Strategy

Our remuneration strategy is designed to attract, retain and motivate appropriately qualified and experienced Senior Executives. Our strategy ensures we are well positioned to deliver reasonable and market competitive rewards in a way that supports a clear performance focus and is aligned with the long-term goals of the Group.

In determining the Senior Executives' remuneration, we have developed remuneration guiding principles to assist in decision-making:

- The remuneration structure is relevant and simple for Senior Executives and shareholders to understand.
- Our remuneration practices support the delivery of long-term business strategy and provide a clear link between Group performance and remuneration outcomes.
- Remuneration levels are sufficient to attract and retain key talent and be competitive.
- We have clearly defined and disclosed remuneration processes and structures that reflect shareholder views and objectives.
- Our incentive plans are carefully designed to balance the twin imperatives of short-term performance and long-term enhancement of shareholder value, and are regularly reviewed to ensure alignment with corporate governance principles.
- The Remuneration Committee is committed to continuing to review and refine the remuneration strategy to ensure it meets the changing needs of the Group and remains aligned to shareholder interests. The Committee has undertaken a review in the current financial year, and resolved to make no change.

### Remuneration Structure

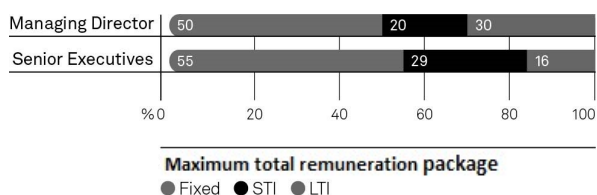
The remuneration framework provides a mix of fixed and variable remuneration and has five components:

- Fixed remuneration;
- Other employment related benefits; and
- "at risk" remuneration including:
  - Short-term incentives (STI);
  - Long-term incentives (LTI); and
  - Special incentives.

These comprise the total remuneration paid to Senior Executives.

Our approach is to position the maximum "at risk" components of Senior Executives' remuneration relative to total maximum remuneration, to around 45 per cent, and 50 per cent in the case of the Managing Director.

In the absence of any special incentives, the remuneration mix for the Senior Executives is as follows:



### Fixed Remuneration and Other Employment Related Benefits

The remuneration packages for the Senior Executives contain a fixed amount that is not performance linked. The fixed remuneration consists of base salary, as well as employer contributions to superannuation funds.

Fixed remuneration for Senior Executives is determined by reference to the scope of their positions and the knowledge, experience and skills required to perform their roles. Periodically, independent consultants provide benchmark information, analysis and/or advice to the Remuneration Committee to ensure the packages are competitive in the market with comparable roles. We have adopted a desired market positioning around the median of the peer group. The Company has not received remuneration recommendations from an independent consultant during the year ended 30 June 2019.

The Remuneration Committee, through a process that considers individual, business unit and overall Group performance, reviews fixed remuneration annually. Fixed remuneration levels are generally not adjusted during the year unless the individual is promoted or there is a substantial change in market rates.

Senior Executives receive non-cash benefits in the form of salary continuance insurance and other benefits, refer table 4.1 for further information. In addition, Senior Executives receive annual and long service leave.

#### Short Term Incentive (STI)

The Board considers that basing the STI payments on Cash Value Added (CVA) performance aligns the interests of the Senior Executives with the interests of shareholders in the businesses being operated profitably. The current STI plan provides an annual bonus for achieving or exceeding an agreed CVA target and is paid following the announcement of the Group's year-end results. CVA targets are set with reference to agreed underlying EBIT targets and the weighted average cost of capital employed.

CVA measures a true level of performance of the business by comparing trading profit performance (being reported profit adjusted for non-recurring items) with the return required on the net assets used by the businesses, generally a measure of weighted average cost of capital. This requires management to drive both trading profit and carefully manage the balance sheet.

Acquisition and disposal costs are excluded from the CVA calculation due to their one-off nature, which can be difficult to budget with certainty and consequently including them could discourage growing shareholder value through business portfolio changes.

For each financial year:

- In respect of business unit executives – STI bonuses will only be paid where business unit CVA performance exceeds the CVA performance of the prior year and the CVA target for the relevant business unit.
- In respect of Group executives – STI bonuses will only be paid where Group CVA performance exceeds the Group CVA performance of the prior year and the Group CVA target.
- CVA targets for each business unit and for the Group overall will be established by the Remuneration Committee in the first quarter of the financial year.

The Remuneration Committee determines the Senior Executive actual STI bonuses after the conclusion of the financial year in accordance with the plan rules.

The Board continues to view CVA as the most appropriate annual performance measure. CVA targets and outcomes are not published because the Board regards them as commercially sensitive. Part 5 identifies those KMPs heading up businesses which exceeded the CVA target and hence received an STI bonus.

STI bonuses are calculated as a percentage of fixed remuneration. When the CVA target is achieved, the target STI bonus is paid in full. If the CVA target is exceeded, the STI bonus increases up to a ceiling of no more than 150 per cent of the target STI bonus, generally upon achieving 120 per cent of CVA target. No STI is paid where CVA performance falls below the CVA target.

| Bonuses as a per cent of fixed remuneration | % of salary at                  |                               |       |
|---|---------------------------------|-------------------------------|-------|
|   | STI<br>Threshold<br>performance | STI<br>Stretch<br>performance | LTI   |
| <b>Managing Director</b>                    | 26.67                           | 40.00                         | 60.00 |
| <b>Senior Executives</b>                    | 35.00                           | 52.50                         | 30.00 |

Details of the CVA STI bonuses payable to the Senior Executives for the year ended 30 June 2019 are set out in section four of this Report.

From and including the financial year commencing 1 July 2019, the Remuneration Committee and the Board have included two qualifying performance thresholds for STI bonuses to be awarded. Firstly, the business CVA dollars achieved must exceed the prior year, and secondly, the underlying EBIT dollars must grow over the prior year by hurdle growth rates endorsed by the Board on an annual basis.

#### Long Term Incentive (LTI)

The Board considers that measuring Executives' performance for LTI purposes by reference to the Group's total shareholder return (TSR) relative to a comparator group closely aligns the LTI component of their remuneration with the interests of shareholders.

The comparator group is the Standard and Poor's ASX Small Ordinaries index, of which the Group forms part, modified to exclude stocks in the mining, materials and energy industries. It was chosen on the basis that it is the



most effective way to measure and reward the extent to which shareholder returns are generated relative to the performance of companies that compete with the Group for capital and employees. The comparator group typically comprises over 100 companies.

LTI bonuses are provided as performance rights, granted at the commencement of the relevant three-year performance measurement period, which will convert to an equivalent number of GUD shares if the performance hurdle is achieved over the relevant three-year performance measurement period. No amount is payable for the issue of performance rights, or for the shares received upon vesting of those performance rights. The plan is in line with market norms, supports the delivery of the Group's long-term strategy and encourages the Senior Executives to hold an exposure to equity. The maximum number of performance rights granted is set as a percentage of the Senior Executives' fixed remuneration on grant, re-stated as a number of performance rights, determined by applying the share price, being the Volume Weighted Average Price over the month of June immediately prior to the commencement of the relevant year of grant.

Participation in the plan is subject to Remuneration Committee recommendation and Board approval. In the case of the Managing Director, shareholder approval is also required, and is sought at the Annual General Meeting prior to the Board formally granting the performance rights to the Managing Director.

After the cessation of employment of a participating executive, the Board has the discretion whether to allow a pro rata portion of the granted performance rights to remain 'on foot' subject to the plan rules and the performance criteria. The remaining performance rights of a departing Executive lapse in accordance with plan rules.

Following the end of the performance measurement period, the Board receives an independent calculation of the Company's TSR performance against the comparator group over the performance measurement period. The vesting schedule for performance rights equity-based awards is as follows:

| TSR performance                      | % of LTI that vests                |
|--------------------------------------|------------------------------------|
| TSR below 50th percentile            | Nil                                |
| TSR at 50th percentile               | 50                                 |
| TSR between 50th and 75th percentile | Progressive vesting from 50 to 100 |
| TSR at 75th percentile and above     | 100                                |

Under prevailing accounting standards, the potential cost to the Company from granting performance rights is calculated as the fair value of those performance rights at grant and that amount is accrued over the three-year performance measurement period.

The rules of the LTI plan include provisions that prohibit participants entering into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme.

In respect of LTI grants made from and including the financial year commencing 1 July 2019, the Remuneration Committee and the Board have included an additional performance threshold: that the Company's absolute TSR performance over the performance measurement period must be positive.

### Special Incentives

From time to time the Remuneration Committee may approve a special incentive to a selected employee aligned to the attainment of particular outcomes which align with shareholder interests and value. Special incentives may be paid as performance rights or other salary. No special incentives were offered or paid to KMP in respect of financial year ended 30 June 2019.

## Remuneration Report



### 4.1 Remuneration for the Managing Director and Senior Executives

Details of the nature and amount of each major element of remuneration of the Executive Directors and Senior Executives are:

| Year   | Short-term employment benefits |           |                    |  |                |        | Long-term benefits |  |                |         | Total remuneration | Proportion of total risk related remuneration | Value of equity remuneration as a proportion of total remuneration |
|--|--------------------------------|-----------|--------------------|--|----------------|--------|--------------------|--|----------------|---------|--------------------|---|--|
|  | Salary <sup>1</sup> and fees   | STI bonus | Leave entitlements | Income protection premium <sup>5</sup> | Other benefits | Total  | Long service leave | Equity fair value of performance rights <sup>2</sup> | Superannuation |         |                    |   |  |
|  |                                |           |                    |  |                |        |                    |  |                |         |                    |   |  |
|  |                                |           |                    |  |                |        |                    |  |                |         |                    |   |  |
| \$   | \$                             | \$        | \$                 | \$                                     | \$             | \$     | \$                 | \$   | \$             | %       | %                  |   |  |
| Managing Director  |                                |           |                    |  |                |        |                    |  |                |         |                    |   |  |
| G Whickman <sup>3</sup>  | 2019                           | 712,500   | -                  | (350)                                  | 1,490          | -      | 713,640            | 11,799   | 59,410         | 25,000  | 809,849            | 7.3   | 7.3  |
| J P Ling   | 2019                           | 234,254   | -                  | (24,850)                               | 432            | -      | 209,835            | (90,766)   | 155,134        | 25,000  | 299,203            | 51.8  | 51.8   |
|  | 2018                           | 1,108,000 | 414,541            | (5,371)                                | 4,122          | -      | 1,521,292          | 21,273   | 395,919        | 25,000  | 1,963,484          | 41.3  | 20.2   |
| Senior Executives  |                                |           |                    |  |                |        |                    |  |                |         |                    |   |  |
| M Fraser   | 2019                           | 593,887   | -                  | 29,537                                 | 1,634          | -      | 625,057            | 26,405   | 103,134        | 25,000  | 779,596            | 13.2  | 13.2   |
|  | 2018                           | 564,416   | 283,047            | (2,135)                                | 1,094          | -      | 846,422            | (1,421)  | 93,472         | 25,000  | 963,473            | 39.1  | 9.7  |
| D Chin <sup>4</sup>  | 2018                           | 647,211   | 72,100             | -                                      | -              | -      | 719,311            | -  | 18,905         | 12,740  | 750,956            | 12.1  | 2.5  |
| R Pattison   | 2019                           | 575,000   | -                  | 13,460                                 | -              | -      | 588,460            | (39,271)   | 98,684         | 25,000  | 672,873            | 14.7  | 14.7   |
|  | 2018                           | 535,000   | 279,332            | 21,580                                 | 2,204          | -      | 838,116            | 11,308   | 84,918         | 25,000  | 959,342            | 38.0  | 8.9  |
| G Davies   | 2019                           | 475,000   | -                  | 3,119                                  | 517            | -      | 478,636            | 27,914   | 66,122         | 25,000  | 597,672            | 11.1  | 11.1   |
|  | 2018                           | 395,000   | 209,939            | 24,945                                 | 353            | 34,470 | 664,707            | (25,990)   | 41,739         | 25,000  | 705,456            | 35.7  | 5.9  |
| G Nicholls <sup>6</sup>  | 2019                           | 550,000   | -                  | 61,345                                 | 1,410          | -      | 612,755            | 103,386  | 86,055         | 25,000  | 827,196            | 10.4  | 10.4   |
|  | 2018                           | 475,000   | 235,107            | (6,085)                                | 353            | -      | 704,375            | 20,934   | 71,863         | 25,000  | 822,172            | 37.3  | 8.7  |
| D Worley   | 2019                           | 481,479   | -                  | (1,851)                                | -              | -      | 479,628            | 11,695   | 85,572         | 25,000  | 601,895            | 14.2  | 14.2   |
|  | 2018                           | 466,727   | -                  | 1,880                                  | 1,212          | -      | 469,819            | 8,972  | 45,080         | 25,000  | 548,871            | 8.2   | 8.2  |
| T Cooper   | 2019                           | 490,000   | 183,314            | 41,398                                 | -              | -      | 714,712            | 9,409  | 83,445         | 25,000  | 832,566            | 32.0  | 10.0   |
|  | 2018                           | 475,000   | 197,652            | 36,209                                 | 2,204          | -      | 711,065            | 3,654  | 74,007         | 25,000  | 813,726            | 33.4  | 9.1  |
| Total remuneration of the Managing Director and Senior Executives of the Group |                                |           |                    |  |                |        |                    |  |                |         |                    |   |  |
|  | 2019                           | 4,112,120 | 183,314            | 121,807                                | 5,482          | -      | 4,422,723          | 60,571   | 737,556        | 200,000 | 5,420,850          |   |  |
|  | 2018                           | 4,666,354 | 1,691,718          | 71,023                                 | 11,542         | 34,470 | 6,475,107          | 38,730   | 825,903        | 187,740 | 7,527,480          |   |  |
| Total remuneration of Non-Executive Directors                                  |                                |           |                    |  |                |        |                    |  |                |         |                    |   |  |
|  | 2019                           | 705,493   | -                  | -                                      | -              | -      | 705,493            | -  | -              | 64,684  | 770,177            |   |  |
|  | 2018                           | 744,389   | -                  | -                                      | -              | -      | 744,389            | -  | -              | 70,104  | 814,493            |   |  |
| Total remuneration (compensation of key management personnel of the Group)     |                                |           |                    |  |                |        |                    |  |                |         |                    |   |  |
|  | 2019                           | 4,817,613 | 183,314            | 121,807                                | 5,482          | -      | 5,128,216          | 60,571   | 737,556        | 264,684 | 6,191,027          |   |  |
|  | 2018                           | 5,410,743 | 1,691,718          | 71,023                                 | 11,542         | 34,470 | 7,219,496          | 38,730   | 825,903        | 257,844 | 8,341,973          |   |  |

1 Salary includes base and other salary.

2 The fair value of performance rights granted under the 2019, 2020 and 2021 performance rights plans are subject to achievement of TSR hurdles and were calculated by independent experts using a Monte-Carlo simulation valuation. The fair value is allocated to each reporting period evenly from the date of grant to the vesting date. The value disclosed in the Remuneration table above is the portion of the fair value of the performance rights expensed during the year ended 30 June 2019.

3 Graeme Whickman was appointed Managing Director and Chief Executive officer on 1 October 2018, following the resignation of Jonathan Ling on 30 September 2018.

4 David Chin left the GUD Group as a result of the sale of Oates on 2 January 2018. The table above discloses his remuneration for the period to 2 January 2018. As a result of the sale of Oates on 2 January 2018 Mr Chin received a \$450,000 incentive payment for successfully completing the sale of the Oates business which occurred on 2 January 2018 (Note 33b). The incentive bonus was paid on 17 January 2018 and is reported as part of salary.

5 Income protection insurance is only offered to age 65.

6 Guy Nicholls ceased to be a KMP on 6 May 2019.

## GUD Holdings Limited and Subsidiaries

### 4.2 Senior Executive take home remuneration prior to taxation

This section uses non-IFRS financial information to detail realised pay earned by the CEO and Other Senior Executives during FY19 together with prior year comparatives. This is a voluntary disclosure and is supplemental information to the statutory remuneration disclosure contained in Section 4.1 of this Remuneration Report. Realised Pay includes Base Salary, Retirement and other benefits including the market value of incentive payments earned. This differs from the statutory amount as it excludes accruals and estimations and is thus a closer measure of take home pay before taxation received in respect of the current year

|   | Year | Cash Settled Remuneration       |   |                         | Non cash remuneration   |  | Total remuneration |
|---|------|---------------------------------|---|-------------------------|---|--|--------------------|
|   |      | Fixed remuneration <sup>1</sup> | Cash short term incentives <sup>2</sup> | Total cash remuneration | Long term incentives vested with respect to the year <sup>3</sup> | Other non-monetary remuneration <sup>4</sup> |                    |
|   |      | \$                              |   |                         |   | \$   | \$                 |
| <b>Managing Director</b>  |      |                                 |   |                         |   |  |                    |
| G Whickman  | 2019 | 737,500                         | -                                       | 737,500                 | -   | 12,602                                       | 750,102            |
| J P Ling  | 2019 | 259,254                         | -                                       | 259,254                 | 380,380   | (115,185)                                    | 524,449            |
|   | 2018 | 1,133,000                       | 414,541                                 | 1,547,541               | 888,710   | 20,024                                       | 2,456,275          |
| <b>Senior Executives</b>  |      |                                 |   |                         |   |  |                    |
| M Fraser  | 2019 | 618,887                         | -                                       | 618,887                 | 131,912   | 57,575                                       | 808,374            |
|   | 2018 | 589,416                         | 283,047                                 | 872,463                 | 227,877   | (2,462)                                      | 1,097,878          |
| D Chin  | 2018 | 659,951                         | 72,100                                  | 732,051                 | -   | -  | 732,051            |
| R Pattison  | 2019 | 600,000                         | -                                       | 600,000                 | 113,974   | (25,811)                                     | 688,163            |
|   | 2018 | 560,000                         | 279,332                                 | 839,332                 | 204,909   | 35,092                                       | 1,079,333          |
| G Davies  | 2019 | 500,000                         | -                                       | 500,000                 | 58,378  | 31,550                                       | 589,928            |
|   | 2018 | 420,000                         | 209,939                                 | 629,939                 | -   | 33,778                                       | 663,717            |
| G Nicholls  | 2019 | 575,000                         | -                                       | 575,000                 | 96,817  | 166,141                                      | 837,958            |
|   | 2018 | 500,000                         | 235,107                                 | 735,107                 | 151,951   | 15,202                                       | 902,260            |
| D Worley  | 2019 | 506,479                         | -                                       | 506,479                 | 110,050   | 9,844  | 626,373            |
|   | 2018 | 491,727                         | -                                       | 491,727                 | 197,320   | 12,064                                       | 701,111            |
| T Cooper  | 2019 | 515,000                         | 183,314                                 | 698,314                 | 97,828  | 50,807                                       | 846,949            |
|   | 2018 | 500,000                         | 197,652                                 | 697,652                 | 173,602   | 42,067                                       | 913,321            |
| <b>Total remuneration of the Managing Director and Senior Executives of the Group</b> |      |                                 |   |                         |   |  |                    |
|   | 2019 | 3,315,366                       | 183,314                                 | 3,498,680               | 989,339   | 290,106                                      | 4,778,125          |
|   | 2018 | 4,854,094                       | 1,691,718                               | 6,545,812               | 1,844,369   | 155,765                                      | 8,545,946          |

1. Salary and super includes base and other salary and employer superannuation contributions. In the case of David Chin, his salary includes a special incentive paid as a consequence of the sale of Oates.
2. The STI bonus column reflects the STI cash bonus paid in respect of performance during the year ended 30 June 2019 and paid in late July 2019 following the announcement of the Group's year-end results.
3. LTI performance rights granted in July and October 2016 vested as a result of the company meeting TSR targets on 30 June 2019. Refer section 5 for disclosure in respect of performance achievement. The Remuneration Committee approved the partial vesting of the performance rights on 25 July 2019. The value assigned to the vested performance rights has been calculated using the Company's closing share price on 28 June 2019 of \$10.01.
4. Non-monetary benefits includes leave entitlements, income protection premiums, long service leave and certain personal expenses.

## GUD Holdings Limited and Subsidiaries

### 4.3 GUD Holdings Limited Equity Interests Held by the Senior Executives

Senior Executives have exposure to equity in GUD either directly in the form of shares, or indirectly through holding performance rights in the Company. Details of Senior Executives equity interests follow.

#### Performance Rights Granted During the Year

Details of performance rights over ordinary shares in the Company that were granted to Senior Executives under the LTI plan during the reporting period are set out in the following table:

|                          | Rights granted during the year ended 30 June 2019 | Grant date      | Vesting date | Fair value per performance right at grant date \$ | Fair value of rights granted during the year ended 30 June 2019 \$ |
|--------------------------|---|-----------------|--------------|---|--|
| <b>Managing Director</b> |   |                 |              |   |  |
| G Whickman               | 30,134  | 25 October 2018 | 30 June 2021 | 5.92  | 178,393  |
| <b>Senior Executives</b> |   |                 |              |   |  |
| M Fraser                 | 13,261  | 30 July 2018    | 30 June 2021 | 6.69  | 88,716   |
| R Pattison               | 12,857  | 30 July 2018    | 30 June 2021 | 6.69  | 86,013   |
| G Davies                 | 10,714  | 30 July 2018    | 30 June 2021 | 6.69  | 71,677   |
| G Nicholls               | 12,321  | 30 July 2018    | 30 June 2021 | 6.69  | 82,427   |
| D Worley                 | 10,853  | 30 July 2018    | 30 June 2021 | 6.69  | 72,607   |
| T Cooper                 | 11,035  | 30 July 2018    | 30 June 2021 | 6.69  | 73,824   |
| <b>Total</b>             | <b>101,175</b>                                    |                 |              |   | <b>653,657</b>   |

A minimum level of performance must be achieved before any performance rights vest. Therefore the minimum possible total value of the LTI for future financial years is nil.

The following factors were used in determining the fair value of performance rights granted during the year:

|                            | Grant date      | Vesting period date | Fair value per performance right \$ | Price of shares on grant date \$ | Estimated volatility % | Risk free interest rate % | Dividend yield % |
|----------------------------|-----------------|---------------------|-------------------------------------|----------------------------------|------------------------|---------------------------|------------------|
| Grant to Managing Director | 25 October 2018 | 30 June 2021        | 5.92                                | 12.64                            | 28.00                  | 2.01                      | 5.0              |
| Grant to Senior Executives | 30 July 2018    | 30 June 2021        | 6.69                                | 14.15                            | 28.00                  | 2.08                      | 5.0              |

#### Performance Rights Holdings of Senior Executives

The following table discloses changes in the performance rights holdings of Senior Executives in the Company. The related parties of Senior Executives do not hold any performance rights.

|                          | Balance at 1 July 2018 | Rights granted during the year | Rights vested during the year | Rights lapsed during the year | Balance at 30 June 2019 | Rights vested with respect to the year <sup>1</sup> | Rights lapsed with respect to the year <sup>1</sup> | Balance at the date of this report |
|--------------------------|------------------------|--------------------------------|-------------------------------|-------------------------------|-------------------------|---|---|------------------------------------|
| <b>Managing Director</b> |                        |                                |                               |                               |                         |   |   |                                    |
| G Whickman               | -                      | 30,134                         | -                             | -                             | 30,134                  | -   | -   | 30,134                             |
| J P Ling                 | 189,461                | -                              | (62,762)                      | (49,071)                      | 77,628                  | (38,000)  | (17,882)  | 21,746                             |
| <b>Senior Executives</b> |                        |                                |                               |                               |                         |   |   |                                    |
| M Fraser                 | 49,048                 | 13,261                         | (16,093)                      | -                             | 46,216                  | (13,178)  | (6,202)   | 26,836                             |
| D Chin                   | 8,413                  | -                              | -                             | -                             | 8,413                   | (4,466)   | (2,102)   | 1,845                              |
| R Pattison               | 44,112                 | 12,857                         | (14,471)                      | -                             | 42,498                  | (11,386)  | (5,358)   | 25,754                             |
| G Davies                 | 9,672                  | 10,714                         | -                             | -                             | 20,386                  | (5,832)   | (2,745)   | 11,809                             |
| G Nicholls               | 36,470                 | 12,321                         | (10,731)                      | -                             | 38,060                  | (9,672)   | (4,552)   | 23,836                             |
| D Worley                 | 41,428                 | 10,853                         | (13,935)                      | -                             | 38,346                  | (10,994)  | (5,174)   | 22,178                             |
| T Cooper                 | 38,147                 | 11,035                         | (12,260)                      | -                             | 36,922                  | (9,773)   | (4,599)   | 22,550                             |
| <b>Total</b>             | <b>416,751</b>         | <b>101,175</b>                 | <b>(130,252)</b>              | <b>(49,071)</b>               | <b>338,603</b>          | <b>(103,301)</b>                                    | <b>(48,614)</b>                                     | <b>186,688</b>                     |

1 Performance rights granted under the 2019 performance rights plan vested at 68% on the basis of the Company achieving the 59<sup>th</sup> percentile TSR hurdle as at 30 June 2019. The vesting was approved by the Remuneration Committee on 25 July 2019 and the rights have therefore been included in the table above as if the vesting were effective 30 June 2019.

## GUD Holdings Limited and Subsidiaries

### GUD Holdings Limited Shares Held by the KMPs

The following table discloses changes in the shareholdings of KMPs and their related parties in the Company.

| For the year ended 30 June 2019 |                        |  |                  |                  |                         |  | Number of shares                   |  |
|---------------------------------|------------------------|--|------------------|------------------|-------------------------|--|------------------------------------|--|
|                                 | Balance at 1 July 2018 | Shares issued from performance rights <sup>1</sup> | Shares purchased | Shares sold      | Balance at 30 June 2019 | Shares to be issued from performance rights <sup>2</sup> | Balance at the date of this report |  |
| <b>Non-Executive Directors</b>  |                        |  |                  |                  |                         |  |                                    |  |
| M G Smith                       | 41,000                 | -  | 17,000           | -                | 58,000                  | -  | 58,000                             |  |
| A L Templeman-Jones             | 5,042                  | -  | 1,400            | -                | 6,442                   | -  | 6,442                              |  |
| G A Billings                    | 11,250                 | -  | -                | -                | 11,250                  | -  | 11,250                             |  |
| D D Robinson                    | 13,000                 | -  | -                | -                | 13,000                  | -  | 13,000                             |  |
|                                 |                        |  |                  |                  |                         |  |                                    |  |
| For the year ended 30 June 2019 |                        |  |                  |                  |                         |  | Number of shares                   |  |
|                                 | Balance at 1 July 2018 | Shares issued from performance rights <sup>1</sup> | Shares purchased | Shares sold      | Balance at 30 June 2019 | Shares to be issued from performance rights <sup>2</sup> | Balance at the date of this report |  |
| <b>Managing Director</b>        |                        |  |                  |                  |                         |  |                                    |  |
| G Whickman                      | -                      | -  | 2,000            | -                | 2,000                   | -  | 2,000                              |  |
| J P Ling <sup>3 4</sup>         | 306,532                | 62,762   | -                | (268,400)        | 100,894                 | 38,000   | 38,000                             |  |
| <b>Senior Executives</b>        |                        |  |                  |                  |                         |  |                                    |  |
| M Fraser <sup>3</sup>           | 124,564                | 16,093   | -                | (30,000)         | 110,657                 | 13,178   | 123,835                            |  |
| R Pattison                      | 29,833                 | 14,471   | -                | (5,000)          | 39,304                  | 11,386   | 50,690                             |  |
| G Davies                        | -                      | -  | -                | -                | -                       | 5,832  | 5,832                              |  |
| G Nicholls                      | 22,045                 | 10,731   | -                | (32,776)         | -                       | 9,672  | 9,672                              |  |
| D Worley                        | 4,165                  | 13,935   | -                | -                | 18,100                  | 10,994   | 29,094                             |  |
| T Cooper                        | 38,935                 | 12,260   | -                | (25,000)         | 26,195                  | 9,773  | 35,968                             |  |
|                                 | <b>596,366</b>         | <b>130,252</b>                                     | <b>20,400</b>    | <b>(361,176)</b> | <b>385,842</b>          | <b>98,835</b>  | <b>383,783</b>                     |  |

1 Performance rights granted under the 2018 performance rights plan vested at the maximum on the basis of the Company exceeding the 75th percentile TSR hurdle as at 30 June 2018. The issue of shares was approved by the Remuneration Committee on 26 July 2018 (as disclosed in the Remuneration Report for the year ended 30 June 2018) and were allotted on 30 July 2018.

2 Performance rights granted under the 2019 performance rights plan vested at 68%. The vesting was approved by the Remuneration Committee on 25 July 2019 and the rights have therefore been included in the table above as if the vesting were effective 30 June 2019.

3 Some Executives' holdings include shares held either directly, or through other entities in which the Executive has a trustee role or controlling interest.

4 Subsequent to 30 June 2019, Jonathan Ling has sold 100,894 shares, therefore the balance as at the date of this report shows only the shares vesting under the 2019 performance rights plan.

### 5. Link between Performance and Remuneration Outcomes

The remuneration and incentive framework, which has been put in place by the Board, has ensured that the Managing Director and Senior Executives are focused on both maximising short-term operating performance and long-term strategic growth.

The Board continues to review and monitor the remuneration and incentive framework to ensure that performance is fairly rewarded and encouraged, and to attract, motivate and retain a high quality Senior Executive team.

### STI

In the current year, the following business in the consolidated entity exceeded CVA targets: Wesfil. As a result, T Cooper, CEO of Wesfil received an STI bonus payment based on achieving or exceeding the business unit CVA performance. Corporate Executives, including the Managing Director and Chief Financial Officer, did not receive an STI bonus as the Group failed to achieve its CVA target.

## GUD Holdings Limited and Subsidiaries

|   | Maximum STI opportunity | Actual STI bonus payment <sup>1</sup> | Actual STI bonus payment as a % of maximum STI | Disentitled |
|---|-------------------------|---------------------------------------|--|-------------|
| STI bonus payable for the year ended 30 June 2019 | \$                      | \$                                    | %  | %           |
| <b>Managing Director</b>                          |                         |                                       |  |             |
| G Whickman  | 295,000                 | -                                     | -  | 100         |
| J P Ling  | -                       | -                                     | -  | 100         |
| <b>Senior Executives</b>                          |                         |                                       |  |             |
| M Fraser  | 324,916                 | -                                     | -  | 100         |
| R Pattison  | 315,000                 | -                                     | -  | 100         |
| G Nicholls  | 301,875                 | -                                     | -  | 100         |
| G Davies  | 262,500                 | -                                     | -  | 100         |
| D Worley  | 265,900                 | -                                     | -  | 100         |
| T Cooper  | 270,375                 | 183,314                               | 68   | 32          |

1 A minimum level of performance, including exceeding the previous year's CVA, must be achieved before any STI bonus is payable.

The payments relate to STI bonus earned in the year ended 30 June 2019, approved by the Remuneration Committee on the 25 July 2019.

The Remuneration Committee periodically reviews the design and operation of the STI plans to ensure that they focus rewards on achieving targets that represent strong performance of the business units, which will ultimately support shareholder returns. As in prior years the Board has tasked the Remuneration Committee to undertake such a review in the first quarter of the forthcoming financial year before any STI targets are confirmed for that year. The review will focus on the target setting and thresholds for minimum and maximum STI rewards rather than the quantum of potential rewards.

### LTI

The following table summarises key Company performance and shareholder wealth statistics over the past five years.

TSR measures the return a shareholder obtains from ownership of shares in a company in a defined period, and takes into account various matters such as changes in the market value of the shares, as well as dividends on those shares.

The absolute TSR performance for the three years ending 30 June 2019 was 29.69%

| Financial year | Underlying EBIT <sup>1</sup><br>\$m | Underlying basic EPS <sup>1</sup><br>Cents | Total DPS<br>Cents | Opening share price<br>\$ | Closing share price<br>\$ | Dividend yield<br>% | TSR percentile rank for the 3 year period ending |
|----------------|-------------------------------------|--|--------------------|---------------------------|---------------------------|---------------------|--|
| 30 June 2015   | 51.6                                | 45.2                                       | 42.0               | 6.22                      | 8.84                      | 4.8                 | 56.8   |
| 30 June 2016   | 78.6                                | 52.0                                       | 43.0               | 8.84                      | 9.11                      | 4.7                 | 71.3   |
| 30 June 2017   | 83.6                                | 60.5                                       | 46.0               | 9.11                      | 12.91                     | 3.6                 | 91.2   |
| 30 June 2018   | 83.4                                | 67.2                                       | 52.0               | 12.91                     | 14.16                     | 3.7                 | 80.0   |
| 30 June 2019   | 88.9                                | 70.4                                       | 56.0               | 14.16                     | 10.01                     | 5.6                 | 59.0   |

1 Underlying EBIT and underlying basic EPS are presented before significant one-off items and are from continuing operations as reported in each year.

The TSR rank for the year ended 30 June 2019 was at the 59<sup>th</sup> percentile, that is above the median company of the comparator group. In accordance with the plan rules, on 25 July 2019 the Board approved the vesting of 68% of performance rights, and the lapsing of the balance of the performance rights, which were due to vest in respect of the period ended 30 June 2019.

### 6. Service Agreements

Remuneration and other terms of employment for Executives are formalised in a service agreement.

The essential terms of the Managing Director and Senior Executives' contracts are shown below:

## GUD Holdings Limited and Subsidiaries

| Name                     | Notice periods/termination payment  |
|--------------------------|---|
| <b>G Whickman</b>        | <ul style="list-style-type: none"> <li>Unlimited in term.</li> <li>A notice period of six months by either party applies, except in the case of termination by the Company for cause.</li> <li>On termination, Mr Whickman is entitled to receive his statutory entitlements of accrued annual and long service leave.</li> </ul>   |
| <b>Senior Executives</b> | <ul style="list-style-type: none"> <li>Unlimited in term.</li> <li>One or three months' notice by either party (or payment in lieu), except as noted below.</li> <li>On termination, Senior Executives are entitled to receive their statutory entitlements of accrued annual and long service leave.</li> <li>Mr Cooper is employed under a contract entered into in September 1996. That contract provides for 12 months' notice of termination by either party.</li> <li>Apart from Mr Cooper, no current Senior Executive contract includes termination benefits additional to the notice period and statutory entitlements described above.</li> </ul> |

### 7. Non-Executive Directors' Remuneration

Non-Executive Directors' fees are not 'at risk', to reflect the nature of their responsibilities.

#### Remuneration Policy

Non-Executive Director fees recognise the demands made on, and responsibilities of, Non-Executive Directors in performing their roles. Non-Executive Directors receive a base fee and a fee for chairing a Board Committee. The Chairman of the Board receives no extra remuneration for chairing committees.

Fees payable to Non-Executive Directors are determined within the maximum aggregate amount that is approved by shareholders. The current maximum aggregate fee amount is \$1,300,000, approved by shareholders at the 2017 Annual General Meeting.

In determining the level of fees, external professional advice and available data on fees payable to non-executive Directors of similar sized companies are taken into account. The Board, through its Remuneration Committee, will continue to review its approach to Non-Executive Director remuneration to ensure it remains in line with general industry practice and principles of good corporate governance.

Non-Executive Directors do not receive bonuses or any other incentive payments, and are not eligible to participate in any of the Executive or employee share acquisition plans established by the Company.

#### Fees

Board and Committee fees are set with reference to advice from external advisers and market data, with regard to factors such as the responsibilities and risks associated with the role.

The fees paid to Non-Executive Directors in the year ended 30 June 2019 are set out in the table below:

|             | Board   | Audit Committee | Risk and Compliance Committee | Remuneration Committee | Nominations Committee |
|-------------|---------|-----------------|-------------------------------|------------------------|-----------------------|
| Chairman of | 287,752 | 15,000          | 15,000                        | 15,000                 | Nil                   |
| Members of  | 114,247 | 5,000           | 5,000                         | 5,000                  | Nil                   |

In accordance with rule 36 of the Constitution, Directors are permitted additional fees for special services or exertions. No such fees were paid during the year. Directors are also entitled to be reimbursed for all business-related expenses, including travel on Company business, as may be incurred in the discharge of their duties.

#### Equity Participation

Non-Executive Directors do not receive shares or options as part of their remuneration, and there is no provision for Non-Executive Directors to convert a percentage of their prospective fees into GUD shares.

Nevertheless, all Directors hold shares, either directly or indirectly, in the Company. Details of Directors' shareholdings may be found earlier in this Report.

#### Superannuation

The Company pays superannuation in line with statutory requirements to eligible Non-Executive Directors.

## GUD Holdings Limited and Subsidiaries

### Remuneration

Details of the nature and amount of each element of the remuneration of Non-Executive Directors for the year ended 30 June 2019 are set out in the table below.

|  |             | Directors' Fees | Superannuation <sup>1</sup> | Total          |
|--|-------------|-----------------|-----------------------------|----------------|
|  | Year        | \$              | \$                          | \$             |
| <b>Non-Executive Directors</b>                       |             |                 |                             |                |
| M G Smith  | <b>2019</b> | 287,752         | 25,000                      | <b>312,752</b> |
|  | 2018        | 224,281         | 21,307                      | 245,588        |
| R M Herron   | <b>2019</b> | -               | -                           | -              |
|  | 2018        | 116,101         | 10,417                      | 126,518        |
| A L Templeman-Jones                                  | <b>2019</b> | 139,247         | 13,228                      | <b>152,475</b> |
|  | 2018        | 135,919         | 12,912                      | 148,831        |
| G A Billings   | <b>2019</b> | 139,247         | 13,228                      | <b>152,475</b> |
|  | 2018        | 135,919         | 12,912                      | 148,831        |
| D D Robinson   | <b>2019</b> | 139,247         | 13,228                      | <b>152,475</b> |
|  | 2018        | 132,169         | 12,556                      | 144,725        |
| <b>Total Remuneration of Non-Executive Directors</b> |             | <b>2019</b>     | <b>705,493</b>              | <b>64,684</b>  |
|  |             | 2018            | 744,389                     | 70,104         |
|  |             |                 |                             | <b>770,177</b> |
|  |             |                 |                             | 814,493        |

<sup>1</sup> Superannuation contributions on behalf of Non-Executive Directors to satisfy the Company's obligations under applicable Superannuation Guarantee legislation.

### 8. Other KMP Transactions

#### Loans to KMPs

There were no loans to KMPs at 30 June 2019 (2018: nil).

#### Other KMP Transactions with the Group

Wesfil Australia Pty Ltd leases its Sydney premises from an entity related to Terry Cooper, a Director of Wesfil Australia Pty Ltd on terms no less favourable than arm's length commercial terms. Net rental expense was \$448,444 excluding GST (2018: \$432,930 excluding GST).

Apart from the details disclosed in this Remuneration Report, no KMP has entered into a material contract with the Company or entities in the Group since the end of the previous financial year and there were no material contracts involving a KMP's Interest at year end.

A number of KMP, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with KMPs and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-KMP related entities on an arms-length basis.

From time to time, KMPs of the Company or its subsidiaries, or their related parties, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other group employees or customers and are trivial or domestic in nature.



# GUD Holdings Limited and Subsidiaries

## Consolidated Financial Statements

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# GUD Holdings Limited and Subsidiaries

## Consolidated Income Statement

For the year ended 30 June 2019

|   | Note | 2019<br>\$'000 | 2018<br>\$'000 |
|---|------|----------------|----------------|
| Revenue   | 2    | 434,077        | 396,689        |
| Cost of goods sold  |      | (222,092)      | (200,580)      |
| <b>Gross Profit</b>   |      | <b>211,985</b> | <b>196,109</b> |
| Other income  |      | 490            | 321            |
| Marketing and selling   |      | (54,778)       | (50,820)       |
| Product development and sourcing                                |      | (11,317)       | (12,166)       |
| Logistics expenses and outward freight                          |      | (24,502)       | (21,766)       |
| Administration  |      | (32,652)       | (27,681)       |
| Other expenses:   |      |                |                |
| Loss on revaluation of contingent consideration payable         | 7    | -              | (101)          |
| Impairment of inventory, product development and tooling assets | 7    | -              | (5,783)        |
| Other   |      | (2,189)        | (1,257)        |
| <b>Results from operating activities</b>                        |      | <b>87,037</b>  | <b>76,856</b>  |
| Net finance cost  | 4    | (6,792)        | (6,660)        |
| <b>Profit before tax</b>  |      | <b>80,245</b>  | <b>70,196</b>  |
| Income tax expense  | 31   | (20,687)       | (19,723)       |
| <b>Profit from continuing operations, net of income tax</b>     |      | <b>59,558</b>  | <b>50,473</b>  |
| Profit/(loss) from discontinued operation                       |      | -              | 51,372         |
| <b>Profit/(loss) from operations, net of income tax</b>         |      | <b>59,558</b>  | <b>101,845</b> |
| <b>Profit/(loss) attributable to owners of the Company</b>      |      | <b>59,558</b>  | <b>101,845</b> |
| <b>Earnings per share from continuing operations:</b>           |      |                |                |
| Basic earnings per share (cents per share)                      | 5    | 68.9           | 58.6           |
| Diluted earnings per share (cents per share)                    | 5    | 68.4           | 58.1           |
| <b>Earnings per share from discontinuing operations:</b>        |      |                |                |
| Basic earnings per share (cents per share)                      | 5    | -              | 59.6           |
| Diluted earnings per share (cents per share)                    | 5    | -              | 59.1           |
| <b>Earnings per share:</b>                                      |      |                |                |
| Basic earnings per share (cents per share)                      | 5    | 68.9           | 118.2          |
| Diluted earnings per share (cents per share)                    | 5    | 68.4           | 117.2          |

^ The Group has initially applied AASB 15 using the cumulative effect method. Under this method, the comparative information is not restated (refer note 1).

The notes on pages 41 to 94 are an integral part of these consolidated financial statements.

# GUD Holdings Limited and Subsidiaries

## Consolidated Statement of Comprehensive Income

For the year ended 30 June 2019

|   | Note | 2019<br>\$'000 | 2018<br>\$'000 |
|---|------|----------------|----------------|
| <b>Profit for the year from continuing operations</b>   |      | <b>59,558</b>  | 50,473         |
| <b>Other comprehensive income</b>   |      |                |                |
| <b>Items that will not be reclassified to profit and loss</b>                                 |      |                |                |
| Equity investments at FVOCI – net change in fair value  | 25   | (598)          | -              |
| <b>Items that may be reclassified subsequently to profit and loss</b>                         |      |                |                |
| Exchange differences on translating results of foreign operations                             | 28   | 539            | (16)           |
| Net fair value adjustments recognised in the hedging reserve                                  | 28   | 1,077          | 5,228          |
| Net change in fair value of cash flow hedges transferred to inventory                         | 28   | (4,086)        | (961)          |
| Equity settled share based payment transactions   | 28   | 1,761          | 1,823          |
| Income tax expense/(benefit) on items that may be reclassified subsequently to profit or loss | 31   | 903            | (1,280)        |
| <b>Other comprehensive income / (loss) for the year, net of tax</b>                           |      | <b>(404)</b>   | 4,794          |
| <b>Total comprehensive income from continuing operations, net of tax</b>                      |      | <b>59,154</b>  | 55,267         |
| Profit/(loss) from discontinued operation, net of tax   |      | -              | 51,372         |
| <b>Total comprehensive Profit/(loss) attributable to owners of the Company</b>                |      | <b>59,154</b>  | 106,639        |
| <b>Total comprehensive Profit/(loss)</b>  |      | <b>59,154</b>  | 106,639        |

^ The Group has initially applied AASB 15 using the cumulative effect method. Under this method, the comparative information is not restated (refer note 1).

All the above items may subsequently be recognised in the Income Statement.

The notes on pages 41 to 94 are an integral part of these consolidated financial statements.

# GUD Holdings Limited and Subsidiaries

## Consolidated Balance Sheet

As at 30 June 2019

|   | Note | 2019<br>\$'000 | 2018<br>\$'000 |
|---|------|----------------|----------------|
| <b>Current assets</b>                                     |      |                |                |
| Cash and cash equivalents                                 | 21   | 28,850         | 50,610         |
| Trade and other receivables                               | 8    | 106,827        | 96,687         |
| Inventories   | 9    | 108,951        | 87,500         |
| Derivative assets   | 23   | 898            | 3,677          |
| Other financial assets                                    | 24   | 756            | 516            |
| Current tax receivable                                    |      | 4              | 4              |
| Other assets  | 10   | 4,579          | 4,685          |
| <b>Total current assets</b>                               |      | <b>250,865</b> | <b>243,679</b> |
| <b>Non-current assets</b>                                 |      |                |                |
| Goodwill  | 16   | 125,493        | 115,396        |
| Other intangible assets                                   | 17   | 124,219        | 119,410        |
| Property, plant and equipment                             | 18   | 14,082         | 10,638         |
| Derivative assets   | 23   | -              | 10             |
| Other financial assets                                    | 24   | 1,978          | 1,284          |
| Deferred tax assets                                       | 32   | 7,801          | 7,927          |
| Investments   | 25   | 1,734          | 2,021          |
| <b>Total non-current assets</b>                           |      | <b>275,307</b> | <b>256,686</b> |
| <b>Total assets</b>                                       |      | <b>526,172</b> | <b>500,365</b> |
| <b>Current liabilities</b>                                |      |                |                |
| Trade and other payables                                  | 11   | 57,636         | 56,398         |
| Employee benefits   | 12   | 11,164         | 10,127         |
| Restructuring provisions                                  | 13   | 1,189          | -              |
| Warranty provisions                                       | 14   | 580            | 1,052          |
| Other provisions  | 15   | 617            | 754            |
| Borrowings  | 22   | 3,787          | 72             |
| Derivative liabilities                                    | 23   | 247            | 2              |
| Other financial liabilities                               | 24   | 1,625          | 1,625          |
| Current tax payable                                       |      | 9,319          | 16,517         |
| <b>Total current liabilities</b>                          |      | <b>86,164</b>  | <b>86,547</b>  |
| <b>Non-current liabilities</b>                            |      |                |                |
| Employee benefits   | 12   | 1,281          | 1,916          |
| Borrowings  | 22   | 157,784        | 142,992        |
| Derivative liabilities                                    | 23   | 1,468          | 1,080          |
| Other financial liabilities                               | 24   | 802            | 2,427          |
| Other non-current liabilities                             |      | 34             | 81             |
| <b>Total non-current liabilities</b>                      |      | <b>161,369</b> | <b>148,496</b> |
| <b>Total liabilities</b>                                  |      | <b>247,533</b> | <b>235,043</b> |
| <b>Net assets</b>   |      | <b>278,639</b> | <b>265,322</b> |
| <b>Equity</b>   |      |                |                |
| Share Capital   | 27   | 112,880        | 112,880        |
| Reserves  | 28   | 9,981          | 32,793         |
| Retained earnings   | 29   | 155,778        | 119,649        |
| <b>Total equity attributable to owners of the Company</b> |      | <b>278,639</b> | <b>265,322</b> |
| <b>Total equity</b>                                       |      | <b>278,639</b> | <b>265,322</b> |

<sup>a</sup> The Group has initially applied AASB 15 using the cumulative effect method. Under this method, the comparative information is not restated (refer note 1).

The notes on pages 41 to 94 are an integral part of these consolidated financial statements.

## GUD Holdings Limited and Subsidiaries

### Consolidated Statement of Changes in Equity

For the year ended 30 June 2019

|  |      | 2019           | 2018     |
|--|------|----------------|----------|
|  | Note | \$'000         | \$'000   |
| <b>Balance at the beginning of the period</b>                    |      | <b>265,322</b> | 200,914  |
| <b>Comprehensive Income</b>                                      |      |                |          |
| Profit for the period attributable to owners of the Company      |      | 59,558         | 101,845  |
| Other Comprehensive Income attributable to owners of the Company |      | (2,165)        | 2,971    |
| Equity settled share-based payment transactions                  | 28   | 1,761          | 1,823    |
| Total Comprehensive Income attributable to owners of the Company |      | 59,154         | 106,639  |
| <b>Transactions with owners recognised in equity</b>             |      |                |          |
| Dividends paid   | 30   | (45,837)       | (42,231) |
| Total transactions with owners                                   |      | (45,837)       | (42,231) |
| <b>Balance at the end of the period</b>                          |      | <b>278,639</b> | 265,322  |

^ The Group has initially applied AASB 15 using the cumulative effect method. Under this method, the comparative information is not restated (refer note 1).

The amounts recognised directly in equity are net of tax.

The notes on pages 41 to 94 are an integral part of these consolidated financial statements.

# GUD Holdings Limited and Subsidiaries

## Consolidated Cash Flow Statement

For the year ended 30 June 2019

|  | Note | 2019<br>\$'000  | 2018<br>\$'000 |
|--|------|-----------------|----------------|
| <b>Cash flows from operating activities</b>  |      |                 |                |
| Receipts from customers  |      | 474,189         | 453,943        |
| Payments to suppliers and employees  |      | (402,447)       | (378,942)      |
| Income taxes paid  |      | (27,218)        | (15,642)       |
| <b>Net cash provided by operating activities</b>                                   | 21   | <b>44,524</b>   | 59,359         |
| <b>Cash flows from investing activities</b>  |      |                 |                |
| Acquisition of controlled entity, net of cash acquired                             | 33a  | (22,809)        | (23,036)       |
| Acquisition of non-controlling interests   |      | (312)           | (2,018)        |
| Proceeds from sale of investments, net of cash disposed of                         |      | -               | 83,771         |
| Proceeds from sale of property, plant and equipment                                |      | 285             | -              |
| Payments for property, plant and equipment   | 18   | (6,289)         | (3,605)        |
| Payments for intangible assets   | 17   | (1,101)         | -              |
| <b>Net cash provided by investing activities</b>                                   |      | <b>(30,226)</b> | 55,112         |
| <b>Cash flows from financing activities</b>  |      |                 |                |
| Proceeds from borrowings   | 22   | 46,605          | 82,479         |
| Repayment of borrowings  | 22   | (29,096)        | (110,209)      |
| (Advance)/Proceeds on other loans  | 22   | (934)           | 3,182          |
| Interest received  | 22   | 126             | 132            |
| Interest paid  | 22   | (7,448)         | (7,197)        |
| Dividends paid   | 30   | (45,837)        | (42,231)       |
| <b>Net cash used in financing activities</b>                                       | 22   | <b>(36,584)</b> | (73,844)       |
| <b>Net increase in cash held</b>   |      | <b>(22,286)</b> | 40,627         |
| <b>Cash at the beginning of the year</b>   |      | <b>50,610</b>   | 10,238         |
| Effects of exchange rate changes on the balance of cash held in foreign currencies |      | 526             | (255)          |
| <b>Cash at the end of the year</b>   | 21   | <b>28,850</b>   | 50,610         |

The notes on pages 41 to 94 are an integral part of these consolidated financial statements.

# GUD Holdings Limited and Subsidiaries

## 1. Basis of preparation

This section sets out the Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

### Reporting Entity

GUD Holdings Limited (the 'Company') is a for profit company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the 'Group').

The Group is primarily involved in manufacture, importation, distribution and sale of automotive products, pumps, pool, spa and water pressure systems, with operations in Australia, New Zealand, France and Spain (Note 7).

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2019 are available on request from the Company's registered office at 29 Taras Avenue, Altona North, Victoria, 3025 or at [www.gud.com.au](http://www.gud.com.au).

### Basis of Accounting

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with the Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Directors on 26 July 2019.

### Rounding off

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

### Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following items which have been measured at fair value:

- Derivatives (Note 23)
- Other financial instruments (Note 24)

### Use of estimates and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

- Revenue recognition (Note 2): whether revenue from water solutions project income is recognised over time or at a point in time
- Goodwill (Note 16) and other intangible assets (Notes 17, 33): impairment test of intangible assets and goodwill
- Trade and other receivables (Note 8): measurement of ECL allowance for trade receivables and contract assets
- Inventories (Note 9): valuation of assets at net realisable value
- Financial instruments (Note 25)
- Other financial instruments (Note 24): contingent consideration
- Acquisition (Note 33a): acquisition of subsidiary: fair value of the consideration transferred and fair value of the assets acquired, and liabilities assumed.

# GUD Holdings Limited and Subsidiaries

## 1. Basis of preparation (continued)

### Foreign currency

#### *Functional and presentation currency*

These consolidated financial statements are presented in Australian dollars which is the Company's functional currency and the functional currency of the majority of the Group.

#### *Foreign currency transactions*

Transactions in foreign currency are translated to the respective functional currencies of Group companies at the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currency are translated to the functional currency at the exchange rates prevailing at the reporting date.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

However, foreign currency differences arising from the translation of the following items are recognised in other comprehensive income:

- Qualifying cash flow hedges to the extent the hedges are effective (Note 28), and
- Exchange differences on translating foreign operations (Note 28).

### New standards, interpretations and amendments adopted by the Group

The Group has initially applied AASB 15 (see a) and AASB 9 (see b) from 1 July 2018. A number of other new standards are also effective from 1 July 2018 but they do not have a material effect on the Group's financial statements. Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

The effect of initially applying these standards is mainly attributed to the following:

- the Group reclassified the provision for the right of return from Trade and other payables to Refund liabilities and the related return asset from Inventories to Right of return assets. (see a (i));
- the Group recognised *Contract liabilities* for the expected future rebates and derecognised the provision for rebates included in Trade and other payables. (see a (i)); and
- an increase in impairment losses recognised on financial assets (see b (ii))

The net impact of adopting the new standards was recognised in retained earnings.

#### *a) AASB 15 Revenue from Contracts with Customers*

AASB 15 supersedes AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted AASB 15 using the cumulative effect method – i.e. by recognising the cumulative effect of initially applying AASB 15 as an adjustment to the opening balance of retained earnings at 1 July 2018. Therefore, the comparative information has not been restated and continues to be reported under AASB 118 and AASB 111. There was no material impact to the financial statements of the Group as a result of adopting this standard. Key elements of the Group's transition assessment, new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's goods and services are set out below.

Under AASB 15, revenue with customers is allocated between performance obligations and recognised as each performance obligation is met. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.



## GUD Holdings Limited and Subsidiaries

### 1. Basis of preparation (continued)

#### a) AASB 15 Revenue from Contracts with Customers (continued)

| Type of product or service | Nature, timing of satisfaction of performance obligations, significant payment terms   | Nature of change in accounting policy  |
|----------------------------|--|--|
| (i) Sale of goods          | <p>The Group's contracts with customers for the sale of Automotive products, pumps, pool and spa systems and water pressure systems generally include one performance obligation. Therefore, revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the good. Invoices are usually payable within 30 days, and customers, contracts offer sales with right of return, volume rebates and marketing rebates.</p> <p><b><u>Right of return</u></b></p> <p>For contracts that permit the customer to return an item, revenue is recognised to the extent that it is probable that a significant reversal in the cumulative revenue recognised will not occur. Therefore, the amount of revenue is adjusted for expected returns, the Group uses historical average return rates to forecast expected future returns from its customers.</p> | <p><b><u>Right of return</u></b></p> <p>Under AASB 118, revenue for these contracts was recognised when a reasonable estimate of the returns could be made, provided that all criteria for revenue recognition were met. If a reasonable estimate could not be made, then revenue recognition was deferred until the return period lapsed or a reasonable estimate of return could be made.</p> <p>Prior to the adoption of AASB 15, the amount of revenue related to the expected returns was deferred and recognised in the statement of financial position within Trade and other payables and a corresponding adjustment to Cost of sales. The initial carrying amount of goods expected to be returned was included within Inventories.</p> <p>As a result of changes noted above, the Group reclassified the provision for the right of return from Trade and other payables to Refund liabilities and the related return asset from Inventories to Right of return assets. There was no impact to retained earnings on adoption of AASB 15.</p> |
|                            | <p><b><u>Volume rebates</u></b></p> <p>The Group provides retrospective volume rebates to some of its customers once the quantity of products purchased reach a specified volume. Retrospective volume rebates give rise to variable consideration. To estimate the variable consideration the Group uses historical average volume rebates to forecast expected volume rebates payable to its customers.</p>  | <p><b><u>Volume rebates</u></b></p> <p>Prior to the adoption of AASB 15, the Group estimated volume rebates using historical data and inputs from its customers, similar to the expected value method, and included a provision for rebates in Trade and other payables. AASB 15, did not have a significant impact on the Group's accounting for volume rebates.</p> <p>On adoption, the Group recognised Contract liabilities for the expected future rebates and derecognised the provision for rebates included in Trade and other payables. There was no impact to profit.</p>  |

## GUD Holdings Limited and Subsidiaries

### 1. Basis of preparation (continued)

#### a) AASB 15 Revenue from Contracts with Customers (continued)

|                                       |  |  |
|---------------------------------------|--|--|
| (i) Sale of goods (continued)         | <p><b><u>Marketing rebates</u></b></p> <p>It is common for the Group's contracts to designate specific amounts to be spent on marketing and promotional activities. The marketing rebate is treated as a reduction in the transaction price when the Group pays an agreed upon amount to the customer for marketing activities, if the payment is in relation to a distinct good or service, the rebate is treated as a marketing expense.</p> | <p><b><u>Marketing rebates</u></b></p> <p>Prior to the adoption of AASB 15, the Group would provide for the marketing rebate based on the amount specified in the contract and either account as a reduction in the transaction price or marketing and selling costs. Under AASB 15, the nature of the marketing activity will determine the treatment of the transaction, i.e. if marketing rebate is deemed to be a separate performance obligation then it will be treated as a reduction in transaction price, if not then it should be treated as marketing expense. There will be no impact to profit.</p> |
| (ii) Water treatment contract revenue | <p>The Group's water business derives some of its revenue from providing customers with water treatment solutions. The Group has concluded that revenue from water treatment solutions meets the criteria set out in AASB 15 for revenue to be recognised over time, the Group will measure progress by using the inputs method.</p>   | <p>AASB 15 did not have a significant impact on the Group's accounting policy.</p>   |

#### b) AASB 9 Financial Instruments

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139.

The Group applied hedge accounting prospectively, on adoption no adjustments were made to retained earnings.

#### (i) Classification and measurement

Under AASB 139, the Group applied the classification of its hedge accounting and investment at fair value through profit or loss or other comprehensive income (FVPL/FVOCI) and all other reported financial instruments at amortised cost. Under AASB 9, the Group has determined that there is no change to classification and measurement of financial instruments. Set out below is a table showing the accounting treatment under AASB 139 as compared to AASB 9:

| Asset/Liability                     | Previous Accounting Treatment (AASB 139)      | New accounting Treatment (AASB 9)             |
|-------------------------------------|---|---|
| Cash and cash equivalents           | Amortised cost                                | Amortised cost                                |
| Trade and other receivables         | Amortised cost                                | Amortised cost                                |
| Investments                         | Fair value through Other Comprehensive Income | Fair value through Other Comprehensive Income |
| Foreign currency forward contracts  | Fair value through Other Comprehensive Income | Fair value through Other Comprehensive Income |
| Interest rate swaps                 | Fair value through Other Comprehensive Income | Fair value through Other Comprehensive Income |
| Loans receivable – third parties    | Amortised cost                                | Amortised cost                                |
| Contingent consideration receivable | Amortised cost                                | Amortised cost                                |
| Contingent consideration payable    | Amortised cost                                | Amortised cost                                |
| Other consideration payable         | Amortised cost                                | Amortised cost                                |
| Borrowings and loans                | Amortised cost                                | Amortised cost                                |

## GUD Holdings Limited and Subsidiaries

### 1. Basis of preparation (continued)

#### *b) AASB 9 Financial Instruments (continued)*

##### *(ii) Impairment*

The adoption of AASB 9 has changed the Group's accounting for impairment losses for *Trade and other receivables* by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

AASB 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets (including Trade and other receivables) not held at FVPL/FVOCI.

For Trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. AASB 9 did not have a significant impact on the Group's accounting policy.

##### *(iii) Hedge accounting*

The Group applied hedge accounting prospectively. At the date of the initial application, all the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group's cash flow hedge relationships and, as such, the adoption of the hedge accounting requirements of AASB 9 had no significant impact on the Group's financial statements.

Under AASB 139, all gains and losses arising from the Group's cash flow hedging relationships were eligible to be subsequently reclassified to profit or loss. However, under AASB 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets. Therefore, upon adoption of AASB 9, the net gain or loss on cash flow hedges was presented under 'Other comprehensive income not to be reclassified to profit or loss in subsequent periods'. This change only applies prospectively from the date of initial application of AASB 9 and has no impact on the presentation of comparative figures.

##### *Standards issued but not yet effective*

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have a material impact on the Group's financial statements in the period of initial application.

#### *a) AASB 16 Leases*

The new lease accounting standard AASB 16 is effective for the financial year beginning 1 July 2019. It requires all leases to be recognised on the balance sheet with a right-of-use asset capitalised and depreciated over the estimated lease term together with a corresponding liability that will reduce over the same period with an appropriate interest charge recognised. AASB 117 *Leases* only requires leases categorised as finance leases to be recognised on the balance sheet. The implementation team, which includes subject matter experts and members from business units have completed the initial impact assessment and will concentrate ongoing efforts to implement the standard as business as usual.

At 30 June 2019, the Group held operating leases with a future obligation of \$44.649 million on a non-discounted basis as disclosed in note 20. The impact of AASB 16 will be as follows.

##### *(i) Lease Liability*

A lease liability of \$88.190 million will be recognised, being the present value of the future payments, using the Group's incremental borrowing rate applicable to the location and term of each lease. This is incremental to the existing finance lease liabilities of \$37,000, resulting in a total liability of \$88.227 million. The most significant lease liabilities relate to property \$83.751 million and motor vehicles \$3.352 million.

Where leases are held in non-Australian dollar currencies, the spot exchange rates on 1 July 2019 have been used to value them. Lease liabilities will be revalued to spot exchange rates at each future balance sheet date.

##### *(ii) Right of use asset*

A right-of-use asset of \$88.190 million will be recognised in addition to the existing \$48,500 of property, plant and equipment under finance lease contracts, resulting in a total asset of \$88.238 million. The right-of-use asset has been measured at an amount equal to the lease liability on transition. Where the lease liability is not in the functional currency of the relevant entity it will be revalued for changes in foreign exchange rates, while the right-of-use-asset will not be revalued.

## GUD Holdings Limited and Subsidiaries

### 1. Basis of preparation (continued)

#### a) AASB 16 Leases (continued)

##### (iii) Transition

The Group is applying the modified retrospective transition method under which comparative information will not be restated and has elected to use the following practical expedients permitted by the standard:

- on initial application, AASB 16 will be only been applied to contracts that were previously classified as leases;
- lease contracts with a duration of less than 12 months will continue to be expensed to the income statement on a straight-line basis over the lease term;
- lease contracts with an underlying asset value less than \$10,000 will continue to be expensed to the income statement on a straight-line basis over the lease term; and
- in measuring lease liabilities, apply a single discount rate to a portfolio of leases with similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment);
- the lease term has been determined with the use of hindsight where the contract contains options to extend the lease.

#### b) Other Standards

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

| Effective date | New Standards or amendments  |
|----------------|--|
|                | IFRIC 23 <i>Uncertainty over Income Tax Treatments</i> .                             |
|                | <i>Prepayment Features with Negative Compensation (Amendments to IFRS 9)</i> .       |
| 1 July 2019    | <i>Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)</i> . |
|                | <i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)</i> .            |
|                | <i>Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards</i> .   |
| 1 July 2020    | <i>Amendments to References to Conceptual Framework in IFRS Standards</i> .          |
| 1 July 2021    | IFRS 17 <i>Insurance Contracts</i> .   |

# GUD Holdings Limited and Subsidiaries

## Results for the Year

This section focuses on the Group's performance. Disclosures in this section includes analysis of the Group's profit before tax by reference to the activities performed by the Group and analysis of key revenues and operating costs, segmental information, net finance costs and earnings per share.

In the segment information, the Group reports Underlying Earnings Before Interest and Tax ("EBIT"), which is EBIT before exceptional items. This is a non IFRS measure of performance which reflects how the business is managed and how the Directors assess the performance of the Group.

### 2. Revenue

The effect of initially applying AASB 15 on the Group's revenue from contracts with customers is described in Note 1. Due to the transition method chosen in applying AASB 15, comparative information has not been restated to reflect the new requirements.

#### a) Revenue streams

The Group generates revenue primarily from the sale of automotive products (Automotive segment), pumps, pool and spa systems and water pressure systems (Davey segment).

| For the year ended 30 June 2019                    |                |                |                |
|--|----------------|----------------|----------------|
| Segments   | Automotive     | Davey          | Total          |
| <b>Type of goods or services</b>                   | <b>\$'000</b>  | <b>\$'000</b>  | <b>\$'000</b>  |
| Sale of goods                                      | 330,002        | 102,066        | 432,068        |
| Water solutions project income                     | -              | 2,009          | 2,009          |
| <b>Total Revenue from contracts with customers</b> | <b>330,002</b> | <b>104,075</b> | <b>434,077</b> |
| <b>Geographical markets</b>                        |                |                |                |
| Australia  | 297,053        | 83,646         | 380,699        |
| New Zealand  | 32,949         | 13,825         | 46,774         |
| Other  | -              | 6,604          | 6,604          |
| <b>Total revenue from contracts with customers</b> | <b>330,002</b> | <b>104,075</b> | <b>434,077</b> |
| <b>Timing of revenue recognition</b>               |                |                |                |
| Goods transferred at a point in time               | 330,002        | 102,066        | 432,068        |
| Services transferred over time                     | -              | 2,009          | 2,009          |
| <b>Total Revenue from contracts with customers</b> | <b>330,002</b> | <b>104,075</b> | <b>434,077</b> |

<sup>^</sup> The Group has initially applied AASB 15 using the cumulative effect method. Under this method, the comparative information is not restated (refer note 1).

The Group recognised impairment losses on receivables and contract assets arising from contracts with customers, included under Administrative expenses in the statement of profit or loss, amounting to \$ 220,000 and \$ 149,000 for the year ended 30 June 2019 (estimated under AASB 9) and 2018 (estimated under AASB 139), respectively.

Set out below, is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

| For the year ended 30 June 2019                    |                |                |                |                |
|--|----------------|----------------|----------------|----------------|
|  | 2019           |                | 2018           |                |
|  | Automotive     | Davey          | Automotive     | Davey          |
| <b>Revenue</b>                                     | <b>\$'000</b>  | <b>\$'000</b>  | <b>\$'000</b>  | <b>\$'000</b>  |
| External customer                                  | 365,672        | 107,802        | 322,488        | 104,234        |
| Rebates  | (35,670)       | (3,727)        | (26,886)       | (3,147)        |
| <b>Total revenue from contracts with customers</b> | <b>330,002</b> | <b>104,075</b> | <b>295,602</b> | <b>101,087</b> |

## GUD Holdings Limited and Subsidiaries

### 2. Revenue (continued)

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

|  | 2019<br>\$'000 | 2018<br>\$'000 |
|--|----------------|----------------|
| Receivables, which are included in trade and other receivables |                |                |
| Contract assets  | 883            | 1,034          |

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on water solution projects. There was no impact on contract assets as a result of an acquisition of the subsidiary (see Note 33a). The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

### 3. Expenses

#### Accounting policies

##### Depreciation & Amortisation

Depreciation is charged to the income statement to reflect annual wear and tear and the reduced value of the asset over time. Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis over the estimated useful life of each asset to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives for current and prior periods used in the calculation of depreciation:

- Plant and equipment 3 to 12 years
- Equipment under finance lease 3 to 12 years

The value of intangible assets, except for goodwill, and indefinite life intangible assets reduces over the number of years the Group expects to use the asset, via an amortisation charge. Amortisation is recognised in the income statement over the following number of years:

- Patents, licences, Product development and distribution rights 3 to 5 years
- Customer relationships 5 to 15 years
- Software 5 to 7 years

##### Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

##### Goods and services tax

Expenses 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, it is recognised as part of an item of expense.

#### Expenses by nature

This table summarises expenses by nature from continuing operations:

|  | 2019<br>\$'000 | 2018<br>\$'000 |
|--|----------------|----------------|
| <b>Profit before income tax has been arrived at after charging the following expenses:</b> |                |                |
| Increase/(decrease) in inventory obsolescence provision                                    | 253            | 607            |
| Loss/(gain) on sale of plant and equipment   | 117            | 1,539          |
| Operating lease rental expense: Minimum lease payments                                     | 9,423          | 8,334          |
| Net foreign exchange (gain)/loss   | (4,217)        | 247            |
| <b>Employee benefits:</b>  |                |                |
| Wages and salaries (including on-costs)  | 77,394         | 72,865         |
| Contributions to defined contribution plans  | 2,647          | 2,618          |

## GUD Holdings Limited and Subsidiaries

### 3. Expenses (continued)

#### Expenses by nature (continued)

|   |    |               |               |
|---|----|---------------|---------------|
| Movements in provisions for employee benefits   |    | (344)         | (1,040)       |
| Equity settled share based payment expense      | 28 | 1,761         | 1,823         |
| <b>Depreciation and amortisation:</b>           |    |               |               |
| Amortisation of customer relationships          | 17 | 319           | 392           |
| Amortisation of software                        | 17 | 2             | 1             |
| Depreciation of plant and equipment             | 18 | 2,958         | 3,491         |
| Depreciation of leased plant and equipment      | 18 | 19            | 11            |
| <b>Total depreciation and amortisation</b>      |    | <b>3,298</b>  | <b>3,895</b>  |
| <b>Product development and sourcing costs</b>   |    | <b>11,317</b> | <b>12,166</b> |
| <b>Non-underlying costs:</b>                    |    |               |               |
| Transaction expenses                            |    | 58            | 289           |
| Restructuring expenses                          |    | 1,810         | 450           |
| Impairment of inventory                         |    | -             | 2,373         |
| Impairment of product development costs         |    | -             | 1,726         |
| Impairment of tooling assets                    |    | -             | 1,684         |
| Loss on revaluation of contingent consideration |    | -             | 101           |
| <b>Total non-underlying costs</b>               |    | <b>1,868</b>  | <b>6,623</b>  |

### 4. Net finance costs

#### Accounting policies

##### Finance income

Finance income is comprised of interest income, fair value gains on interest rate hedging instruments and gains on disposals of available for sale financial assets. Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

##### Finance costs

Finance costs are classified as expenses consistent with the balance sheet classification of the related debt or equity instruments. Finance costs are comprised of interest expense on borrowings and fair value losses on interest rate hedging instruments through the income statement. Interest expense on borrowings is recognised on an effective interest basis.

This table summarises net finance costs from continuing operations:

|   | 2019         | 2018         |
|---|--------------|--------------|
|   | \$'000       | \$'000       |
| <b>Finance costs:</b>   |              |              |
| Interest income   | (126)        | (132)        |
| Interest expense  | 7,448        | 7,156        |
| Financial assets / (liabilities) measured at fair value through the profit and loss | -            | (208)        |
| Net foreign exchange (gain) / loss  | (530)        | (201)        |
| Unwinding of discount on contingent consideration payable                           | -            | 45           |
| <b>Net finance costs</b>  | <b>6,792</b> | <b>6,660</b> |

The ineffective portion of cash flow hedges that is recognised in the income statement is nil (2018: nil).

## GUD Holdings Limited and Subsidiaries

### 5. Earnings per share

Earnings per share ('EPS') is the amount of profit attributable to each share. Basic EPS is calculated on the Group profit for the year attributable to equity shareholders divided by the weighted average number of shares on issue during the year.

Diluted EPS reflects the Group's commitments to issue shares in the future, such as issued upon vesting of performance rights.

|  | Continuing operations  |                        | Discontinuing operations |                        | Total                  |                        |
|--|------------------------|------------------------|--------------------------|------------------------|------------------------|------------------------|
|  | 2019                   | 2018                   | 2019                     | 2018                   | 2019                   | 2018                   |
|  | \$'000                 | \$'000                 | \$'000                   | \$'000                 |                        |                        |
| Profit / (loss) for the period   | 59,558                 | 50,473                 | -                        | 51,372                 | 59,558                 | 101,845                |
|  | Number                 | Number                 | Number                   | Number                 | Number                 | Number                 |
| Weighted average number of ordinary shares used as the denominator for basic EPS   | 86,485,972             | 86,149,028             | -                        | 86,149,028             | 86,485,972             | 86,149,028             |
| Effect of balance of performance rights outstanding at 30 June 2019                | 629,745                | 738,745                | -                        | 738,745                | 629,745                | 738,745                |
| Weighted average number of ordinary shares used as the denominator for diluted EPS | 87,115,717             | 86,887,773             | -                        | 86,887,773             | 87,115,717             | 86,887,773             |
| <b>EPS</b>   | <b>Cents per share</b> | <b>Cents per share</b> | <b>Cents per share</b>   | <b>Cents per share</b> | <b>Cents per share</b> | <b>Cents per share</b> |
| Basic EPS  | 68.9                   | 58.6                   | -                        | 59.6                   | 68.9                   | 118.2                  |
| Diluted EPS  | 68.4                   | 58.1                   | -                        | 59.1                   | 68.4                   | 117.2                  |

### 6. Auditors' remuneration

This table summarises auditors' remuneration incurred in relation to continuing operations:

|   | 2019    | 2018    |
|---|---------|---------|
|   | \$      | \$      |
| <b>Audit and review services:</b>   |         |         |
| The auditor of GUD Holdings Limited   |         |         |
| - audit and review of financial reports   | 483,350 | 573,020 |
|   | 483,350 | 573,020 |
| <b>Other services:</b>  |         |         |
| The auditor of GUD Holdings Limited   |         |         |
| - in relation to other assurance, advisory, taxation and due diligence services | 295,707 | 409,900 |
|   | 295,707 | 409,900 |



## GUD Holdings Limited and Subsidiaries

### 7. Segment information

Segment reporting is presented in respect of the Group's business and geographical segments. Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Managing Director (Chief Operating Decision Maker - 'CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

#### Business segments

The following summary describes the operations in each of the Group's reportable segments:

##### *Automotive*

Automotive and heavy-duty filters for cars, trucks, agricultural and mining equipment, fuel pumps and associated products for the automotive after-market.

##### *Davey*

Pumps and pressure systems for household and farm water, water transfer pumps, swimming pool products, spa bath controllers and pumps and water purification equipment.

##### *Discontinued operations*

In the prior financial year, discontinued operations consisted of the Oates business sold 2 January 2018.

#### Geographical segments

The Group operates primarily in two geographical segments; Australia and New Zealand, refer note 2 for geographical sales disclosure.

## GUD Holdings Limited and Subsidiaries



### 7. Segment information (continued)

|  | For the year ended 30 June 2019 |                 |                                    |                 |
|--|---------------------------------|-----------------|------------------------------------|-----------------|
|  | Automotive<br>\$'000            | Davey<br>\$'000 | Unallocated <sup>4</sup><br>\$'000 | Total<br>\$'000 |
| <b>Business segments</b>                                     |                                 |                 |                                    |                 |
| <b>Total segment revenue (external)</b>                      | <b>330,002</b>                  | <b>104,075</b>  | <b>-</b>                           | <b>434,077</b>  |
| <b>Underlying EBITDA pre-impairment costs</b>                | <b>89,791</b>                   | <b>10,324</b>   | <b>(7,912)</b>                     | <b>92,203</b>   |
| Less: Depreciation   | (2,059)                         | (901)           | (17)                               | (2,977)         |
| Less: Amortisation and impairment of intangibles             | (319)                           | -               | (2)                                | (321)           |
| <b>Underlying EBIT pre-impairment costs</b>                  | <b>87,413</b>                   | <b>9,423</b>    | <b>(7,931)</b>                     | <b>88,905</b>   |
| Transaction costs <sup>1</sup>                               | (52)                            | -               | (6)                                | (58)            |
| Restructuring costs <sup>2</sup>                             | (1,073)                         | (776)           | 39                                 | (1,810)         |
| <b>Segment result (EBIT)</b>                                 | <b>86,288</b>                   | <b>8,647</b>    | <b>(7,898)</b>                     | <b>87,037</b>   |
| Interest income  | 2                               | 549             | 124                                | 675             |
| Interest expense   | (219)                           | (174)           | (7,074)                            | (7,467)         |
| <b>Profit / (loss) before tax</b>                            | <b>86,071</b>                   | <b>9,022</b>    | <b>(14,848)</b>                    | <b>80,245</b>   |
| Tax expense <sup>3</sup>                                     | (25,281)                        | (2,600)         | 7,894                              | (20,687)        |
| <b>Profit / (loss)</b>                                       | <b>60,090</b>                   | <b>6,422</b>    | <b>(6,954)</b>                     | <b>59,558</b>   |
| <b>Profit / (loss) attributable to owners of the Company</b> | <b>60,090</b>                   | <b>6,422</b>    | <b>(6,954)</b>                     | <b>59,558</b>   |
| <b>Segment assets</b>  | <b>413,516</b>                  | <b>110,450</b>  | <b>2,206</b>                       | <b>526,172</b>  |
| <b>Segment liabilities</b>                                   | <b>51,894</b>                   | <b>20,496</b>   | <b>175,143</b>                     | <b>247,533</b>  |
| <b>Segment capital expenditure</b>                           | <b>3,798</b>                    | <b>2,452</b>    | <b>39</b>                          | <b>6,289</b>    |

<sup>1</sup> Transaction costs in the Automotive segment relate to the acquisition of Disc Brakes Australia (Note 33a).

<sup>2</sup> Restructuring costs in the Automotive segment relate to onerous lease and moving costs associated with a new office and warehouse complex in Auckland (\$1.033 million).

<sup>3</sup> Tax expense in the Unallocated segment includes a CGT refund of \$2.548 million related to the Sunbeam disposal.

<sup>4</sup> Unallocated items comprise mainly of corporate assets, corporate expenses, interest, tax, corporate borrowings, and deferred tax balances.

## GUD Holdings Limited and Subsidiaries



### 7. Segment information (continued)

|   | For the year ended 30 June 2018 |                 |                                    |                                    |                                      | Total<br>\$'000 |
|---|---------------------------------|-----------------|------------------------------------|------------------------------------|--------------------------------------|-----------------|
|   | Automotive<br>\$'000            | Davey<br>\$'000 | Unallocated <sup>3</sup><br>\$'000 | Continuing<br>operations<br>\$'000 | Discontinued<br>operations<br>\$'000 |                 |
| <b>Business segments</b>  |                                 |                 |                                    |                                    |                                      |                 |
| <b>Total segment revenue (external)</b>                         | <b>295,602</b>                  | <b>101,087</b>  | <b>-</b>                           | <b>396,689</b>                     | <b>36,060</b>                        | <b>432,749</b>  |
| <b>Underlying EBITDA pre-impairment costs</b>                   | <b>85,431</b>                   | <b>10,581</b>   | <b>(8,866)</b>                     | <b>87,146</b>                      | <b>5,003</b>                         | <b>92,149</b>   |
| Less: Depreciation  | (1,729)                         | (1,410)         | (9)                                | (3,148)                            | (354)                                | (3,502)         |
| Less: Amortisation and impairment of intangibles                | (518)                           | -               | (1)                                | (519)                              | (8)                                  | (527)           |
| <b>Underlying EBIT pre-impairment costs</b>                     | <b>83,184</b>                   | <b>9,171</b>    | <b>(8,876)</b>                     | <b>83,479</b>                      | <b>4,641</b>                         | <b>88,120</b>   |
| Loss of revaluation of contingent consideration payable         |                                 |                 | (101)                              | (101)                              |                                      | (101)           |
| Transaction costs <sup>1</sup>                                  | (141)                           | -               | (148)                              | (289)                              | (2,442)                              | (2,731)         |
| Profit on sale of subsidiary <sup>2</sup>                       | -                               | -               | -                                  | -                                  | 51,536                               | 51,536          |
| Integration of Oates sale incentives                            | (92)                            | -               | (358)                              | (450)                              | (930)                                | (1,380)         |
| Impairment of inventory, product development and tooling assets | -                               | (5,783)         | -                                  | (5,783)                            | -                                    | (5,783)         |
| <b>Segment result (EBIT)</b>                                    | <b>82,951</b>                   | <b>3,388</b>    | <b>(9,483)</b>                     | <b>76,856</b>                      | <b>52,805</b>                        | <b>129,661</b>  |
| Interest income   | 214                             | 196             | -                                  | 410                                | 16                                   | 426             |
| Interest expense  | (92)                            | (150)           | (6,828)                            | (7,070)                            | (43)                                 | (7,113)         |
| <b>Profit / (loss) before tax</b>                               | <b>83,073</b>                   | <b>3,434</b>    | <b>(16,311)</b>                    | <b>70,196</b>                      | <b>52,778</b>                        | <b>122,974</b>  |
| Tax expense   | (24,926)                        | (1,441)         | 6,644                              | (19,723)                           | (1,406)                              | (21,129)        |
| <b>Profit / (loss)</b>  | <b>58,147</b>                   | <b>1,993</b>    | <b>(9,667)</b>                     | <b>50,473</b>                      | <b>51,372</b>                        | <b>101,845</b>  |
| <b>Profit / (loss) attributable to owners of the Company</b>    | <b>58,147</b>                   | <b>1,993</b>    | <b>(9,667)</b>                     | <b>50,473</b>                      | <b>51,372</b>                        | <b>101,845</b>  |
| <b>Segment assets</b>   | <b>366,688</b>                  | <b>103,063</b>  | <b>30,342</b>                      | <b>500,093</b>                     | <b>272</b>                           | <b>500,365</b>  |
| <b>Segment liabilities</b>                                      | <b>51,563</b>                   | <b>19,150</b>   | <b>164,217</b>                     | <b>234,930</b>                     | <b>113</b>                           | <b>235,043</b>  |
| <b>Segment capital expenditure</b>                              | <b>1,866</b>                    | <b>1,675</b>    | <b>163</b>                         | <b>3,704</b>                       | <b>59</b>                            | <b>3,763</b>    |

1 Transaction costs in the Automotive segment relate to the acquisition of AA Gaskets. Transaction costs incurred in discontinued operations relate to the disposal of Oates (Note 33b) and Dexion (\$0.232 million).

2 Gain on sale of Oates (\$51.536 million) (Note 33b)

3 Unallocated items comprise mainly of corporate assets, corporate expenses, interest, tax, corporate borrowings, and deferred tax balances.

## Working Capital

Working capital represents the assets and liabilities the Group generates through its trading activity. The Group therefore defines working capital as inventory, trade and other receivables, trade and other payables and provisions. Careful management of working capital ensures that the Group can meet its trading and financing obligations within its ordinary operating cycle.

This section provides further information regarding working capital management and analysis of the elements of working capital.

### 8. Trade and other receivables

#### Accounting policies

##### Trade receivables

Trade and other receivables are non-derivative financial instruments that are initially recognised at fair value plus any directly attributable costs. After initial recognition, they are measured at amortised cost using the effective interest method, less identified impairment.

##### Goods and services tax

Trade receivables are recognised inclusive of the amount of goods and services tax (GST) which is payable to taxation authorities. The net amount of GST payable to the taxation authority is included as part of payables.

This table summarises trade and other receivables related to all operations at 30 June 2019 and continuing operations at 30 June 2018:

|                                    | 2019<br>\$'000 | 2018<br>\$'000 |
|------------------------------------|----------------|----------------|
| <b>Current</b>                     |                |                |
| Trade receivables                  | 107,385        | 97,372         |
| Less: Allowance for doubtful debts | (558)          | (685)          |
| <b>Net trade receivables</b>       | <b>106,827</b> | <b>96,687</b>  |

An allowance has been made for estimated irrecoverable amounts from the sale of goods and services, determined with reference to forward looking expected credit loss (ECL) (2018: determined by a specific review of debtors). The movement in the allowance for doubtful debts was recognised in the income statement in the current financial year.

|   | 2019<br>\$'000 | 2018<br>\$'000 |
|---|----------------|----------------|
| <b>Movement in allowance for doubtful debts</b> |                |                |
| Balance at the beginning of the year            | (685)          | (697)          |
| Acquisitions through business combinations      | -              | (6)            |
| Doubtful debts recognised                       | (213)          | (145)          |
| Amounts written off as uncollectible            | 340            | 163            |
| <b>Balance at the end of the year</b>           | <b>(558)</b>   | <b>(685)</b>   |

Amounts are written off as uncollectible only after it is determined that the debts are no longer collectible either by notification from an administrator to the debtor or because the debtor has demonstrated an inability to pay. Where applicable, insurance proceeds are received to partially mitigate the loss and the net uncollectible amount is reflected above.

**8. Trade and other receivables (continued)**

Receivables that are past due but not impaired are those receivables the Directors believe to be fully recoverable and as a result, have not recognised any amount in the doubtful debt provision for them.

| <b>2019</b>                    | <b>Gross</b>   | <b>Impairment</b> | <b>Net</b>     |
|--------------------------------|----------------|-------------------|----------------|
| Ageing of trade receivables    | \$'000         | \$'000            | \$'000         |
| Not past due                   | 94,659         | (70)              | 94,589         |
| Past due 1 - 60 days           | 9,563          | (27)              | 8,978          |
| Past due 61 - 120 days         | 2,417          | (99)              | 1,793          |
| Past due 121 - 365 days        | 589            | (324)             | 801            |
| Past due more than one year    | 157            | (38)              | 666            |
| <b>Total trade receivables</b> | <b>107,385</b> | <b>(558)</b>      | <b>106,827</b> |

| <b>2018</b>                    | <b>Gross</b>  | <b>Impairment</b> | <b>Net</b>    |
|--------------------------------|---------------|-------------------|---------------|
| Ageing of trade receivables    | \$'000        | \$'000            | \$'000        |
| Not past due                   | 82,061        | (35)              | 82,026        |
| Past due 1 - 60 days           | 10,422        | (169)             | 10,253        |
| Past due 61 - 120 days         | 3,757         | (105)             | 3,652         |
| Past due 121 - 365 days        | 977           | (333)             | 644           |
| Past due more than one year    | 155           | (43)              | 112           |
| <b>Total trade receivables</b> | <b>97,372</b> | <b>(685)</b>      | <b>96,687</b> |

Additional information relating to credit risk is included in Note 26.

**9. Inventories****Accounting policies***Inventories*

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory by the method most appropriate to each particular class of inventory, with the majority being valued on a weighted average basis. Net realisable value represents the estimated selling price less all estimated costs of completion and selling costs.

*Goods and services tax*

Non-financial assets such as inventories 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, it is recognised as part of the cost of acquisition of the asset.

This table summarises inventories related to all operations at 30 June 2019 and continuing operations at 30 June 2018:

|   | <b>2019</b>    | <b>2018</b>   |
|---|----------------|---------------|
|   | \$'000         | \$'000        |
| <b>Current</b>                            |                |               |
| Raw materials and stores                  | 15,456         | 11,219        |
| Work in progress                          | 429            | 677           |
| Finished goods                            | 99,182         | 83,015        |
| <b>Inventory – at cost</b>                | <b>115,067</b> | <b>94,911</b> |
| Less: Provision for slow moving inventory | (6,116)        | (7,411)       |
| <b>Total inventory</b>                    | <b>108,951</b> | <b>87,500</b> |

Inventories disclosed above are net of the provision for obsolescence. Increases or write-backs of the provision are recognised in cost of goods sold (Note 3).

**10. Other assets**

This table summarises other assets related to all operations at 30 June 2019 and continuing operations at 30 June 2018:

|                           | 2019<br>\$'000 | 2018<br>\$'000 |
|---------------------------|----------------|----------------|
| <b>Current</b>            |                |                |
| Prepayments               | 3,621          | 2,874          |
| Other                     | 958            | 1,811          |
| <b>Total other assets</b> | <b>4,579</b>   | <b>4,685</b>   |

**11. Trade and other payables***Accounting policies**Payables*

Trade payables and other accounts payable are non-derivative financial instruments measured at cost.

*Goods and services tax*

Trade payables are recognised inclusive of the amount of goods and services tax (GST) which is recoverable from taxation authorities. The net amount of GST recoverable from the taxation authority is included as part of receivables.

This table summarises trade and other payables related to all operations at 30 June 2019 and continuing operations at 30 June 2018:

|  | 2019<br>\$'000 | 2018<br>\$'000 |
|--|----------------|----------------|
| <b>Current</b>                             |                |                |
| Accrued expenses                           | 14,798         | 15,164         |
| Trade payables                             | 42,838         | 41,234         |
| <b>Trade payables and accrued expenses</b> | <b>57,636</b>  | <b>56,398</b>  |

No interest is incurred on trade payables.

**12. Employee benefits***Accounting policies**Employee benefits*

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement and including on-costs associated with employment.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*Defined contribution plans*

Contributions to defined contribution superannuation plans are expensed when incurred.

## 12. Employee benefits (continued)

This table summarises employee provisions related to all operations at 30 June 2019 and continuing operations at 30 June 2018:

|                                | 2019<br>\$'000 | 2018<br>\$'000 |
|--------------------------------|----------------|----------------|
| Current                        | 11,164         | 10,127         |
| Non-current                    | 1,281          | 1,916          |
| Accrued wages and salaries     | 675            | 2,253          |
| <b>Total employee benefits</b> | <b>13,120</b>  | <b>14,296</b>  |

Accrued wages and salaries are included in accrued expenses in Note 11.

## 13. Restructuring provisions

### Accounting policies

#### Restructuring

A provision for restructuring is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by:

- starting to implement the plan; or
- announcing its main features to those affected by it.

#### Onerous contracts

An onerous contract is considered to exist where the Group has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligations exceed the economic benefits estimated to be received.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received, and the amount of the receivable can be measured reliably.

This table summarises restructuring provisions related to all operations at 30 June 2019 and continuing operations at 30 June 2018:

|                                       | Note | 2019<br>\$'000 | 2018<br>\$'000 |
|---------------------------------------|------|----------------|----------------|
| Current                               |      | 1,189          | -              |
| Non-current                           |      | -              | -              |
| <b>Total restructuring provisions</b> |      | <b>1,189</b>   | <b>-</b>       |
| Carrying amount at beginning of year  |      | -              | 38             |
| Provisions recognised                 |      | 1,189          | -              |
| Payments made during the year         |      | -              | (38)           |
| <b>Carrying amount at end of year</b> |      | <b>1,189</b>   | <b>-</b>       |

The payments made against the provision for restructuring represents the costs of redundancies, onerous lease costs and moving costs.

#### 14. Warranty provisions

##### Accounting policy

##### Warranties

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Group's liability.

The provision for warranty claims represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required under the Group's warranty program. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

Warranty provisions are all current.

This table summarises warranty provisions related to all operations at 30 June 2019 and continuing operations at 30 June 2018:

|  | 2019<br>\$'000 | 2018<br>\$'000 |
|--|----------------|----------------|
| Carrying amount at beginning of year   | 1,052          | 1,214          |
| Provisions recognised  | (15)           | -              |
| Provisions reversed  | (352)          | -              |
| Payments made during the year  | (107)          | (158)          |
| Reclassification as liabilities held for sale                                | -              | -              |
| Disposed through divestments   | -              | -              |
| Net foreign currency difference arising on translation of foreign operations | 2              | (4)            |
| Carrying amount at end of year   | 580            | 1,052          |

#### 15. Other provisions

##### Accounting policy

##### Other

Other provisions are recognised at the date a commitment is made, at the Directors' best estimate of the future sacrifice of economic benefits that will be required under that commitment.

This table summarises other provisions related to all operations at 30 June 2019 and continuing operations at 30 June 2018:

|                                      | 2019<br>\$'000 | 2018<br>\$'000 |
|--------------------------------------|----------------|----------------|
| Carrying amount at beginning of year | 754            | 1,750          |
| Provisions recognised                | 10             | -              |
| Payments made during the year        | (147)          | (996)          |
| Carrying amount at end of year       | 617            | 754            |



## Tangible and Intangible Assets

The following section shows the tangible and intangible assets used by the Group to operate the business.

Intangible assets include brands, customer relationships, patents, licences, software development, distribution rights and goodwill.

This section explains the accounting policies applied and the specific judgements and estimates made by the Directors in arriving at the net book value of these assets.

### 16. Goodwill

#### Accounting policies

##### Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is recognised as an asset and not amortised but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

This table summarises the movement in goodwill:

|  | Note | 2019<br>\$'000 | 2018<br>\$'000 |
|--|------|----------------|----------------|
| <b>Gross carrying amount</b>   |      |                |                |
| Balance at the beginning of the year   |      | 115,396        | 119,438        |
| Acquisitions through business combinations   | 33a  | 9,604          | 14,072         |
| Disposed through divestments   |      | -              | (5,166)        |
| Transfer to brand names and other intangible assets (AA Gaskets)                                     | 33a  | -              | (12,629)       |
| Net foreign currency difference arising on translation of financial statements of foreign operations |      | 493            | (319)          |
| Balance at the end of the year   |      | 125,493        | 115,396        |

### 17. Other intangible assets

#### Accounting policies

##### Product development costs

Expenditure on research activities is recognised as an expense in the income statement period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the income statement in the period as incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use.

Product development assets are stated at cost less accumulated amortisation and impairment, and are amortised on a straight-line basis over their useful lives, which is up to a maximum of 5 years (Note 3).

**17. Other intangible assets (continued)***Brand names and trademarks*

Acquired brand names and trademarks are recorded at cost. The carrying value is tested annually for impairment as part of the annual testing of cash generating units (Note 19).

The Group holds a number of brand names that are considered to have an indefinite useful life. The indefinite useful life reflects the Directors' view that these brands are assets that provide ongoing market access advantages for both new and existing product sales in the markets that the businesses operate. The current understanding of the industries and markets that the businesses operate in indicates that demand for products will continue in a sustainable manner, that changes in technology are not seen as a major factor impacting the brands future value, and, the brands have proven long lives in their respective markets.

*Other intangible assets*

Other intangible assets that are acquired by the Group, which have finite lives, are measured at cost less accumulated amortisation (Note 3) and accumulated impairment losses.

The carrying value is tested for impairment as part of the annual testing of cash generating units (Note 19).

This table summarises other intangible assets related to all operations at 30 June 2019 and continuing operations at 30 June 2018:

| \$'000                               | Note | Product Development Costs | Brand, Business Names & Trademarks | Patents, Licences & Distribution Rights | Software     | Customer Relationships | Total          |
|--------------------------------------|------|---------------------------|------------------------------------|---|--------------|------------------------|----------------|
| <b>Gross carrying amount</b>         |      |                           |                                    |   |              |                        |                |
| <b>Balance at 30 June 2017</b>       |      | <b>2,901</b>              | <b>111,797</b>                     | <b>411</b>                              | <b>145</b>   | <b>4,441</b>           | <b>119,695</b> |
| Additions from business combinations |      | -                         | 3,698                              | -                                       | -            | -                      | 3,698          |
| Disposed through divestments         |      | (676)                     | (8,900)                            | -                                       | -            | -                      | (9,576)        |
| Additions from business combinations | 33a  | -                         | 8,979                              | -                                       | 4            | -                      | 8,983          |
| Impairment                           |      | (2,225)                   | -                                  | -                                       | -            | -                      | (2,225)        |
| Foreign currency movements           |      | -                         | (15)                               | -                                       | -            | -                      | (15)           |
| <b>Balance at 30 June 2018</b>       |      | <b>-</b>                  | <b>115,559</b>                     | <b>411</b>                              | <b>149</b>   | <b>4,441</b>           | <b>120,560</b> |
| Additions from business combinations | 33a  | -                         | 2,664                              | 1,457                                   | -            | -                      | 4,121          |
| Acquisition of brand name            |      | -                         | 1,101                              | -                                       | -            | -                      | 1,101          |
| Foreign currency movements           |      | -                         | (83)                               | 8                                       | -            | -                      | (75)           |
| <b>Balance at 30 June 2019</b>       |      | <b>-</b>                  | <b>119,241</b>                     | <b>1,876</b>                            | <b>149</b>   | <b>4,441</b>           | <b>125,707</b> |
| <b>Accumulated amortisation</b>      |      |                           |                                    |   |              |                        |                |
| <b>Balance at 30 June 2017</b>       |      | <b>(957)</b>              | <b>-</b>                           | <b>(272)</b>                            | <b>(145)</b> | <b>(222)</b>           | <b>(1,596)</b> |
| Amortisation expense                 |      | -                         | -                                  | (127)                                   | -            | (392)                  | (519)          |
| Disposed through divestments         |      | 672                       | -                                  | -                                       | -            | -                      | 672            |
| Foreign currency movements           |      | 285                       | -                                  | 8                                       | -            | -                      | 293            |
| <b>Balance at 30 June 2018</b>       |      | <b>-</b>                  | <b>-</b>                           | <b>(391)</b>                            | <b>(145)</b> | <b>(614)</b>           | <b>(1,150)</b> |
| Amortisation expense                 |      | -                         | -                                  | -                                       | (2)          | (319)                  | (321)          |
| Disposed through divestments         |      | -                         | -                                  | -                                       | -            | -                      | -              |
| Foreign currency movements           |      | -                         | -                                  | (17)                                    | -            | -                      | (17)           |
| Impairment                           |      | -                         | -                                  | -                                       | -            | -                      | -              |
| <b>Balance at 30 June 2019</b>       |      | <b>-</b>                  | <b>-</b>                           | <b>(408)</b>                            | <b>(147)</b> | <b>(933)</b>           | <b>(1,488)</b> |
| <b>Carrying amount</b>               |      |                           |                                    |   |              |                        |                |
| <b>As at 30 June 2018</b>            |      | <b>-</b>                  | <b>115,559</b>                     | <b>20</b>                               | <b>4</b>     | <b>3,827</b>           | <b>119,410</b> |
| <b>As at 30 June 2019</b>            |      | <b>-</b>                  | <b>119,241</b>                     | <b>1,468</b>                            | <b>2</b>     | <b>3,508</b>           | <b>124,219</b> |

Amortisation is recognised as an expense in Note 3.

Refer to Note 7 for allocation of the carrying amount of brand names to segments.

**18. Property, plant and equipment***Accounting policies**Property, plant and equipment*

Property, plant and equipment and leasehold improvements are stated at cost less accumulated depreciation (Note 3) and impairment.

Cost includes expenditure that is directly attributable to the acquisition of the item.

If there has been a technological change or decline in business performance the Directors review the value of the assets to ensure they have not fallen below their depreciated value. If an asset's value falls below its depreciated value an additional one-off impairment charge is made against profit.

*Leased assets*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Subsequent to their initial recognition, finance leased assets are amortised over their estimated useful life.

This table summarises the movement in gross carrying amount, accumulated amortisation and written down value of property, plant and equipment:

|                                      | Note | Leased assets<br>\$'000 | Plant and<br>Equipment<br>\$'000 | Total<br>\$'000 |
|--------------------------------------|------|-------------------------|----------------------------------|-----------------|
| <b>Gross carrying amount</b>         |      |                         |                                  |                 |
| <b>Balance at 30 June 2017</b>       |      | <b>113</b>              | <b>47,915</b>                    | <b>48,028</b>   |
| Additions from business combinations |      | -                       | 407                              | 407             |
| Disposed through divestments         |      | -                       | (7,145)                          | (7,145)         |
| Additions                            |      | -                       | 3,605                            | 3,605           |
| Disposals                            |      | -                       | (2,693)                          | (2,693)         |
| Foreign currency movements           |      | -                       | (76)                             | (76)            |
| <b>Balance at 30 June 2018</b>       |      | <b>113</b>              | <b>42,013</b>                    | <b>42,126</b>   |
| Additions from business combinations | 33a  | -                       | 6,491                            | 6,491           |
| Additions                            |      | -                       | 6,289                            | 6,289           |
| Disposals                            |      | (113)                   | (2,127)                          | (2,240)         |
| Foreign currency movements           |      | -                       | 91                               | 91              |
| <b>Balance at 30 June 2019</b>       |      | <b>-</b>                | <b>52,757</b>                    | <b>52,757</b>   |

## 18. Property, plant and equipment (continued)

|  | Note | Leased assets<br>\$'000 | Plant and<br>Equipment<br>\$'000 | Total<br>\$'000 |
|--|------|-------------------------|----------------------------------|-----------------|
| <b>Accumulated depreciation and amortisation</b> |      |                         |                                  |                 |
| <b>Balance at 30 June 2017</b>                   |      | <b>(15)</b>             | <b>(34,938)</b>                  | <b>(34,953)</b> |
| Disposed through divestments                     |      | -                       | 5,821                            | 5,821           |
| Depreciation expense                             |      | (10)                    | (3,491)                          | (3,501)         |
| Disposals  |      | -                       | 1,071                            | 1,071           |
| Foreign currency movements                       |      | -                       | 74                               | 74              |
| <b>Balance at 30 June 2018</b>                   |      | <b>(25)</b>             | <b>(31,463)</b>                  | <b>(31,488)</b> |
| Additions from business combinations             | 33a  | -                       | (6,025)                          | (6,025)         |
| Depreciation expense                             |      | (19)                    | (2,958)                          | (2,977)         |
| Disposals  |      | 44                      | 1,796                            | 1,840           |
| Foreign currency movements                       |      | -                       | (25)                             | (25)            |
| <b>Balance at 30 June 2019</b>                   |      | <b>-</b>                | <b>(38,675)</b>                  | <b>(38,675)</b> |
| <b>Carrying amount</b>                           |      |                         |                                  |                 |
| As at 30 June 2018                               |      | <b>88</b>               | <b>10,550</b>                    | <b>10,638</b>   |
| <b>As at 30 June 2019</b>                        |      | <b>-</b>                | <b>14,082</b>                    | <b>14,082</b>   |

Depreciation is recognised as an expense in Note 3.

Acquisitions include the acquisition of Disc Brakes Australia Pty Ltd (Note 33a).

## 19. Impairment testing

*Accounting policies**Impairment of property, plant, equipment and intangible assets*

Tangible and intangible assets are tested for impairment annually and whenever there is an indication that the asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Assets that cannot be tested individually are grouped together into cash-generating units (CGUs) which are the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash flows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount is the higher of fair value less costs of disposal 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss (other than goodwill) is recognised in the income statement immediately. Any impairment of goodwill is not subsequently reversed.

**19. Impairment testing (continued)****Results**

The Group's CGUs comprise the operating segments disclosed in Note 7.

All intangible assets with indefinite lives (goodwill and brand names), have been allocated for impairment testing purposes to CGUs (or groups of units).

Each CGU's recoverable amount has been tested on the basis of its value in use. The value in use calculation uses assumptions including cash flow projections based on Board approved budgets for the 2020 (2018: based on 2019 budget) year and forecasts for a further 4 years which are extrapolated in perpetuity using a long term average growth rate (average of next five years) and terminal value growth rate of 3% consistent with the sectors in which the CGUs operate. The values assigned reflect past experience or, if appropriate, are consistent with external sources of information.

The following summarises the post-tax discount rates applied to cash flows of each CGU for the years ended 30 June 2019 and 2018:

|            | <b>2019</b> | <b>2018</b> |
|------------|-------------|-------------|
| Automotive | 9.3 – 9.6%  | 9.0 – 9.3%  |
| Davey      | 8.9 – 9.5%  | 8.9 – 9.5%  |

The directors have assessed that no impairment charge is required in relation to the tangible or intangible assets for the year ended 30 June 2019.

**20. Commitments for expenditure****Plant & equipment**

Future contracted capital expenditure not provided for and payable are as follows:

|  | <b>2019</b>   | <b>2018</b>   |
|--|---------------|---------------|
|  | <b>\$'000</b> | <b>\$'000</b> |
| Within 1 year  | <b>1,417</b>  | 2,048         |
| Between 1 and 5 years                                | -             | 1,156         |
| Later than 5 years                                   | -             | 472           |
| <b>Total plant and equipment capital expenditure</b> | <b>1,417</b>  | 3,676         |

**Operating leases**

Future non-cancellable operating lease commitments not provided for and payable are as follows:

|   | <b>2019</b>      | <b>2019</b>   | <b>2018</b>      | <b>2018</b>   |
|---|------------------|---------------|------------------|---------------|
|   | <b>Buildings</b> | <b>Other</b>  | <b>Buildings</b> | <b>Other</b>  |
|   | <b>\$'000</b>    | <b>\$'000</b> | <b>\$'000</b>    | <b>\$'000</b> |
| Within 1 year                             | <b>6,475</b>     | <b>1,514</b>  | 6,538            | 1,996         |
| Between 1 and 5 years                     | <b>18,584</b>    | <b>2,453</b>  | 24,331           | 4,916         |
| Later than 5 years                        | <b>15,623</b>    | -             | 12,292           | 4,450         |
| <b>Total operating leases commitments</b> | <b>40,682</b>    | <b>3,967</b>  | 43,161           | 11,362        |

The Group leases a number of premises throughout Australia, New Zealand and Europe. The rental period of each individual lease agreement varies between one and ten years with renewal options ranging from one to ten years. The majority of lease agreements are subject to rental adjustments in line with movements in the Consumer Price Index or market rentals. The leases do not include an option to purchase the leased assets at the expiry of the lease period. The Group leases the majority of its motor vehicles from external suppliers over a lease period of up to four years with monthly payments. At the end of the lease period there are a number of options available with respect to the motor vehicles, none of which include penalty charges.

**20. Commitments for expenditure (continued)****Finance leases**

The Group leases production plant and equipment under finance leases expiring from three to five years. At the end of the lease term, the Group has the option to purchase the equipment at the agreed residual amount or renegotiate an extension to the finance lease.

Future non-cancellable finance lease commitments not provided for and payable are as follows:

|   | <b>2019</b>   | 2018   |
|---|---------------|--------|
|   | <b>\$'000</b> | \$'000 |
| Minimum future lease payments:                  |               |        |
| Within 1 year                                   | <b>37</b>     | 72     |
| Between 1 and 5 years                           | -             | -      |
| Later than 5 years                              | -             | -      |
| Total finance lease commitment                  | <b>37</b>     | 72     |
| Less: Future finance lease charges              | -             | -      |
| Finance lease liability                         | <b>37</b>     | 72     |
| Present value of minimum future lease payments: |               |        |
| Within 1 year                                   | <b>37</b>     | 72     |
| Between 1 and 5 years                           | -             | -      |
| Later than 5 years                              | -             | -      |
| <b>Total finance lease</b>                      | <b>37</b>     | 72     |

Lease liabilities provided for in the consolidated financial statements are disclosed in Note 22.

## Capital Structure and Financing Costs

This section outlines how the Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

The Directors determine the appropriate capital structure of the Group, how much is realised from shareholders and how much is borrowed from financial institutions to finance the Group's activities now and in the future.

This section details the interest income generated on the Group's cash and other financial assets and the interest expense incurred on borrowings and other financial assets and liabilities. The presentation of these net financing costs in this note reflects income and expenses according to the classification of the financial instruments.

### 21. Cash and cash equivalents

#### Accounting policies

##### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts and non-derivative financial instruments and are principally held with the same financial institutions who provide borrowing facilities to the company.

Bank overdrafts, where they occur, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Cash flows are included in the cash flow statement on a gross basis inclusive of GST. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

|  | Note | 2019<br>\$'000 | 2018<br>\$'000 |
|--|------|----------------|----------------|
| <b>Current</b>                                 |      |                |                |
| Cash and cash equivalents in the balance sheet | 25   | 28,850         | 50,610         |
| <b>Total cash and cash equivalents</b>         |      | <b>28,850</b>  | <b>50,610</b>  |

#### Reconciliation of profit after income tax to net cash provided by operating activities

|  | 2019<br>\$'000 | 2018<br>\$'000 |
|--|----------------|----------------|
| Profit / (loss) from operations, net of income tax         | 59,558         | 101,845        |
| Profit / loss on sale of subsidiaries                      | -              | (51,536)       |
| Depreciation and amortisation                              | 3,298          | 3,896          |
| Impairment of capitalised product development costs        | (410)          | 1,932          |
| Unwind of discount on contingent consideration payable     | -              | 45             |
| Interest received  | (126)          | (132)          |
| Interest paid  | 7,448          | 7,197          |
| (Gain)/Loss on sale of property, plant and equipment       | 49             | (1,508)        |
| <b>Changes in working capital assets and liabilities:</b>  |                |                |
| Increase/(decrease) in net tax liability                   | (6,532)        | 5,443          |
| (Increase)/decrease in inventories                         | (14,082)       | 5,580          |
| (Increase)/decrease in trade receivables                   | (6,448)        | (4,717)        |
| (Increase)/decrease in other assets                        | 136            | (677)          |
| Increase/(decrease) in provisions                          | (670)          | (2,107)        |
| Increase/(decrease) in payables                            | (1,314)        | (957)          |
| Increase/(decrease) in derivatives                         | 3,617          | (4,945)        |
| <b>Net cash provided by/(used in) operating activities</b> | <b>44,524</b>  | <b>59,359</b>  |

## 22. Borrowings

### Accounting policies

#### Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the income statement over the period of the borrowing using the effective interest rate method.

#### Bank overdrafts

The unsecured bank overdraft facilities are subject to annual review. As part of these facilities, GUD Holdings Limited and all of its subsidiaries have entered into a deed of cross guarantee. GUD Holdings Limited has a contingent liability to the extent of the bank overdraft debt incurred by its controlled entities. Interest on bank overdrafts is charged at prevailing market rates. The weighted average interest rate for all overdrafts as at 30 June 2019 is 4.45% (2018: 4.44%).

#### Unsecured bank loans

The two tranches of the unsecured bank loan in accordance with the Common Terms Deed are summarised below:

|                             | Facilities as at 30 June 2019 |          | Facilities as at 30 June 2018 |          |
|-----------------------------|-------------------------------|----------|-------------------------------|----------|
|                             | Amount                        | Maturity | Amount                        | Maturity |
|                             | \$ million                    | 1 July   | \$ million                    | 1 July   |
| Tranche A – 5 year facility | 185.0                         | 2020     | 185.0                         | 2020     |
| Tranche B – 5 year facility | 60.00                         | 2020     | 60.0                          | 2020     |

The Tranche B facility amortises from 31 March 2016 to maturity. The facility has not amortised during the year ended 30 June 2019 (2018: \$41.25 million).

Both tranches are subject to variable interest rates which as at 30 June 2019 are 2.97% and 2.85%, respectively (2018: 3.80% and 3.78%, respectively). Tranche B reduces by a further \$3.75 million in July 2020 in accordance with facility agreements entered into in conjunction with the Common Terms Deed (as amended). The facilities expire in July 2020.

#### Money market facility

The unsecured money market facilities are payable on demand and may be withdrawn unconditionally. Interest on draw-downs is charged at prevailing market rates.

This table summarises Borrowings relating to all operations at 30 June 2019 and continuing operations at 30 June 2018:

|  | Note | 2019<br>\$'000 | 2018<br>\$'000 |
|--|------|----------------|----------------|
| <b>Current</b>                                   |      |                |                |
| Unsecured bank loans                             |      | 3,750          | -              |
| Secured finance lease liabilities <sup>(1)</sup> |      | 37             | 72             |
| Total current borrowings                         | 25   | 3,787          | 72             |
| <b>Non-current</b>                               |      |                |                |
| Unsecured bank loans                             |      | 157,784        | 142,992        |
| Total non-current borrowings                     | 25   | 157,784        | 142,992        |

(1) Secured by the assets leased (Note 18).



**22. Borrowings (continued)****Financing facilities**

This table summarises facilities available, used and not utilised related to all operations at 30 June 2019 and continuing operations at 30 June 2018:

|   | 2019<br>\$'000 | 2018<br>\$'000 |
|---|----------------|----------------|
| <b>Total facilities available:</b>              |                |                |
| Unsecured bank overdrafts                       | 4,956          | 4,917          |
| Unsecured bank loans                            | 245,000        | 245,000        |
| Unsecured money market facilities               | 5,000          | 5,000          |
| Balance at 30 June                              | 254,956        | 254,917        |
| <b>Facilities used at balance date:</b>         |                |                |
| Unsecured bank overdrafts                       | 165            | 155            |
| Unsecured bank loans                            | 161,534        | 142,992        |
| Unsecured money market facilities               | -              | -              |
| Balance at 30 June                              | 161,699        | 143,147        |
| <b>Facilities not utilised at balance date:</b> |                |                |
| Unsecured bank overdrafts                       | 4,791          | 4,762          |
| Unsecured bank loans                            | 83,466         | 102,008        |
| Unsecured money market facilities               | 5,000          | 5,000          |
| Balance at 30 June                              | 93,257         | 111,770        |

**Reconciliation of movements of liabilities to cash flows arising from financing activities**

| Note   | Bank overdrafts used for cash management purposes | Other loans and borrowings | Interest Rate Swaps / Forward exchange contracts used for hedging - asset | Interest Rate Swaps / Forward exchange contracts used for hedging - Liabilities | Reserves | Retained Earnings | Total    |
|--|---|----------------------------|---|---|----------|-------------------|----------|
| Balance at 1 July 2018                                 | 155   | 141,264                    | 3,687   | 1,082   | 32,793   | 119,649           | 298,630  |
| Changes from financing cash flows                      | -   | -                          | -   | -   | -        | -                 | -        |
| Proceeds from loans and borrowings                     | -   | 45,671                     | -   | -   | -        | -                 | 45,671   |
| Repayment of borrowings                                | -   | (29,096)                   | -   | -   | -        | -                 | (29,096) |
| Dividend paid  | -   | -                          | -   | -   | -        | (45,837)          | (45,837) |
| Interest received                                      | -   | 126                        | -   | -   | -        | -                 | 126      |
| Interest paid  | -   | (7,448)                    | -   | -   | -        | -                 | (7,448)  |
| <b>Total changes from financing cash flows</b>         | -   | 9,253                      | -   | -   | -        | (45,837)          | (36,584) |
| <b>The effect of changes in foreign exchange rates</b> | -   | 998                        | (2,779)   | 364   | 539      | -                 | (878)    |
| Other changes  | -   | -                          | (10)  | 390   | (22,753) | 82,688            | 60,315   |
| Change in bank overdraft                               | 10  | -                          | -   | -   | -        | -                 | 10       |
| Interest received                                      | -   | (126)                      | -   | -   | -        | -                 | (126)    |
| Interest expense                                       | -   | 7,448                      | -   | -   | -        | -                 | 7,448    |
| <b>Total other changes</b>                             | 10  | 7,322                      | (10)  | 390   | (22,753) | 82,688            | 67,647   |
| <b>Balance at 30 June 2019</b>                         | 165   | 158,837                    | 898   | 1,836   | 10,579   | 156,500           | 328,815  |

## 23. Derivatives

### Accounting policies

#### *Derivative financial instruments*

To manage its exposure to interest rate and foreign exchange rate risk, the Group may enter into a variety of derivatives including forward foreign exchange contracts, interest rate swaps, options and collars.

Derivatives are recognised initially at fair value and any directly attributed transaction costs are recognised in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are recognised at fair value, and changes are generally recognised in profit or loss unless designated and effective as cash flow hedging instruments.

#### *Cash flow hedges*

The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

When a derivative is designated as a cash flow hedge, the effective portion of changes in the fair value of derivatives is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in fair value of the derivative is recognised immediately in the profit or loss.

The amounts are accumulated in other comprehensive income and reclassified in the profit or loss in the same period when the impact of the hedged item affects profit or loss.

When the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued on a prospective basis when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At this time, gain or losses accumulated in other comprehensive income are reclassified to profit or loss.

An interest rate swap is an instrument to exchange a fixed rate of interest for a floating rate, or vice versa, or one type of floating rate for another.

#### *Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to underlying variables such as exchange rates or interest rates and is entered into for a fixed period. A hedge is where a derivative is used to manage an underlying exposure.

The Group is exposed to changes in interest rates on its net borrowings and to changes in foreign exchange rates on its foreign currency transactions and net assets. In accordance with Board approved policies. The Group uses derivatives to hedge these underlying exposures.

Derivative financial instruments are initially included in the balance sheet at their fair value, either as assets or liabilities, and are subsequently remeasured at fair value or 'marked to market' at each reporting date. Movements in instruments measured at fair value are recorded in the income statement in net finance costs.

Analysis of the derivatives used by the Group to hedge its exposure and the various methods used to calculate their respective fair values are detailed in this section.

**23. Derivatives (continued)****Derivative assets**

This table summarises derivative assets related to all operations at 30 June 2019 and continuing operations at 30 June 2018:

|  | <b>Note</b> | <b>2019<br/>\$'000</b> | <b>2018<br/>\$'000</b> |
|--|-------------|------------------------|------------------------|
| <b>Current</b>                                   |             |                        |                        |
| Derivatives - Foreign currency forward contracts | 25          | <b>898</b>             | 3,677                  |
| Current derivative assets                        |             | <b>898</b>             | 3,677                  |
| <b>Non-current</b>                               |             |                        |                        |
| Derivatives - Interest rate swaps                | 25          | -                      | 10                     |
| Non-current derivative assets                    |             | -                      | 10                     |

**Derivative liabilities**

This table summarises derivative liabilities related to all operations at 30 June 2019 and continuing operations at 30 June 2018:

|  | <b>Note</b> | <b>2019<br/>\$'000</b> | <b>2018<br/>\$'000</b> |
|--|-------------|------------------------|------------------------|
| <b>Current</b>                                   |             |                        |                        |
| Derivatives - Foreign currency forward contracts | 25          | <b>243</b>             | -                      |
| Derivatives - Interest rate swaps at fair value  | 25          | <b>4</b>               | 2                      |
| Current derivative liabilities                   |             | <b>247</b>             | 2                      |
| <b>Non-current</b>                               |             |                        |                        |
| Derivatives - Interest rate swaps at fair value  | 25          | <b>1,468</b>           | 1,080                  |
| Non-current derivative liabilities               |             | <b>1,468</b>           | 1,080                  |

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and impact profit or loss and the carrying amounts of the related hedging instruments.

|                                   | <b>2019</b>  |                |              |             |                    | <b>2018</b>  |              |              |             |                    |
|-----------------------------------|--|----------------|--------------|-------------|--------------------|--|--------------|--------------|-------------|--------------------|
|                                   | <b>Expected cash flow and impact to profit or loss</b> |                |              |             |                    | <b>Expected cash flow and impact to profit or loss</b> |              |              |             |                    |
|                                   | Carrying amount  | Total          | 1-6 months   | 6-12 months | More than one year | Carrying amount  | Total        | 1-6 months   | 6-12 months | More than one year |
| <b>Interest rate swaps</b>        |  |                |              |             |                    |  |              |              |             |                    |
| Assets                            | -  | -              | -            | -           | -                  | 10   | 10           | -            | -           | 10                 |
| Liabilities                       | <b>(1,472)</b>   | <b>(1,472)</b> | <b>(4)</b>   | -           | <b>(1,468)</b>     | (1,082)  | (1,082)      | (2)          | -           | (1,080)            |
| <b>Forward exchange contracts</b> |  |                |              |             |                    |  |              |              |             |                    |
| Assets                            | <b>898</b>   | <b>898</b>     | <b>898</b>   | -           | -                  | 3,677  | 3,677        | 3,203        | 474         | -                  |
| Liabilities                       | <b>243</b>   | <b>243</b>     | <b>243</b>   | -           | -                  | -  | -            | -            | -           | -                  |
| <b>Total</b>                      | <b>(331)</b>   | <b>(331)</b>   | <b>1,137</b> | -           | <b>(1,468)</b>     | <b>2,605</b>   | <b>2,605</b> | <b>3,201</b> | <b>474</b>  | <b>(1,070)</b>     |

## 24. Other financial instruments

### Accounting policies

#### Other financial instruments

Financial assets and liabilities are recognised on the date when they are originated or at trade date.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Financial liabilities are derecognised if the Group's obligations specified in the contract are discharged, expire or are cancelled.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

#### Loans receivable

Loans receivable are non-derivative financial instruments and are initially recognised at fair value plus any directly attributable costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less identified impairment.

#### Contingent consideration

Any contingent consideration receivable or payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

### Other financial assets

This table summarises other financial assets related to all operations at 30 June 2019 and continuing operations at 30 June 2018:

|                                    | Note | 2019<br>\$'000 | 2018<br>\$'000 |
|------------------------------------|------|----------------|----------------|
| <b>Current</b>                     |      |                |                |
| Loans receivable - third parties   | 25   | 756            | 516            |
| Other current financial assets     |      | 756            | 516            |
| <b>Non-current</b>                 |      |                |                |
| Loans receivable - third parties   | 25   | 1,978          | 1,284          |
| Other non-current financial assets |      | 1,978          | 1,284          |

### Other financial liabilities

This table summarises other financial liabilities at 30 June 2019 and at 30 June 2018:

|  | Note | 2019<br>\$'000 | 2018<br>\$'000 |
|--|------|----------------|----------------|
| <b>Current</b>                           |      |                |                |
| Contingent consideration payable         |      | 1,625          | 1,625          |
| <b>Non current</b>                       |      |                |                |
| Contingent consideration payable         |      | 802            | 2,427          |
| <b>Total other financial liabilities</b> | 25   | <b>2,427</b>   | <b>4,052</b>   |

Contingent consideration payable included in other financial liabilities is measured at fair value. Consideration payable at 30 June 2019 includes the contingent consideration payable to the vendors of IMG.

## 25. Financial instruments

Fair value hierarchy below analyses financial instruments carried at fair value, by 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 market values 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).

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values for financial instruments measured at fair value in the statement of financial position, as well as the significant unobservable inputs used.

| Type                              | Valuation technique  | Significant unobservable inputs  | Inter-relationship between significant unobservable inputs and fair value   |
|-----------------------------------|--|--|---|
| <b>Interest rate swaps</b>        | Swap models: The fair value calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Group and of the counterparty; this is calculated based on credit spreads derived from current credit default swap or bond prices. | <i>Not applicable.</i>   | <i>Not applicable.</i>  |
| <b>Foreign exchange contracts</b> | Forward pricing: The fair value is determined using quoted forward exchange rates at the reporting date and present value calculations based on high credit quality yield curves in the respective currencies.   | <i>Not applicable.</i>   | <i>Not applicable.</i>  |
| <b>Contingent consideration</b>   | Discounted cash flows: The valuation model considers the present value of the expected future payments, discounted using a risk-adjusted discount rate. The expected payment is determined by considering the possible scenarios of forecast revenue and EBITDA, the amount to be paid under each scenario and the probability of each scenario.   | <ul style="list-style-type: none"> <li>- <i>The probability attached to each scenario</i></li> <li>- <i>Forecast EBIT growth (2018: 0-30%)</i></li> <li>- <i>Risk adjusted discount rate (2018: 8.0%)</i></li> </ul> | <i>The estimated fair value would increase (decrease) if:</i> <ul style="list-style-type: none"> <li>- <i>The EBITDA growth is lower/ (higher)</i></li> <li>- <i>The risk adjusted discount rate moves lower (higher).</i></li> </ul> |
| <b>Investments</b>                | The fair values of the non-listed equity investments have been estimated by benchmarking against the latest round of capital raises completed in the financial year.   | <ul style="list-style-type: none"> <li>- <i>Recent capital raises</i></li> <li>- <i>Internal management information</i></li> </ul>   | <i>Not applicable.</i>  |

**25. Financial instruments (continued)***Derivative financial instruments*

Level 2 fair values for simple over-the-counter derivative financial instruments are based on valuations from banks. These are tested for reasonableness by discounting expected future cash flows using market interest rate for a similar instrument at the measurement date.

*Other financial assets - Contingent consideration payable*

Level 3 fair values are based on the present value of expected receipt discounted using a risk adjusted discount rate. There were no transfers between any of the levels of the fair value hierarchy during the year ended 30 June 2019.

**Level 3 fair value reconciliation**

Changes in fair value of the level 3 financial instruments is summarised below:

|   | <b>2019</b>    | 2018    |
|---|----------------|---------|
|   | <b>\$'000</b>  | \$'000  |
| Opening balance <sup>1</sup>                                      | <b>2,032</b>   | 5,902   |
| Contingent consideration payable – acquisition of 100% of GEL ANZ | -              | (2,022) |
| Contingent consideration payable – acquisition of 100% of IMG     | <b>(1,625)</b> | 101     |
| Investments acquired  | <b>(312)</b>   | (2,021) |
| Total gains/losses recognised in the period on OCI                | <b>598</b>     | -       |
| Unwinding of discount   | -              | 72      |
| Unrealised fair value loss included in profit and loss            | -              | -       |
| Closing balance   | <b>693</b>     | 2,032   |

1. Opening balance includes Investments and Contingent consideration

## GUD Holdings Limited and Subsidiaries



### 25. Financial instruments (continued)

|   | As at 30 June 2019 |                       |                |                   |                   |                   |
|---|--------------------|-----------------------|----------------|-------------------|-------------------|-------------------|
|   | Carrying value     |                       | Total          | Fair value        |                   |                   |
|   | Current<br>\$'000  | Non-current<br>\$'000 |                | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 |
| <b>Financial assets measured at fair value</b>                |                    |                       |                |                   |                   |                   |
| Investment  |                    | 1,734                 | 1,734          | -                 | -                 | 1,734             |
| Derivatives - Foreign currency forward contracts              | 898                | -                     | 898            | -                 | 898               | -                 |
| <b>Total financial assets measured at fair value</b>          | <b>898</b>         | <b>1,734</b>          | <b>2,632</b>   | <b>-</b>          | <b>898</b>        | <b>1,734</b>      |
| <b>Financial assets not measured at fair value</b>            |                    |                       |                |                   |                   |                   |
| Cash and cash equivalents <sup>a</sup>                        | 28,850             | -                     | 28,850         | -                 | -                 | -                 |
| Trade and other receivables <sup>a</sup>                      | 106,827            | -                     | 106,827        | -                 | -                 | -                 |
| Other financial assets <sup>a</sup>                           | 756                | 1,978                 | 2,734          | -                 | -                 | -                 |
| <b>Total financial assets not measured at fair value</b>      | <b>136,433</b>     | <b>1,978</b>          | <b>138,411</b> | <b>-</b>          | <b>-</b>          | <b>-</b>          |
| <b>Total financial assets</b>                                 | <b>137,331</b>     | <b>4,310</b>          | <b>141,641</b> | <b>-</b>          | <b>898</b>        | <b>1,734</b>      |
| <b>Financial liabilities measured at fair value</b>           |                    |                       |                |                   |                   |                   |
| Derivatives - Foreign currency forward contracts              | 243                | -                     | 243            | -                 | 243               | -                 |
| Derivatives - Interest rate swaps at fair value               | 4                  | 1,468                 | 1,472          | -                 | 1,472             | -                 |
| Other financial liabilities                                   | 1,625              | 802                   | 2,427          | -                 | -                 | 2,427             |
| <b>Total financial liabilities measured at fair value</b>     | <b>1,872</b>       | <b>2,270</b>          | <b>4,142</b>   | <b>-</b>          | <b>1,715</b>      | <b>2,427</b>      |
| <b>Financial liabilities not measured at fair value</b>       |                    |                       |                |                   |                   |                   |
| Borrowings and loans <sup>a</sup>                             | 202                | 161,534               | 161,736        | -                 | -                 | -                 |
| <b>Total financial liabilities not measured at fair value</b> | <b>202</b>         | <b>161,534</b>        | <b>161,736</b> | <b>-</b>          | <b>-</b>          | <b>-</b>          |
| <b>Total financial liabilities</b>                            | <b>2,074</b>       | <b>163,804</b>        | <b>165,878</b> | <b>-</b>          | <b>1,715</b>      | <b>2,427</b>      |

a. The Group has not disclosed the fair values for financial instruments such as cash and cash equivalents, short term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair value

## GUD Holdings Limited and Subsidiaries



### 25. Financial instruments (continued)

|   | As at 30 June 2018 |                       |                |                   |                   |                   |
|---|--------------------|-----------------------|----------------|-------------------|-------------------|-------------------|
|   | Carrying value     |                       | Total          | Fair value        |                   |                   |
|   | Current<br>\$'000  | Non-current<br>\$'000 |                | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 |
| <b>Financial assets measured at fair value</b>                |                    |                       |                |                   |                   |                   |
| Derivatives - Foreign currency forward contracts              | 3,677              | -                     | 3,677          | -                 | 3,677             | -                 |
| Derivatives - Interest rate swaps at fair value               | -                  | 10                    | 10             | -                 | 10                | -                 |
| <b>Total financial assets measured at fair value</b>          | <b>3,677</b>       | <b>10</b>             | <b>3,687</b>   | <b>-</b>          | <b>3,687</b>      | <b>-</b>          |
| <b>Financial assets not measured at fair value</b>            |                    |                       |                |                   |                   |                   |
| Cash and cash equivalents <sup>a</sup>                        | 50,610             | -                     | 50,610         | -                 | -                 | -                 |
| Trade and other receivables <sup>a</sup>                      | 96,687             | -                     | 96,687         | -                 | -                 | -                 |
| Other financial assets  | 516                | 1,284                 | 1,800          | -                 | -                 | -                 |
| <b>Total financial assets not measured at fair value</b>      | <b>147,813</b>     | <b>1,284</b>          | <b>149,097</b> | <b>-</b>          | <b>-</b>          | <b>-</b>          |
| <b>Total financial assets</b>                                 | <b>151,490</b>     | <b>1,294</b>          | <b>152,784</b> | <b>-</b>          | <b>3,687</b>      | <b>-</b>          |
| <b>Financial liabilities measured at fair value</b>           |                    |                       |                |                   |                   |                   |
| Derivatives - Foreign currency forward contracts              | 2                  | 1,080                 | 1,082          | -                 | 1,082             | -                 |
| Derivatives - Interest rate swaps at fair value               | 1,625              | 2,427                 | 4,052          | -                 | -                 | 4,052             |
| <b>Total financial liabilities measured at fair value</b>     | <b>1,627</b>       | <b>3,507</b>          | <b>5,134</b>   | <b>-</b>          | <b>1,082</b>      | <b>4,052</b>      |
| <b>Financial liabilities not measured at fair value</b>       |                    |                       |                |                   |                   |                   |
| Borrowings and loans <sup>a</sup>                             | 72                 | 142,992               | 143,064        | -                 | -                 | -                 |
| <b>Total financial liabilities not measured at fair value</b> | <b>72</b>          | <b>142,992</b>        | <b>143,064</b> | <b>-</b>          | <b>-</b>          | <b>-</b>          |
| <b>Total financial liabilities</b>                            | <b>1,699</b>       | <b>146,499</b>        | <b>148,198</b> | <b>-</b>          | <b>1,082</b>      | <b>4,052</b>      |

a. The Group has not disclosed the fair values for financial instruments such as cash and cash equivalents, short term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair value



## GUD Holdings Limited and Subsidiaries

### 26. Financial risk management

#### Overview

The Group's activities expose it to a variety of financial risks: market risks (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments within its policies described below as hedges to manage certain risk exposures.

Treasury policies have been approved by the Board for managing each of these risks including levels of authority on the type and use of financial instruments. Transactions are only undertaken if they relate to underlying exposures, i.e. the Group does not use derivatives to speculate. The treasury function reports regularly to the Audit Committee and treasury operations are subject to periodic reviews.

The Group has exposure to the following risks from their financial instruments:

- credit risk
- liquidity risk
- market risk

This note provides additional information about the Group's exposures to the above risks, its objectives, policies and processes for measuring and managing the identified risk. It also outlines the objectives and approach to capital management.

#### Financial risk management objectives

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international markets, and manages the financial risks relating to the operations of the Group.

The Group does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the Financial Risk Management committee chaired by the Chief Financial Officer. Each month the Chief Financial Officer provides the Board of Directors with a report outlining financial exposures, hedging levels, and, financial risk management policy compliance.

The Group's activities expose it primarily to the financial risks associated with changes in foreign currency exchange rates, interest rates and commodity prices.

There has not been any change to the objectives, policies and processes for managing risk during the current year.

#### Credit risk

Credit risk refers to the risk that a financial loss may be experienced by the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's risk is primarily in relation to receivables from customers and hedging transactions with third party counterparties.

The Group's exposure to credit risk is characterised by the following:

- the majority of customer sales transactions are domestic in nature,
- trade receivables are non-interest bearing and domestic trade receivables are generally on 30 to 120 day terms,
- the Group as a whole is exposed in a material way to several large Automotive parts resellers who are members of publicly listed companies and a number of significant customers with individual businesses in the water and automotive aftermarket sectors,
- new customers are subjected to credit assessment by the specific business within the Group that they wish to transact with and are allocated credit limits which are managed according to the needs of the customer and the risk assessment of the relevant business,
- most businesses within the Group maintain credit insurance to lessen the credit risk,
- ageing of customer receivables is reviewed in detail each month by businesses within the Group and by the Company in an oversight capacity.

## GUD Holdings Limited and Subsidiaries

### 26. Financial risk management (continued)

In order to manage credit risk, goods are sold subject to retention of title clauses and, where considered appropriate, are registered under the Personal Properties Securities Act, so that in the event of non-payment the Group may have a secured claim.

The Group maintains a provision account, described in the consolidated financial statements as an allowance for doubtful debts, which represents the estimated value of specific trade receivables that may not be recovered. A general provision for doubtful debts is not maintained. Uncollectible trade receivables are charged to the allowance for doubtful debts account. Identified bad debts are submitted to the Board of Directors for approval for write off in December and June of each year. Credit insurance is maintained to partially mitigate uncollectable amounts.

The maximum exposure to credit risk is the sum of cash and cash equivalents (Note 21), the total value of trade debtors and other receivables (Note 8) and other financial assets (Note 24). The majority of credit risk is within Australia and New Zealand.

A material exposure arises from forward exchange contracts, options and collars that are subject to credit risk in relation to the relevant counterparties. The maximum credit risk exposure on foreign currency contracts, options and collars is the full amount of the foreign currency the Group pays when settlement occurs should the counterparty fail to pay the amount which it is committed to pay the Group. To address this risk the Group restricts its dealings to financial institutions with appropriate credit ratings.

#### Liquidity risk

Liquidity risk refers to the risk that the Group will not be able to meet its financial obligations as they fall due. The Group undertakes the following activities to ensure that there will be sufficient funds available to meet obligations:

- prepare budgeted annual and monthly cash flows;
- measurement of actual Group cash flows on a regular basis with comparison to budget on a monthly basis;
- maintenance of standby money market facilities; and
- maintenance of a committed borrowing facility in excess of budgeted usage levels.

The contractual maturities of financial liabilities, including estimated interest payments on bank loans, are as follows:

|                                    | Carrying<br>amount | Contractual<br>cash flows | Less than<br>1 year | 1 to 2<br>years | 2 to 5<br>years | Beyond 5<br>years |
|------------------------------------|--------------------|---------------------------|---------------------|-----------------|-----------------|-------------------|
| 2019                               | \$'000             | \$'000                    | \$'000              | \$'000          | \$'000          | \$'000            |
| <b>Financial liabilities</b>       |                    |                           |                     |                 |                 |                   |
| Trade and other payables           | 58,667             | 58,667                    | 58,667              | -               | -               | -                 |
| Derivatives                        | 1,715              | 1,715                     | 247                 | 1,468           | -               | -                 |
| Unsecured bank loans               | 161,571            | 166,055                   | 7,960               | 158,095         | -               | -                 |
| Contingent consideration           | 2,427              | 2,427                     | 1,625               | 802             | -               | -                 |
| <b>Total financial liabilities</b> | <b>224,380</b>     | <b>228,864</b>            | <b>68,499</b>       | <b>160,365</b>  | <b>-</b>        | <b>-</b>          |
|                                    |                    |                           |                     |                 |                 |                   |
|                                    | Carrying<br>amount | Contractual<br>cash flows | Less than<br>1 year | 1 to 2<br>years | 2 to 5<br>years | Beyond 5<br>years |
| 2018                               | \$'000             | \$'000                    | \$'000              | \$'000          | \$'000          | \$'000            |
| <b>Financial liabilities</b>       |                    |                           |                     |                 |                 |                   |
| Trade and other payables           | 56,398             | 56,398                    | 56,398              | -               | -               | -                 |
| Derivatives                        | 1,082              | 1,082                     | 2                   | 1,080           | -               | -                 |
| Unsecured bank loans               | 142,992            | 149,387                   | 2,308               | 2,308           | 144,771         | -                 |
| Contingent consideration           | 4,052              | 4,875                     | 1,625               | 3,250           | -               | -                 |
| <b>Total financial liabilities</b> | <b>204,524</b>     | <b>211,742</b>            | <b>60,333</b>       | <b>6,638</b>    | <b>144,771</b>  | <b>-</b>          |

The inflows/(outflows) disclosed in the above table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are not usually closed out before contractual maturity. The disclosure shows net cash flow amounts for derivatives that are net cash-settled and gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement.

As disclosed in Notes 22, the Group has an unsecured bank loan that contains a loan covenant. A future breach of covenant may require the Group to repay the loan earlier than indicated in the above table. Under the agreement, the covenant is monitored on a regular basis by the treasury department and regularly reported to management to ensure compliance with the agreement.

## GUD Holdings Limited and Subsidiaries

### 26. Financial risk management (continued)

#### Market risk

Market risk for the Group refers to the risk that changes in foreign exchange rates or interest rates will affect the Group's income or equity value.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rates and foreign currency risk, including:

- forward foreign exchange contracts, options and collars to hedge the exchange risk arising from the importation and sale of goods purchased in foreign currency (principally US dollars); and
- interest rate swaps, options and collars to partially mitigate the risk of rising interest rates.

#### Foreign exchange risk management

The Group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts, options and collars. The Board of Directors reviews the Group's foreign currency exposure on a monthly basis. The process includes a review of a rolling 12 month estimate of foreign currency exposure, an analysis of financial instruments contracted, an analysis of positions in relation to policy compliance and an analysis of the Group's sensitivity to movements in the exchange rates on an annualised basis.

Forward foreign exchange contracts provide certainty as specific rates are agreed at the time the contract is agreed. Purchased foreign currency options require a premium to be paid and provide a minimum (or maximum) rate at which the entity transacting will purchase (or sell) foreign currency. Foreign currency collars, being a combination of bought call and sold put options, provide the transacting entity with a minimum rate of exchange (call) and a maximum rate of exchange (put). The Group's policy is to enter into forward foreign exchange contracts, options and collars to cover specific and anticipated purchases, specific and anticipated sales and committed capital expenditure, principally in US dollars. The terms of the Group's commitments are rarely more than one year.

At 30 June 2019, the Group is exposed to \$9.7 million (2018: \$6.3 million) of US\$ denominated net trade liabilities, \$8.8 million of NZ\$ net trade receivables (2018: \$3.1 million net trade receivables), \$2.4 million of Euro net trade receivables (2018: \$1.8 million) and \$1.9 million of CNY net trade liabilities (2018: \$2.4 million).

#### Forward foreign exchange contracts

The following table summarises the significant forward foreign currency contracts outstanding as at the reporting date:

|   | Average<br>Exchange Rate <sup>1</sup> |        | Foreign Currency |        | Contract Value |        | Fair Value   |        |
|---|---------------------------------------|--------|------------------|--------|----------------|--------|--------------|--------|
|   | 2019                                  | 2018   | 2019             | 2018   | 2019           | 2018   | 2019         | 2018   |
| Buy   |                                       |        | FC'000           | FC'000 | \$'000         | \$'000 | \$'000       | \$'000 |
| United States Dollars                       | <b>0.7096</b>                         | 0.7995 | <b>46,550</b>    | 33,800 | <b>65,600</b>  | 42,376 | <b>778</b>   | 3,541  |
| Chinese Renminbi                            | <b>4.7969</b>                         | 5.1733 | <b>36,000</b>    | 13,500 | <b>7,505</b>   | 2,610  | <b>(123)</b> | 136    |
| Total forward foreign<br>exchange contracts |                                       |        |                  |        | <b>73,105</b>  | 44,986 | <b>655</b>   | 3,677  |

<sup>1</sup> Represents weighted average hedge exchange rates in the foreign currency contracts

|   | 2019         | 2018         |
|---|--------------|--------------|
| Sensitivity Analysis - foreign exchange AUD/USD                     | \$'000       | \$'000       |
| For every 1c decrease in AUD:USD rate, total exposures increase by: |              |              |
| Income statement  | <b>1,029</b> | <b>919</b>   |
| Equity  | <b>(91)</b>  | <b>(382)</b> |

## GUD Holdings Limited and Subsidiaries

### 26. Financial risk management (continued)

#### Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at variable interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating interest rates through the use of interest rate derivatives, swap contracts, options and forward interest rate swap contracts.

The Group, from time to time, enters into interest rate swaps and options, with expiration terms ranging out to three years, to protect part of the loans from exposure to increasing interest rates. Interest rate swaps allow the Group to swap floating rate borrowings into fixed rates. Maturities of swap contracts are principally between one and three years. The Group determines the level of hedging required each year based on an estimate of the underlying core debt which is represented by forecast June debt levels. The core debt level is hedged to levels ranging from a maximum of 80% in year one to a minimum of 20% in year three. The hedging of the core debt level is reviewed monthly by the Financial Risk Management committee. These hedges are treated as cash flow hedges.

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. These contracts enable the Group to partially mitigate the risk of changing interest rates. The fair values of interest rate swaps are based on counterparty exit values at the reporting date.

The following table summarises the sensitivity of the Group as at the reporting date to movements in interest rates and does not take into account the offsetting impact of any hedging in place. It is important to note that this interest rate sensitivity analysis assumes that all other economic variables remain constant. The information presented includes the type of sensitivity analysis used when reporting to the Board of Directors. The table illustrates the impact of a change in rates of 100 basis points, a level that management believes to be a reasonably possible movement.

|  | 2019<br>\$'000 | 2018<br>\$'000 |
|--|----------------|----------------|
| <b>Sensitivity Analysis - interest rates</b>           |                |                |
| For every 100 basis points increase in interest rates: |                |                |
| Income statement                                       | (1,327)        | (924)          |
| Equity   | -              | -              |

The following table details the notional principal amounts and remaining terms of interest rate swap and option contracts outstanding at the reporting date.

|   | Average contracted<br>Fixed interest rate |           | Notional principal<br>amount |                | Fair value     |                |
|---|---|-----------|------------------------------|----------------|----------------|----------------|
|   | 2019<br>%                                 | 2018<br>% | 2019<br>\$'000               | 2018<br>\$'000 | 2019<br>\$'000 | 2018<br>\$'000 |
| <b>Outstanding floating for fixed contracts</b> |   |           |                              |                |                |                |
| Less than 1 year                                | -   | -         | -                            | -              | -              | -              |
| 1 to 2 years                                    | 2.91                                      | -         | 80,000                       | -              | (1,482)        | -              |
| 2 to 5 years                                    | -   | 2.91      | -                            | 80,000         | -              | (1,174)        |
| <b>Total floating for fixed contracts</b>       |   |           | <b>80,000</b>                | <b>80,000</b>  |                | <b>(1,174)</b> |

#### Capital management

The Board's policy is to maintain a strong capital base for the Group. This policy is predicated on the need to continue to present the Group favourably to various stakeholders including investors, employees, banks, suppliers and customers. This enables the Group to access capital markets, attract talented staff and negotiate favourable terms and conditions with suppliers and customers. Capital is defined as total debt and equity of the Group.

The Group uses a Cash Value Added (CVA) approach when measuring returns achieved by each business. This approach involves comparing the cash profit achieved to the cost of the capital utilised by each business. This cost of capital represents a weighted average cost of debt and equity and allows a single measure to assess business performance. The Group has consistently achieved CVA returns in excess of its weighted average cost of capital resulting in positive shareholder returns.

The Group is not subject to any externally imposed capital requirements. The terms and the conditions of the main debt facilities contain four financial covenants: minimum interest cover, maximum debt to earnings, and Australia and NZ subsidiaries to Group asset and earnings ratios. All covenants have been satisfied during the 2019 and 2018 financial years.

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

## GUD Holdings Limited and Subsidiaries

### 27. Share Capital

#### Accounting policies

##### Share capital

The Company's fully paid ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of or repurchase (buy-back) of ordinary shares are recognised as a deduction from equity, net of any tax effects. Ordinary shares bought back by the Company are cancelled in accordance with the law.

|                                      | 2019<br>\$'000 | 2019<br>Number | 2018<br>\$'000 | 2018<br>Number |
|--------------------------------------|----------------|----------------|----------------|----------------|
| Balance at the beginning of the year | 112,880        | 86,185,698     | 112,880        | 85,739,547     |
| Performance share rights vested      | -              | 300,274        | -              | 446,151        |
| Balance at the end of the year       | 112,880        | 86,485,972     | 112,880        | 86,185,698     |

During the year, the Company issued 300,274 shares (2018: 446,151 shares) as a result of the vesting of performance rights as follows:

- 300,274 shares issued pursuant to the vesting component of the 2018 performance rights plan;

During the year no shares were bought back on market and cancelled by the Group (2018: nil). The dividend reinvestment plan has been suspended from the 2013 financial year. The Company does not have par value in respect of its issued shares, hence the \$ values above represent historical amounts contributed (if any) on the new issue of shares, amounts allocated to or from retained earnings, and any amount paid on the repurchase (buy back) of ordinary shares. Fully paid ordinary shares carry one vote per share and carry the right to dividends.

### 28. Reserves

#### Accounting policies

##### Hedging reserve

The effective portion of changes in the fair value (net of tax) of derivatives designated as hedges of highly probable forecast transactions (cash flow hedges) is recognised in other comprehensive income and accumulated in the hedging reserve and reclassified to the profit or loss in the same period when the impact of the hedged item affects profit or loss.

When the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, gains and losses previously deferred in the hedging reserve are transferred and included in the initial measurement of the cost of the asset.

Gains or losses accumulated in the hedging reserve are reclassified to profit or loss on a prospective basis when hedge accounting is discontinued, when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

##### Equity compensation reserve

The Performance Rights Plan grants shares in the Company to certain employees. The fair value of performance rights granted under the Performance Rights Plan is recognised as an employee expense with a corresponding increase in the equity compensation reserve. The fair value is measured at grant date and is spread over the vesting period which is the period from the grant date to the end of the plan period. The fair value of the performance rights granted is measured using a Monte Carlo simulation model, taking into account the terms and conditions upon which the performance rights were granted.

## GUD Holdings Limited and Subsidiaries

### 28. Reserves (continued)

#### *Translation reserve*

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the Group's reporting currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated into the Group's reporting currency at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interests.

When a foreign operation is disposed of in its entirety such that control or significant influence is lost, the cumulative amount in the translation reserve related to the foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of an associate while retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

If settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, then foreign currency differences arising from such items form part of the net investment in the foreign operation. Accordingly, such differences are recognised in other comprehensive income and accumulated in the translation reserve.

#### *Dividend reserve*

The Company may from time to time set aside amounts in the dividend reserve for dividends. Any amounts set aside which are not applied to dividends are carried forward and may be applied to future dividends.

This table summarises the movement in reserves:

|   | 2019<br>\$'000 | 2018<br>\$'000 |
|---|----------------|----------------|
| <b>Hedging Reserve</b>                                    |                |                |
| Balance at the beginning of the year                      | 1,443          | (1,544)        |
| Fair value adjustments transferred to equity - net of tax | 754            | 3,660          |
| Amounts transferred to inventory - net of tax             | (2,860)        | (673)          |
| Balance at the end of the year                            | (663)          | 1,443          |
| <b>Equity Compensation Reserve</b>                        |                |                |
| Balance at the beginning of the year                      | 7,734          | 5,911          |
| Equity settled share based payment transactions           | 1,761          | 1,823          |
| Balance at the end of the year                            | 9,495          | 7,734          |
| <b>Fair Value Reserve</b>                                 |                |                |
| Balance at the beginning of the year                      | -              | -              |
| Fair value adjustments                                    | (598)          | -              |
| Balance at the end of the year                            | (598)          | -              |
| <b>Translation Reserve</b>                                |                |                |
| Balance at the beginning of the year                      | 1,208          | 1,224          |
| Exchange differences on translating foreign operations    | 539            | (16)           |
| Balance at the end of the year                            | 1,747          | 1,208          |
| <b>Dividend Reserve</b>                                   |                |                |
| Balance at the beginning of the year                      | 22,408         | 21,000         |
| Transfer to retained earnings                             | (22,408)       | (21,000)       |
| Amounts set aside for dividends                           | -              | 22,408         |
| Balance at the end of the year                            | -              | 22,408         |
| <b>Reserves at the end of the year</b>                    | <b>9,981</b>   | <b>32,793</b>  |

## GUD Holdings Limited and Subsidiaries

### 29. Retained earnings

This table summarises the movement in retained earnings:

|                                      | 2019<br>\$'000 | 2018<br>\$'000 |
|--------------------------------------|----------------|----------------|
| Balance at the beginning of the year | 119,649        | 61,443         |
| Profit for the period                | 59,558         | 101,845        |
| Transfer to dividend reserve         | -              | (22,408)       |
| Transfer from dividend reserve       | 22,408         | 21,000         |
| Dividends paid                       | (45,837)       | (42,231)       |
| Balance at the end of the year       | 155,778        | 119,649        |

### 30. Dividends

#### Accounting policies

#### Dividends

Dividends paid are classified as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments.

#### Recognised amounts

|  | Cents per<br>share | Total<br>amount<br>\$'000 | Date of payment  | Tax rate | Percentage<br>franked |
|--|--------------------|---------------------------|------------------|----------|-----------------------|
| <b>2019</b>  |                    |                           |                  |          |                       |
| Final dividend in respect of the 2018 financial year   | 28                 | 24,216                    | 31 August 2018   | 30%      | 100%                  |
| Interim dividend in respect of the 2019 financial year | 25                 | 21,621                    | 1 March 2019     | 30%      | 100%                  |
| <b>Total dividends</b>                                 | 53                 | 45,837                    |                  |          |                       |
| <b>2018</b>  |                    |                           |                  |          |                       |
| Final dividend in respect of the 2017 financial year   | 25                 | 21,546                    | 1 September 2017 | 30%      | 100%                  |
| Interim dividend in respect of the 2018 financial year | 24                 | 20,685                    | 2 March 2018     | 30%      | 100%                  |
| <b>Total dividends</b>                                 |                    | 42,231                    |                  |          |                       |

#### Unrecognised amounts

| Fully Paid Ordinary Shares                           | Cents per<br>share | Total<br>amount<br>\$'000 | Date of payment | Tax rate | Percentage<br>franked |
|--|--------------------|---------------------------|-----------------|----------|-----------------------|
| <b>2019</b>  |                    |                           |                 |          |                       |
| Final dividend in respect of the 2019 financial year | 31                 | 26,811                    | 31 August 2019  | 30%      | 100%                  |

The Company operates a Dividend Reinvestment Plan (DRP) which allows eligible shareholders to elect to invest dividends in ordinary shares which rank equally with GUD ordinary shares. This has been suspended for all dividends from the 2013 interim dividend onwards.

#### Dividend franking account

The available amounts are based on the balance of the dividend franking account at the reporting date adjusted for franking credits that will arise from the payment of the current tax liability.

|   | 2019<br>\$'000 | 2018<br>\$'000 |
|---|----------------|----------------|
| 30% (2018: 30%) franking credits available to shareholders of GUD Holdings Limited for subsequent financial years | 50,121         | 44,619         |

## GUD Holdings Limited and Subsidiaries

### Taxation

This section outlines the tax accounting policies, current and deferred tax impacts, a reconciliation of profit before tax to the tax charge and the movements in deferred tax assets and liabilities.

#### 31. Current tax

##### Accounting policies

##### *Current and deferred tax expense*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

##### *Tax consolidation*

The Company and its wholly-owned Australian resident subsidiaries have formed a tax-consolidated group under Australian taxation law and taxed as a single entity with effect from 1 July 2003. The head entity within the tax-consolidated group is GUD Holdings Limited. The members of the tax consolidated group are identified in Note 33c.

##### *Nature of tax funding arrangements and tax sharing agreements*

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, GUD Holdings Limited and each of the entities in the tax consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the current liability or current asset of the entity. The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its payment obligations. No amounts have been recognised in the consolidated financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

##### Income tax expense recognised in the income statement

|   | 2019<br>\$'000 | 2018<br>\$'000 |
|---|----------------|----------------|
| <b>Prima facie income tax expense calculated at 30% (2018: 30%) on profit</b> | <b>24,073</b>  | 21,059         |
| <b>Increase/(decrease) in income tax expense / (benefit) due to :</b>         |                |                |
| Non-deductible expenditure  | 685            | 3,972          |
| (Over)/under provision of income tax in prior year                            | (873)          | (416)          |
| Research and development incentives   | (255)          | (310)          |
| Tax incentives not recognised in profit or loss                               | (1,050)        | (490)          |
| Non-assessable income   | (1,893)        | (4,092)        |
| <b>Income tax expense</b>   | <b>20,687</b>  | 19,723         |
| <b>Tax expense / (benefit) comprises:</b>                                     |                |                |
| Current tax expense   | 20,737         | 22,664         |
| Adjustments recognised in the current year in relation to tax of prior years  | (873)          | (416)          |
| Deferred tax expense from origination and reversal of temporary differences   | 823            | (2,525)        |
| <b>Total tax expense</b>  | <b>20,687</b>  | 19,723         |



## GUD Holdings Limited and Subsidiaries

### 31. Current tax (continued)

#### Income tax expense recognised in other comprehensive income

| 2019   | Tax (expense)  |            |                |
|--|----------------|------------|----------------|
|  | Before tax     | / benefit  | Net of tax     |
| Income tax on items that may be subsequently reclassified to profit or loss: |                |            |                |
| Exchange differences on translating results of foreign operations            | 539            | -          | 539            |
| Fair value adjustments transferred to hedging reserve                        | 1,267          | (323)      | 944            |
| Net change in fair value of cash flow hedges transferred to inventory        | (4,086)        | 1,226      | (2,860)        |
| Income tax expense recognised in other comprehensive income                  | <b>(2,280)</b> | <b>903</b> | <b>(1,377)</b> |

| 2018   | Tax (expense) |                |              |
|--|---------------|----------------|--------------|
|  | Before tax    | / benefit      | Net of tax   |
| Income tax on items that may be subsequently reclassified to profit or loss: |               |                |              |
| Exchange differences on translating results of foreign operations            | (16)          | -              | (16)         |
| Fair value adjustments transferred to hedging reserve                        | 5,228         | (1,568)        | 3,660        |
| Net change in fair value of cash flow hedges transferred to inventory        | (961)         | 288            | (673)        |
| Income tax expense recognised in other comprehensive income                  | <b>4,251</b>  | <b>(1,280)</b> | <b>2,971</b> |

### 32. Deferred tax

#### Accounting policies

##### Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base of those items.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affect neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company/subsidiary expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/subsidiary intends to settle its current tax assets and liabilities on a net basis.



## GUD Holdings Limited and Subsidiaries

### 32. Deferred tax (continued)

|  | Opening balance | Acquisition<br>through business<br>combinations | Recognised<br>in Profit or Loss | Recognised<br>in Equity | Closing balance |
|--|-----------------|---|---------------------------------|-------------------------|-----------------|
| 2019   | \$'000          | \$'000  | \$'000                          | \$'000                  | \$'000          |
| <b>Deferred tax assets</b>                   |                 |   |                                 |                         |                 |
| Employee benefit provisions                  | 3,607           | 187   | (69)                            | -                       | 3,725           |
| Restructuring provisions                     | -               | -   | 356                             | -                       | 356             |
| Warranty provisions                          | 314             | -   | (140)                           | -                       | 174             |
| Doubtful debts                               | 219             | -   | (36)                            | -                       | 183             |
| Inventory                                    | 2,358           | 350   | (764)                           | -                       | 1,944           |
| Accrued expenses                             | 866             | 15  | (25)                            | -                       | 856             |
| Derivative liabilities                       | 324             | -   | (819)                           | 1,005                   | 510             |
| Property, plant and equipment                | 241             | -   | (211)                           | -                       | 30              |
| Other intangible assets                      | 2,245           | -   | -                               | -                       | 2,245           |
| Other  | 470             | -   | (795)                           | -                       | (324)           |
| Total deferred tax asset                     | 10,644          | 552   | (2,502)                         | 1,005                   | 9,699           |
| Set off of tax                               | (2,717)         |   |                                 |                         | (1,898)         |
| Net deferred tax asset                       | 7,927           |   |                                 |                         | 7,801           |
| <b>Deferred tax liabilities</b>              |                 |   |                                 |                         |                 |
| Property, plant and equipment                | 37              | -   | 78                              | -                       | 115             |
| Capitalised product development              | 15              | -   | -                               | -                       | 15              |
| Other intangible assets                      | 1,398           | -   | 2                               | -                       | 1,400           |
| Derivative assets                            | 1,107           | -   | (938)                           | 100                     | 269             |
| Other  | 160             | -   | (61)                            | -                       | 99              |
| Total deferred tax liabilities               | 2,717           | -   | (919)                           | 100                     | 1,898           |
| Set off of tax                               | (2,717)         |   |                                 |                         | (1,898)         |
| <b>Net deferred tax assets/(liabilities)</b> | 7,927           |   |                                 |                         | 7,801           |



## GUD Holdings Limited and Subsidiaries

### 32. Deferred tax (continued)

|  |                 |   | Recognised<br>in Profit or Loss from |                             |                         |                 |
|--|-----------------|---|--------------------------------------|-----------------------------|-------------------------|-----------------|
|  | Opening balance | Acquisition<br>through business<br>combinations | Continuing<br>operations             | Discontinuing<br>operations | Recognised<br>in Equity | Closing balance |
| 2018   | \$'000          | \$'000  | \$'000                               | \$'000                      | \$'000                  | \$'000          |
| <b>Deferred tax assets</b>                       |                 |   |                                      |                             |                         |                 |
| Employee benefit provisions                      | 3,884           | 580   | (860)                                | 3                           | -                       | 3,607           |
| Restructuring provisions                         | 12              | -   | (12)                                 | -                           | -                       | -               |
| Warranty provisions                              | 363             | -   | (49)                                 | -                           | -                       | 314             |
| Doubtful debts                                   | 224             | -   | (4)                                  | (1)                         | -                       | 219             |
| Inventory  | 1,360           | -   | 947                                  | 51                          | -                       | 2,358           |
| Accrued expenses                                 | 934             | -   | (98)                                 | 30                          | -                       | 866             |
| Derivative liabilities                           | 720             | -   | (378)                                | -                           | (18)                    | 324             |
| Property, plant and equipment                    | 41              | -   | 200                                  | -                           | -                       | 241             |
| Other intangible assets                          | 1,128           | -   | 1,117                                | -                           | -                       | 2,245           |
| Other  | 364             | -   | 181                                  | (75)                        | -                       | 470             |
| Total deferred tax asset                         | 9,030           | 580   | 1,044                                | 8                           | (18)                    | 10,644          |
| Set off of tax                                   | (2,746)         |   |                                      |                             |                         | (2,717)         |
| Net deferred tax asset                           | 6,284           |   |                                      |                             |                         | 7,927           |
| <b>Deferred tax liabilities</b>                  |                 |   |                                      |                             |                         |                 |
| Property, plant and equipment                    | 147             | -   | (110)                                | -                           | -                       | 37              |
| Capitalised product<br>development               | 870             | -   | (855)                                | 0                           | -                       | 15              |
| Other intangible assets                          | 1,553           | -   | (153)                                | (2)                         | -                       | 1,398           |
| Derivative assets                                | 19              | -   | (174)                                | -                           | 1,262                   | 1,107           |
| Other  | 157             | -   | 3                                    | -                           | -                       | 160             |
| Total deferred tax liabilities                   | 2,746           | -   | (1,289)                              | (2)                         | 1,262                   | 2,717           |
| Set off of tax                                   | (2,746)         |   |                                      |                             |                         | (2,717)         |
|  | -               |   |                                      |                             |                         | -               |
| <b>Net deferred tax<br/>assets/(liabilities)</b> | 6,284           |   |                                      |                             |                         | 7,927           |

The disposals of Oates have given rise to estimated net capital gain of \$48.998 million. These gains have been offset by capital losses derived in prior years.

## GUD Holdings Limited and Subsidiaries

### Business Combinations

This section outlines the Group's structure and changes thereto.

#### 33. Investment in subsidiaries

##### *Accounting policies*

##### *Business combinations*

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (Note 19). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

##### *Basis of consolidation*

These consolidated financial statements are the financial statements of all the entities that comprise the Group, being the Company and its subsidiaries as defined in Accounting Standard AASB 10 *Consolidated Financial Statements*.

##### *Subsidiaries*

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

##### *Transactions eliminated on consolidation*

Intra-group balances and transactions arising from intra-group transactions are eliminated.

##### *Loss of control*

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised on profit or loss. Any interest retained in the former subsidiary is measured at fair value when the control is lost.

##### *Discontinued operation*

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

## GUD Holdings Limited and Subsidiaries

### 33. Investments in subsidiaries (continued)

#### 33a Acquisitions

##### *Acquisition of Disc Brakes Australia*

On 2 July 2018 the Company acquired 100% of the shares in Disc Brakes Australia Pty Ltd ("DBA"). The total consideration for DBA was \$22.128 million.

The Group has focussed on improving DBA's market presence by expanding and refining its product offering in the automotive aftermarket segment.

For the financial year ended 30 June 2019, DBA contributed \$ 24.734 million of revenue and \$ 4.581 million of EBIT to the Group's results.

##### **Acquisition-related costs**

During the financial year ended 30 June 2019, the Company incurred approximately \$ 0.052 million of acquisition related costs including legal fees, due diligence and other advisory fees. This amount has been included in administrative expenses.

##### **Fair values of acquired assets and liabilities**

The following table summarises the recognised amounts of assets acquired, and liabilities assumed at the date of acquisition with subsequent adjustment for identified intangible assets arising from the purchase price allocation exercise:

|   | 2 July 2018  | Fair value<br>adjustments | 30 June 2019  |
|---|--------------|---------------------------|---------------|
|   | \$'000       | \$'000                    | \$'000        |
| Cash and cash equivalents                     | 944          | -                         | 944           |
| Trade and other receivables                   | 3,723        | -                         | 3,723         |
| Inventories                                   | 6,958        | -                         | 6,958         |
| Property, plant and equipment                 | 303          | -                         | 303           |
| Brand names                                   | -            | 2,664                     | 2,664         |
| Intellectual property                         | -            | 1,457                     | 1,457         |
| Leased assets                                 | 163          | -                         | 163           |
| Deferred tax assets                           | 552          | -                         | 552           |
| Trade and other payables                      | (2,817)      | -                         | (2,817)       |
| Income tax payable                            | (660)        | -                         | (660)         |
| Finance lease                                 | (69)         | -                         | (69)          |
| Provisions                                    | (621)        | (73)                      | (694)         |
| <b>Total identifiable net assets acquired</b> | <b>8,476</b> | <b>4,048</b>              | <b>12,524</b> |

##### **Goodwill**

Goodwill arising from the acquisition has been recognised as follows:

|  | \$'000       |
|--|--------------|
| Total consideration                        | 22,128       |
| Less Fair value of identifiable net assets | 12,524       |
| <b>Goodwill</b>                            | <b>9,604</b> |

The goodwill is largely attributable to DBA's knowledge in brake rotor development and manufacturing, and the anticipated synergies available from incorporating the DBA business into the Group's existing portfolio of Automotive products.

##### *Acquisition of AA Gaskets*

On 1 December 2017 subsidiaries of the Company acquired the business and net assets of AA Gaskets Pty Ltd and its New Zealand operation ("AAG Group"). The total consideration for AA Group was \$21.013 million.

##### **Fair values of acquired assets and liabilities**

The following table summarises the recognised amounts of assets acquired, and liabilities assumed at the date of acquisition with subsequent adjustment for identified intangible assets arising from the purchase price allocation exercise:

## GUD Holdings Limited and Subsidiaries

### 33. Investments in subsidiaries (continued)

#### 33a Acquisitions (continued)

|   | 1 December<br>2017<br>\$'000 | Fair value<br>adjustments<br>\$'000 | 31 December<br>2018<br>\$'000 |
|---|------------------------------|-------------------------------------|-------------------------------|
| Trade and other receivables                   | 3,735                        | -                                   | 3,735                         |
| Inventories                                   | 3,295                        | -                                   | 3,295                         |
| Property, plant and equipment                 | 407                          | -                                   | 407                           |
| Brand names                                   | -                            | 8,979                               | 8,979                         |
| Deferred tax assets                           | 580                          | -                                   | 580                           |
| Trade and other payables                      | (367)                        | -                                   | (367)                         |
| Provisions                                    | (709)                        | -                                   | (709)                         |
| <b>Total identifiable net assets acquired</b> | <b>6,941</b>                 | <b>8,979</b>                        | <b>15,920</b>                 |

#### Goodwill

Goodwill has been adjusted because of the identified intangible assets as follows:

|  | \$'000       |
|--|--------------|
| Total estimated consideration              | 21,013       |
| Less Fair value of identifiable net assets | 15,920       |
| <b>Goodwill</b>                            | <b>5,093</b> |

As per the requirements of AASB 3 *Business Combinations* the fair value adjustments have been reflected in the balance sheet as at 30 June 2018.

#### 33b Disposals

##### *Disposal of Oates*

On 2 January 2018, the Company disposed of the shares of its subsidiary, E D Oates Pty Ltd ("Oates") to Freudenberg Household Products Pty Ltd ("Freudenberg"). The total consideration for the Oates sale was \$80 million plus net working capital adjustments.

For the year ended 30 June 2018, Oates contributed \$36.061 million of revenue and \$ 53.257 million of PBT gain to the Group's results, comprising \$4.706 million PBT before significant items, \$51.536 million of gain on sale, \$2.210 million of transaction costs and \$0.775 million of restructuring costs.

##### Consideration

Consideration is made up of \$80 million plus a net cash adjustment of \$ 3.771 million.

##### Consideration received

Total consideration of 83.771 million was received as follows:

- Proceeds of \$80 million was received on 2 January 2018; and
- Net cash adjustment of \$3.771 million was received on 8 February 2018.

##### Disposal-related costs

During the year ended 30 June 2018, the Company incurred approximately \$2.210 million of disposal related costs for Oates, and \$232,000 for Dexion, including legal fees, due diligence and other advisory fees.

## GUD Holdings Limited and Subsidiaries

### 33. Investments in subsidiaries (continued)

#### 33b Disposals (continued)

##### Results of discontinued operation

|  | For the year ended<br>30 June 2019 | For the year ended<br>30 June 2018 |
|--|------------------------------------|------------------------------------|
|  | \$'000                             | \$'000                             |
| Revenue  | -                                  | 36,060                             |
| Cost of goods sold   | -                                  | (21,926)                           |
| <b>Gross Profit</b>  | -                                  | 14,134                             |
| Other income   | -                                  | 18                                 |
| Transaction costs  | -                                  | (2,442)                            |
| Gain/ (loss) on sale of subsidiary                                     | -                                  | 51,536                             |
| Restructuring  | -                                  | (930)                              |
| Expenses   | -                                  | (9,511)                            |
| <b>Results from operating activities</b>                               | -                                  | 52,805                             |
| Net finance expense  | -                                  | (27)                               |
| <b>Share of profit of equity accounted investees</b>                   |                                    |                                    |
| <b>Profit before tax</b>   | -                                  | 52,778                             |
| Income tax expense   | -                                  | (1,406)                            |
| <b>Profit / (loss) from discontinued operations, net of income tax</b> | -                                  | 51,372                             |

##### Cash flows from (used in) discontinued operation

|                                       | For the year ended<br>30 June 2019 | For the year ended<br>30 June 2018 |
|---------------------------------------|------------------------------------|------------------------------------|
|                                       | \$'000                             | \$'000                             |
| Net cash from operating activities    | -                                  | 2,742                              |
| Net cash used in investing activities | -                                  | (52)                               |
| Net cash used in financing activities | -                                  | (961)                              |
| <b>Net cash flows for the period</b>  | -                                  | 1,729                              |

## GUD Holdings Limited and Subsidiaries

### 33. Investments in subsidiaries (continued)

#### 33c Shareholdings

|   | Country of incorporation | % ownership interest |      |
|---|--------------------------|----------------------|------|
|   |                          | 2019                 | 2018 |
| <b>Parent entity</b>  |                          |                      |      |
| GUD Holdings Limited <sup>(1)</sup>   | Australia                |                      |      |
| <b>Subsidiaries</b>   |                          |                      |      |
| ACN 006 864 848 Pty Ltd (formerly Appliance and Homewares International Pty Ltd) <sup>(2) (3) (4)</sup> | Australia                | -                    | 100  |
| AA Gaskets Pty Ltd <sup>(2) (3)</sup>   | Australia                | 100                  | 100  |
| Brown & Watson International Pty Ltd <sup>(2) (3)</sup>   | Australia                | 100                  | 100  |
| Davey Water Products Pty Ltd <sup>(2) (3)</sup>   | Australia                | 100                  | 100  |
| GUD (HK) Limited <sup>(4)</sup>   | Hong Kong                | -                    | 100  |
| Griffiths Equipment Limited   | New Zealand              | 100                  | 100  |
| Griffiths Equipment Pty Ltd <sup>(2) (3)</sup>  | Australia                | 100                  | 100  |
| Ryco Group Pty Ltd <sup>(2) (3)</sup>   | Australia                | 100                  | 100  |
| GUD Europe Limited  | United Kingdom           | 100                  | 100  |
| GUD NZ Holdings Limited   | New Zealand              | 100                  | 100  |
| Innovative Mechatronics Group Pty Ltd <sup>(2) (3)</sup>  | Australia                | 100                  | 100  |
| ACN 004 930 385 Pty Ltd (formerly Lock Focus Pty Ltd) <sup>(2)</sup>                                    | Australia                | -                    | 100  |
| <sup>(3) (4)</sup>  |                          |                      |      |
| Davey Water Products S.A.S. (formerly Monarch Pool Systems Europe S.A.S.)                               | France                   | 100                  | 100  |
| Davey Water Products S.L. (formerly Monarch Pool Systems Iberica S.L.)                                  | Spain                    | 100                  | 100  |
| Narva New Zealand Limited   | New Zealand              | 100                  | 100  |
| Wesfil Australia Pty Ltd <sup>(2) (3)</sup>   | Australia                | 100                  | 100  |
| Disc Brakes Australia Pty Ltd <sup>(2) (3)</sup>  | Australia                | 100                  | -    |

All overseas subsidiaries except for GUD (HK) Limited, Monarch Pool Systems Europe and Monarch Pool Systems Iberica are audited by an associate firm of KPMG Australia. All entities carry on business only in the country of incorporation.

(1) GUD Holdings Limited is the head entity within the Australian Tax Consolidated group.

(2) Member of the Australian Tax Consolidated group while 100% owned directly or indirectly by GUD Holdings Limited.

(3) Relieved from the need to prepare audited financial reports under Australian Securities Commission Class Order 98/1418 as party to a Deed of Cross Guarantee with GUD Holdings Limited, while 100% owned directly or indirectly by GUD Holdings Limited.

(4) The entities have been deregistered or dissolved.



## GUD Holdings Limited and Subsidiaries

### 33. Investments in subsidiaries (continued)

#### 33d Deed of Cross Guarantee

Set out below are the financial statements for the group entities which form the 'closed group' under the Deed of Cross Guarantee:

|  | 2019<br>\$'000 | 2018<br>\$'000 |
|--|----------------|----------------|
| <b>Income Statement</b>                                |                |                |
| Revenue  | 405,449        | 368,445        |
| Net finance costs                                      | (6,012)        | (5,909)        |
| Other expenses   | (320,117)      | (297,222)      |
| <b>Profit before income tax</b>                        | <b>79,320</b>  | <b>65,314</b>  |
| Income tax expense                                     | (19,878)       | (18,163)       |
| <b>Profit</b>  | <b>59,442</b>  | <b>47,151</b>  |
| Profit/(loss) from discontinued operations, net of tax | -              | 51,372         |
| <b>Profit for the year</b>                             | <b>59,442</b>  | <b>98,523</b>  |
| Retained earnings at the beginning of the year         | 86,220         | 72,166         |
| Retained earnings of members leaving the group         |                | (19,830)       |
| Capital restructure                                    |                | -              |
| Transfer to dividend reserve                           |                | (22,408)       |
| Dividends paid   | (45,837)       | (42,231)       |
| <b>Retained earnings at the end of the year</b>        | <b>99,825</b>  | <b>86,220</b>  |
| <b>Balance Sheet</b>                                   |                |                |
| <b>Current assets</b>                                  |                |                |
| Cash and cash equivalents                              | 27,478         | 50,265         |
| Trade and other receivables                            | 97,176         | 89,075         |
| Other assets   | 5,676          | 7,708          |
| Inventories  | 95,142         | 76,075         |
| <b>Total current assets</b>                            | <b>225,472</b> | <b>223,123</b> |
| <b>Non-current assets</b>                              |                |                |
| Other financial assets                                 | 34,757         | 33,762         |
| Property, plant and equipment                          | 12,246         | 10,099         |
| Deferred tax assets                                    | 8,695          | 7,211          |
| Goodwill   | 101,680        | 102,020        |
| Other intangible assets                                | 124,022        | 110,243        |
| <b>Total non-current assets</b>                        | <b>281,400</b> | <b>263,335</b> |
| <b>Total assets</b>                                    | <b>506,872</b> | <b>486,458</b> |
| <b>Current liabilities</b>                             |                |                |
| Trade and other payables                               | 53,704         | 53,887         |
| Borrowings   | 37             | 72             |
| Current tax payables                                   | 8,896          | 15,688         |
| Provisions   | 11,969         | 11,365         |
| Other financial liabilities                            | 1,861          | 4,052          |
| <b>Total current liabilities</b>                       | <b>76,467</b>  | <b>85,064</b>  |
| <b>Non-current liabilities</b>                         |                |                |
| Borrowings   | 141,700        | 127,400        |
| Other financial liabilities                            | 3,979          | 1,087          |
| Provisions   | 1,281          | 1,878          |
| <b>Total non-current liabilities</b>                   | <b>146,960</b> | <b>130,365</b> |
| <b>Total liabilities</b>                               | <b>223,427</b> | <b>215,429</b> |
| <b>Net assets</b>                                      | <b>283,445</b> | <b>271,029</b> |
| Share Capital  | 112,880        | 112,880        |
| Reserves   | 70,740         | 71,929         |
| Retained earnings                                      | 99,825         | 86,220         |
| <b>Total equity</b>                                    | <b>283,445</b> | <b>271,029</b> |

## GUD Holdings Limited and Subsidiaries

### Other Notes

#### 34. Superannuation commitments

The Group contributes to several defined contribution superannuation funds (the accumulating benefit type) for which no actuarial assessments are required to be made and which were established to provide benefits for employees or their dependants on retirement, resignation, disablement or death. Benefits are provided in the form of lump sum payments subject to applicable preservation rules. The Group contributes a percentage of individual employees' gross income and employees may make additional contributions on a voluntary basis. The Group has no further obligations beyond the payment of the contributions which have been settled on time.

#### 35. Key management personnel

The key management personnel (including Non-Executive Directors) of GUD Holdings Ltd, and its subsidiaries, during the year have been identified as the following persons:

- M.G. Smith (Appointed Chairman on 15 November 2017), Non-executive)
- A. L. Templeman-Jones (Non-executive)
- G.A. Billings (Non-executive)
- D.D. Robinson (Non-executive)
- G. Whickman (Managing Director – Appointed Managing Director on 1 October 2018)
- J.P. Ling (Former Managing Director – through to 30 September 2018)
- M.A. Fraser (Chief Financial Officer)
- G. Nicholls (Chief Executive – Ryco Group Pty Ltd – Resigned 6 May 2019)
- R. Pattison (Chief Executive – GUD Automotive Division)
- D. Worley (Chief Executive – Davey Water Products Pty Ltd)
- T. Cooper (Managing Director – Wesfil Australia Pty Ltd)
- G. Davies (Chief Executive – Brown and Watson International Pty Ltd)

#### Key management personnel compensation policy

The aggregate compensation of the key management personnel of the Group is set out below:

|   | 2019             | 2018             |
|---|------------------|------------------|
|   | \$               | \$               |
| Short-term employment benefits                    | 5,128,216        | 7,219,471        |
| Long-term benefits                                | 60,571           | 38,730           |
| Post-employment benefits                          | 264,684          | 257,844          |
| Share based payments                              | 737,556          | 825,903          |
| <b>Total key management personal compensation</b> | <b>6,191,027</b> | <b>8,341,948</b> |

Compensation of the Group's key management personnel includes salaries, short term and long-term incentives, and contributions to post-employment defined contribution superannuation plans.

#### Performance rights arrangements

Long Term Incentive bonuses are provided as performance rights, granted at the commencement of the relevant three-year performance measurement period, which will convert to an equivalent number of GUD shares if the performance hurdle is achieved over the relevant three-year performance measurement period. No amount is payable for the issue of performance rights, or for the shares received upon vesting of those performance rights.

The grant-date fair value of performance rights granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. The valuation of rights was completed by an independent consultant using a hybrid trinomial option pricing model with a relative TSR hurdle.

## GUD Holdings Limited and Subsidiaries

### 35. Key management personnel (continued)

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows.

|   | Performance rights programme |        |                   |        |
|---|------------------------------|--------|-------------------|--------|
|   | Managing Director            |        | Senior Executives |        |
|   | 2019                         | 2018   | 2019              | 2018   |
| Fair value at grant date                            | 5.92                         | 5.68   | 6.69              | 8.89   |
| Share price at grant date                           | 12.64                        | 12.00  | 14.15             | 12.18  |
| Expected volatility (weighted average)              | 28.00%                       | 28.00% | 28.00%            | 28.00% |
| Expected dividends                                  | 5.00%                        | 6.00%  | 5.00%             | 6.00%  |
| Risk free interest rate (based on government bonds) | 2.01%                        | 1.94%  | 2.08%             | 1.94%  |

Expected volatility has been based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term. The expected term of the instruments has been based on historical experience and general option holder behaviour.

The number of performance rights outstanding as at 30 June 2019 under the performance rights programme were as follows:

#### Expense recognised in profit or loss

For details of the related employee benefit expenses, see Note 3.

### 36. Related parties

#### Directors

Details of Directors' compensation is disclosed in Note 35.

#### Transactions with key management personnel and their related parties

The Group's policy is that the sale and purchase of goods and services with key management personnel are made under normal customer and supplier relationships and on normal commercial terms and conditions. The sale of goods to key management personnel are on terms no more favourable than made available to other employees.

At 30 June 2019, key management personnel held directly, indirectly or beneficially 385,842 ordinary shares (2018: 596,366) in the Group. Performance rights issued under the 2019 plan will partially vest and, as a result, key management personnel will be issued an additional 101,175 (2018: 132,178) shares.

#### Transactions with entities in the wholly-owned Group

GUD Holdings Limited is the ultimate parent entity in the wholly-owned group comprising the Company and its wholly-owned subsidiaries, as disclosed in Note 33b.

Entities in the wholly-owned group advanced and repaid loans, paid and received dividends, provided marketing, product sourcing, accounting and administrative assistance and sold and purchased goods to other group companies during the current and previous financial years.

The Group's policy is that these transactions are on commercial terms and conditions with the exception of loans between Australian entities and loans between New Zealand entities which are not interest bearing. Loans between entities in the wholly-owned group are repayable on demand.

#### Other related party transactions with entities in the wholly-owned Group

Wesfil Australia Pty Ltd leases its Sydney premises from an entity related to a Director of Wesfil Australia Pty Ltd. Net rental expense was \$ 448,444 excluding GST (2018: \$432,930 excluding GST). The Group's policy is that related party lease arrangements are undertaken with commercial terms and conditions.

## GUD Holdings Limited and Subsidiaries

### 37. Parent entity disclosures

As at and for the financial year ending 30 June 2019 the parent company of the Group was GUD Holdings Limited.

|  | 2019    | 2018    |
|--|---------|---------|
|  | \$'000  | \$'000  |
| <b>GUD Holdings Limited</b>                                    |         |         |
| <b>Results of the parent entity</b>                            |         |         |
| Profit for the period  | (3,949) | 55,301  |
| Other comprehensive income                                     | -       | -       |
| Total comprehensive income for the period                      | (3,949) | 55,301  |
| <b>Financial position of the parent entity at the year end</b> |         |         |
| Current assets   | 815     | 51,888  |
| Total assets   | 309,241 | 337,605 |
| Current liabilities  | 27,371  | 22,043  |
| Total liabilities  | 170,394 | 150,573 |
| Net assets   | 138,847 | 187,032 |
| <b>Total equity of the parent entity comprising of:</b>        |         |         |
| Share capital  | 112,880 | 112,880 |
| Retained earnings / (accumulated losses)                       | 17,350  | 44,728  |
| Other reserves   | 8,617   | 29,424  |
| Total equity   | 138,847 | 187,032 |

The profit for the prior year includes transaction costs and gains on disposal of Oates. The results of these disposals in the parent entity profit for the year ended 30 June 2018 differ to the consolidated income statement as investments were impaired in previous periods in the parent entity.

|                                    | 2019   | 2018   |
|------------------------------------|--------|--------|
|                                    | \$'000 | \$'000 |
| <b>GUD Holdings Limited</b>        |        |        |
| <b>Parent entity contingencies</b> |        |        |
| Contingent liabilities             | 53,033 | 64,856 |

The parent entity is party to two guarantees relating to subsidiaries. The bank borrowing facility described in Note 22 requires the parent entity to guarantee the bank borrowings of GUD NZ Holdings Limited which in turn guarantees the obligations of the parent entity, i.e. a cross guarantee. No liability is recognised by the parent entity as GUD NZ Holdings Limited is expected to be able to meet its debts as they fall due.

The parent entity is also party to a deed of cross guarantee as described in Note 33c. There is no expectation of a liability to the parent entity as a result of this guarantee.

As a result of the above assessments, the fair value has been deemed to be nil and no liability has been recorded.

Other than noted above the parent entity has no material contingent liabilities at 30 June 2019.

### 38. Contingent liabilities

The Group had no material contingent liabilities at 30 June 2019 (2018: Nil).

### 39. Subsequent events

Other than the final dividend for the year being declared, no matters or circumstances have arisen since the end of the financial period that have significantly affected or may significantly affect the operating results or state of affairs of the Group.

## GUD Holdings Limited and Subsidiaries

### Directors' Declaration

In the opinion of the Directors of GUD Holdings Limited (the "Company"):

- (a) the consolidated financial statements and notes and the remuneration disclosures that are contained in the Remuneration Report included in the Directors' report are in accordance with the *Corporations Act 2001*, including:
  - 1. giving a true and fair view of the financial position of the Group as at 30 June 2019 and of its performance for the financial year ended on that date;
  - 2. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

There are reasonable grounds to believe that the Company and the group entities identified in Note 33c 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.

The Directors' draw attention to the basis of preparation (Note 1) of the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

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 2019.

Signed in accordance with a resolution of the Directors pursuant to section 295(5) of the *Corporations Act 2001*.

On behalf of the Directors



M.G. Smith  
Chairman



G Whickman  
Managing Director

Melbourne, 26 July 2019



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

To the Directors of GUD Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of GUD Holdings Limited for the financial year ended 30 June 2019 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

Chris Sargent  
*Partner*  
26 July 2019



# Independent Auditor's Report

To the shareholders of GUD Holdings Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the **Financial Report** of GUD Holdings 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 2019 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 Balance Sheet as at 30 June 2019
- Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Cash Flow Statement for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration

The **Group** consists of GUD Holdings Limited (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 are:

- *Recoverability of goodwill and other intangible assets*
- *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.

### Recoverability of goodwill (\$125.49 million) and other intangible assets (\$124.22 million)

Refer to Note 16 *Goodwill*, Note 17 *Other intangible assets* and Note 19 *Impairment testing* to the Financial Report.

#### The key audit matter

The carrying value of goodwill and other intangible assets is considered with reference to the Group's analysis of future cash flows for the respective Cash Generating Units (CGUs) or individual assets (as applicable).

The recoverability of these assets is a key audit matter due to the inherent complexity associated with auditing the forward looking assumptions incorporated in the Group's "value in use" (VIU) models.

The Group's VIU models are internally developed, and use a range of internal and external data as inputs. Forward-looking assumptions may be prone to greater risk for potential bias, error and inconsistent application. Significant judgement is involved in establishing these assumptions. The key assumptions in the VIU models include forecast cash flows, terminal values, growth rates and discount rates. Where the Group has not met prior year forecasts in relation to a specific CGU or asset we factor this into our assessment of forecast assumptions.

#### How the matter was addressed in our audit

Our procedures included:

- assessing the Group's VIU models and key assumptions by:
  - evaluating the appropriateness of the VIU models against accounting standard requirements;
  - comparing inputs into the relevant cash flow forecasts to the Board approved budgets;
  - comparing forecast cash flows to historical trends and performance and assessing the impact of business changes;
  - using our industry knowledge to challenge and assess the reasonableness of key assumptions. We applied increased scepticism to forecasts in the areas where previous forecasts were not achieved; and
  - assessing the reasonableness of the discount rates by considering comparable market information and evaluating the economic assumptions relating to cost of debt and cost of equity. We also evaluated the scope, competence and objectivity of the valuation specialist engaged by the Group.
- considering the sensitivity of the models by varying key assumptions, such as forecast growth rates, terminal values and discount rates, within a reasonably possible range, to identify those assumptions at higher risk of bias or inconsistency in application. We also assessed the related impairment breakeven points for these assumptions in order to identify those assets at higher



|  |   |
|--|---|
|  | <p>risk of impairment and to focus our further procedures; and</p> <ul style="list-style-type: none"> <li>considering the disclosures in the financial report using our understanding of the recoverability assessment obtained from our testing and against the requirements of the accounting standards.</li> </ul> |
|--|---|

| Valuation of inventory (\$108.95 million)  |   |
|--|---|
| Refer to Note 9 <i>Inventories</i> to the Financial Report.  |   |
| The key audit matter   | How the matter was addressed in our audit   |
| <p>At 30 June 2019, the Group held inventory with a net carrying value of \$108.95 million.</p> <p>The audit of inventory valuation is a key audit matter due to the extent of judgement involved in assessing the recoverable value, particularly in relation to any slow moving or excessive stock.</p> <p>The Group has a diverse and broad product range, and sells to different market segments, which increases the amount of judgement required in assessing the carrying value of inventory.</p> | <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>assessing the appropriateness of inventory valuation accounting policies applied by the different business units within the Group against the requirements of accounting standards;</li> <li>understanding processes and testing key controls relating to inventory movements, standard costing and valuation;</li> <li>evaluating the completeness of at-risk slow moving or excess stock items identified by the Group, by comparing inventory listings against historical sales information to identify any additional at-risk items;</li> <li>comparing individual inventory carrying values against current selling prices to identify individual products at risk of being recorded in excess of their net realisable value; and</li> <li>challenging the Group's judgements relating to the provision for stock obsolescence (including slow moving or excess stock), by comparing current inventory levels to historical and forecast sales. We assessed the level of provision in light of our knowledge of the industry and businesses the Group operates in, the Group's business strategy with respect to maintaining a wide range of products and from further inquiries with key personnel.</li> </ul> |

## Other Information

Other Information is financial and non-financial information in GUD Holdings Limited'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; and
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our Auditor's Report.

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of GUD Holdings Limited for the year ended 30 June 2019 complies with *Section 300A of the Corporations Act 2001*.

### Directors' responsibilities

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

### Our responsibilities

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2019.

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



KPMG



Chris Sargent  
*Partner*  
Melbourne  
26 July 2019