



ITALTILE
Limited

INTEGRATED ANNUAL REPORT 2016

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GOVERNANCE

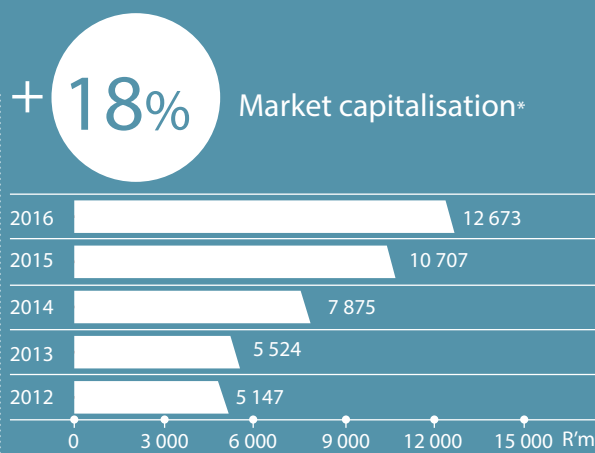
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Total ordinary dividend declared

29 cents

2015: 25 cents

Trading profit

R1 047 million

2015: R905 million

For further information, please visit our website on

www.italtile.com



+ **16%** Trading profit



Headline earnings per share

86,9 cents

2015: 71,6 cents

System-wide turnover^o

R5,96 billion

2015: R5,22 billion

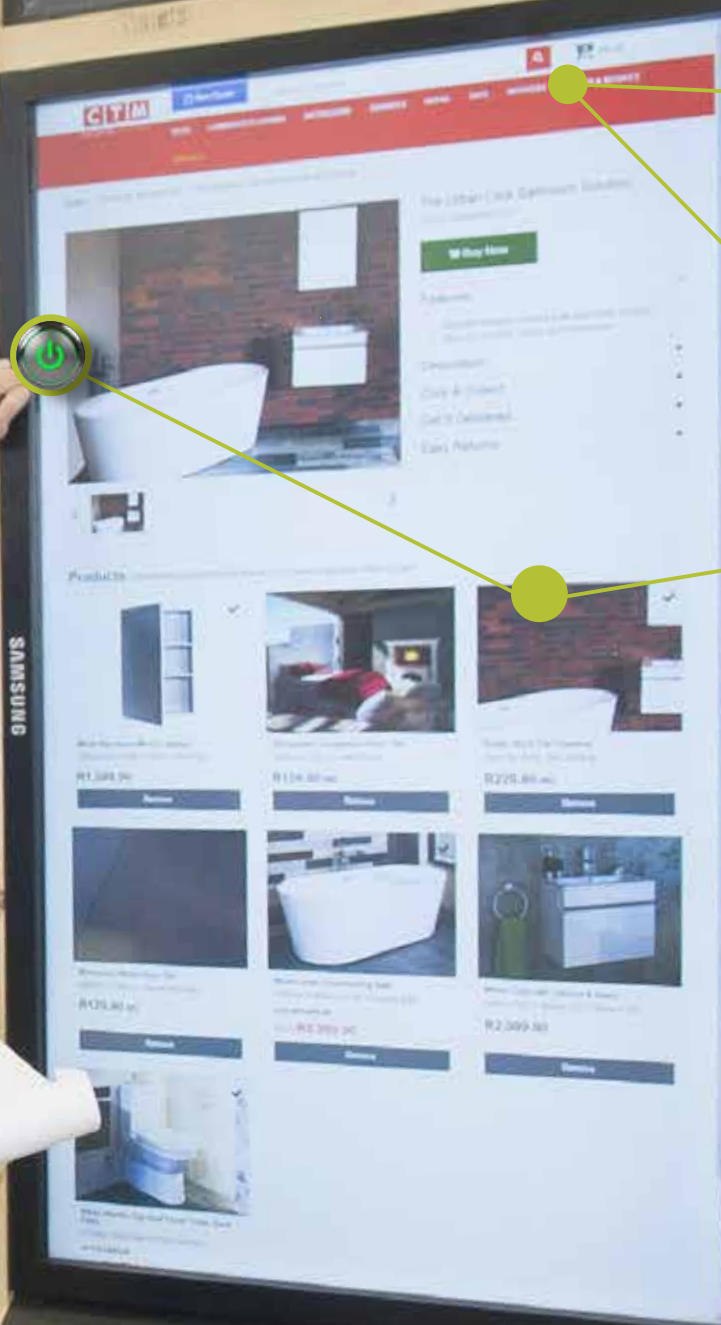
^o Aggregated turnover of the Group-owned stores and entities, and franchise stores

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You sa

LATEST GLOBAL TRENDS AND INNOVATIONS.



www.ctm.co.za

The strength of our brands



South Africa's
style capital



ITALTILE

Founded in 1969, this brand is widely acknowledged as a style icon in the premium home-improvement market. As a leading fashion retailer of exclusive international and local ranges of tiles, bathware and related products, Italtile Retail offers a luxurious shopping experience for both residential and commercial clients.



LAUFEN

Laufen Bathrooms, established in 1892, is a traditional Swiss brand reflecting a symbiosis of design, quality and functionality. Laufen's unique Swiss innovation unites two major design components: emotion and romance, with precision and clarity. Laufen products including washbasins, bath tubs, toilets and bidets are exclusive to Italtile in South Africa.



CERAMICA SANT'AGOSTINO

Ceramica Sant'Agostino is an Italian manufacturer of a wide range of premium ceramic and porcelain tile products designed to satisfy evolving technical and stylistic market requirements.



Value creation
through design
and quality
products

COTTO

Originally established in 1979 as an exporter of mosaics, today Cotto is one of the leading manufacturers of sanitaryware globally. Exclusive to Italtile Retail in South Africa, Cotto products are the result of substantial investment in pioneering technology and extensive consumer research. Cotto's "Right Solution" concept ensures clients find appeal in their wide range of stylish sanitaryware.



High quality
year-round
value offering



CTM

Launched in 1983, CTM is a household name in Southern Africa, enjoying strong brand affinity based on its reputation for a high quality year-round value offering.

Represented by 85 stores in Southern and East Africa, CTM is the largest specialist tile and bathroom retailer in the country.



Quality
products at
affordable
prices



AMALFI

Amalfi taps and accessories are specifically designed for the customer who seeks quality products at an affordable price. The Amalfi brand is exclusive to CTM.

TIVOLI TAPS

Life's more beautiful with Italian design



TIVOLI

Tivoli is the largest Italian brand of taps in South Africa. Made by Italian master craftsmen, Tivoli Taps are renowned for their quality, technology and design.

All Tivoli Taps carry a 10-year guarantee.

Organic
Earth
The original terracotta



ORGANIC EARTH

The Organic Earth range has a natural, earthy, rustic look and feel. These terracotta tiles are unglazed and exceptionally strong and durable making them suitable for indoor and outdoor use. Equally attractive in a bushveld environment or traditional Italian trattoria setting, these tiles are made in South Africa to suit local conditions.



The perfect combination of form and function

CRYSTALTECH

"Technology in style" defines the perfect combination of form and function. Crystaltech Showers are manufactured from specially treated, tempered glass that ensures stylish but safe showering.

This range of framed, frameless and corner shower enclosures affords homeowners a variety of options to match the perfect cubicle with their specific bathroom space.



ORIGINS

Origins Nature's Touch is an on-trend, innovative range of ceramic tiles that mirror the look and feel of real wooden flooring. The tiles are manufactured in a variety of sizes and colours, all mimicking the hues of natural wood. The Origins range is exclusive to CTM.



GALLERIA

This extensive range of mosaics enables homeowners to explore their interior designer dreams. Available in a myriad of textures, styles and colours, Galleria mosaics create a decorative playground for personal expression in complementing tile choices.



KILIMANJARO
Capture the African Landscape



KILIMANJARO

Capturing the African landscape, Kilimanjaro tiles are made in South Africa for South African conditions and are exceptionally strong and durable. Imitating natural stone, these beautiful tiles are suitable for indoor and outdoor. The Kilimanjaro range is exclusive to CTM.



ELF

Elf is a range of high quality laminate floors, meticulously selected from leading German and other European factories.

Elf's authentic-look wood floors are cool in summer and warm in winter. This trusted brand offers a class-leading guarantee, backed by CTM, nationwide.



FORWARD LIVING



FUTURA

Exclusive to CTM, the Futura tile brand offers customers the latest tile designs and fashion trends from Europe.



STONEWALL

Stonewall is the modern contemporary designer expression of timeless natural stone. Easy to install tile sheets enable homeowners to replicate their favourite stone-look with confidence and ease.



PRO GRIP

This specifically customised range of tile adhesives is a brand leader in the industry, based on its quality, performance and good value. Pro Grip is manufactured exclusively for Italtile Retail and CTM.



One-stop
low-cost home
finishing
supplier



TopT

This brand is a one-stop home finishing supplier of good quality, affordable merchandise and the low-cost leader in its entry-level market segment.
TopT has 50 stores in eight provinces, situated in under-served rural areas and outlying markets in close proximity to urban townships.



A range to
suit all
tastes

DIVA

The Diva brand is an exclusive range of good quality taps designed and priced specifically for TopT stores in South Africa. Available in both conventional and single lever styles there is a range to suit all tastes.



TUFF

The Tuff range comprises class-leading adhesives and paints that are innovatively packaged and specifically engineered to provide real value for the entry-level market. This brand is exclusive to TopT stores.

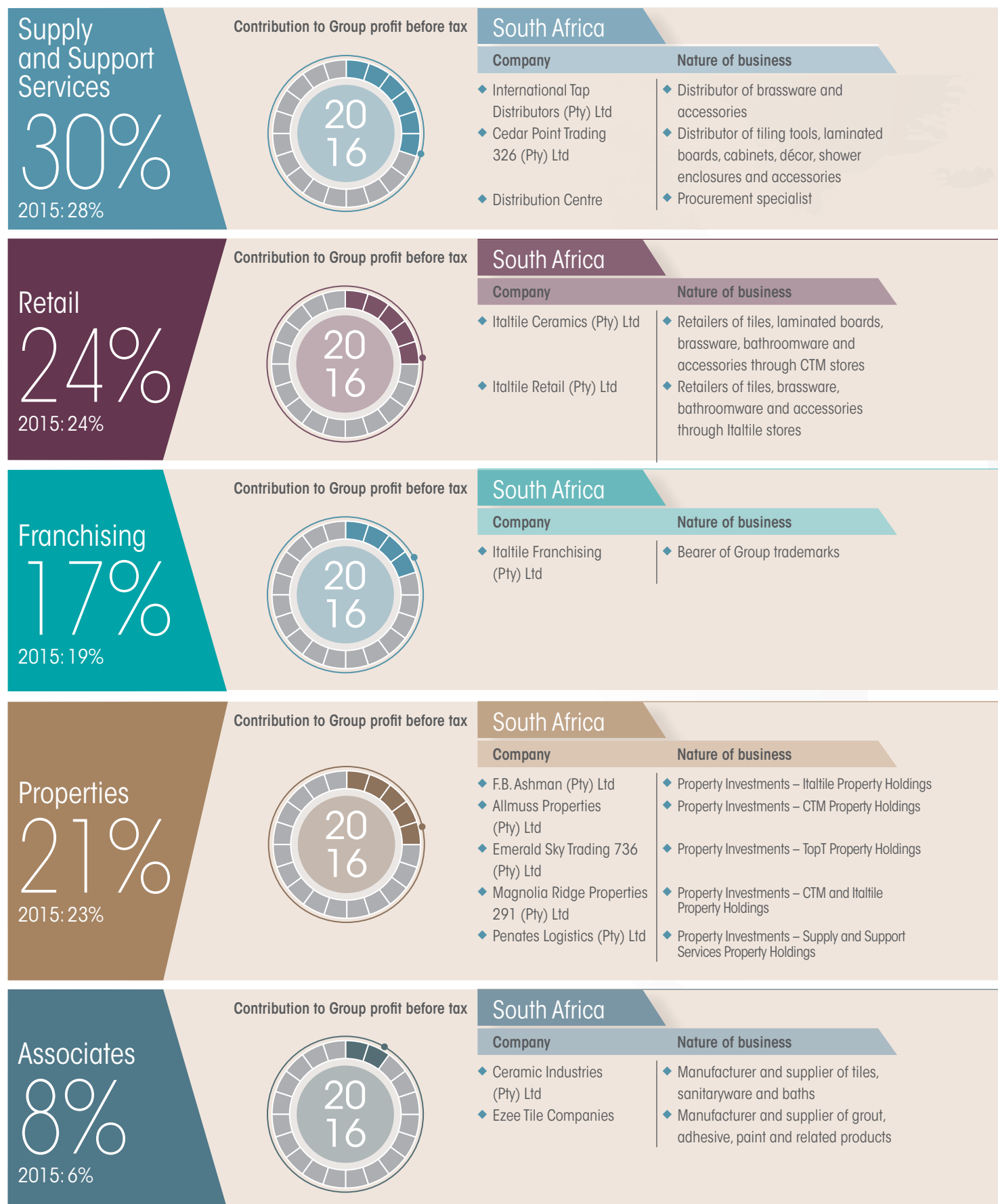


Innovation

Continuous innovation in design and technology is undertaken to facilitate an improved shopping experience and to appeal to increasingly more sophisticated customers.

The Group's new-generation stores combine the traditional physical brick and mortar offering with the latest digital technologies. Built on our brands' powerful heritage and customer equity, this contemporary retail offering demonstrates the Group's ambitions for the future.

Group at a glance



ITALTILE Limited

South Africa cont.

Company	Nature of business
◆ TopT Ceramics (Pty) Ltd	◆ Retailers of tiles, laminated boards, brassware, bathroomware, hardware, accessories and other home-finishing products through TopT stores

Africa

Company	Nature of business
◆ CTM Kenya Ltd	◆ Retailers of tiles, brassware, bathroomware and accessories in Kenya
◆ Orban Investments 375 (Pty) Ltd	◆ Retailers of tiles, laminated boards, brassware, bathroomware and accessories in Namibia
◆ Braintree (Pty) Ltd	◆ Retailers of tiles, laminated boards, brassware, bathroomware and accessories in Botswana

Australia

Company	Nature of business
◆ Norstorm Pty Ltd	◆ Property Investments
◆ Melkbos Pty Ltd	◆ Property Investments

Africa

Company	Nature of business
◆ Allmuss Botswana (Pty) Ltd	◆ Property Investments
◆ Allmuss Properties Namibia (Pty) Ltd	◆ Property Investments
◆ Allmuss Lesotho (Pty) Ltd	◆ Property Investments
◆ Allmuss Properties Kenya Ltd	◆ Property Investments

Italy

Company	Nature of business
◆ SER-Export s.p.a.	◆ Procurement specialist

In order to grow the business in the current trading environment, demands were placed on the people of Italtile to raise their game, to employ their ingenuity, energy and unwavering commitment to accomplish the stretch goals set. It is a credit to the entire team that the Group succeeded in gaining market share and delivering results they can be proud of in a highly competitive market.





Chairman's statement

Overview

At the conclusion of the previous financial year, I noted that in the context of subdued economic conditions, management's challenge would be to capitalise on opportunities within their control, specifically the growth levers within the business.

In this regard, management committed to the following key targets:

- ◆ To extend the Business Optimisation Programme ("BOP") from the Supply Chain to the stores to improve the customer shopping experience;
- ◆ To roll out the Group's retail footprint across our brands: Italtile Retail, CTM and TopT; and
- ◆ To optimise on opportunities presented by the launch of Gryphon, Ceramic Industries' ("Ceramic's") new glazed porcelain factory.

During the year under review, the stores benefited from implementation of BOP, which delivered enhanced customer service. Furthermore, management's unrelenting focus on retail excellence resulted in a step-change in the Group's offering to our customers. Continuous innovation in design, technology and service was implemented which facilitated an improved shopping experience.

Twenty new stores were opened across the brand network, comprising 15 TopTs, three CTMs and two Italtile Retail stores. Among the stores opened were new-generation stores, which combine the traditional physical brick and mortar offering with the latest digital technologies. Built on our brands' powerful heritage and customer equity, this contemporary retail offering represents the business's vision for the future.

The Group currently holds a 20% strategic stake in Ceramic, our primary supplier of tiles, sanitaryware and bathware. This tactical investment is significant in supporting Italtile's growth agenda. In my statement last year I noted that an important component of the Group's future expansion programme would be the commissioning of Ceramic's new glazed porcelain factory, Gryphon. I can report that Gryphon commenced production in November 2015, and in the context of the weak Rand environment and the high quality stylish offering which the factory manufactures, Gryphon's ranges have gained market share from imported products and started to carve a meaningful niche in the glazed porcelain segment.

Trading conditions

Despite sustained uncertainty in the economic and socio-political environment, house-proud South African homeowners continued to invest in and improve their properties, reflected by the growth in the renovations market during the reporting period.

Notably, in the context of restrained discretionary income, consumers were increasingly discerning in seeking out value offerings which combine reputable brands, service, fashion and quality. In this regard, management is mindful that in the highly competitive market segment in which the business operates, the offering must continue to exceed our customers' expectations.

Results

The Group's good results recorded for the year are attributable to continued expansion of BOP across key areas of the Company, which facilitated further improvements within the business and a gain in market share from competitors.

An improved performance was delivered by the Group's retail operation, comprising Italtile Retail, CTM and TopT, with each brand reporting double-digit sales growth and an increase in market share across its trading regions and merchandise categories.

The Group's vertically integrated Supply Chain businesses, comprising International Tap Distributors, Cedar Point and the Distribution Centre, also all reported improved sales and profitability.

System-wide turnover increased 14% to R5,96 billion (2015: R5,22 billion), and trading profit rose 16% to R1 047 million (2015: R905 million).

The Group's basic earnings per share grew 16% to 87,8 cents (2015: 75,9 cents), while headline earnings per share increased 21% to 86,9 cents (2015: 71,6 cents).

These results are discussed in more detail in the Review of Operations on page 18 of this report.

Ordinary dividend

The Board approved a final gross cash dividend of 15,0 cents per share (2015: 13,0 cents per share), which together with the interim gross cash dividend of 14,0 cents per share (2015: 12,0 cents per share), produces a total gross cash dividend declared for the year ended 30 June 2016 of 29,0 cents per share (2015: 25,0 cents per share), an increase of 16%. The dividend was paid on Monday, 19 September 2016.

Corporate governance and sustainability

The Board and management of Italtile are committed to ensuring the sustainability of the business and entrenching an ethical corporate culture; this commitment to our fiduciary and statutory obligations is demonstrated by our activities outlined in the Strategic Imperatives and Material Risks report on page 42 and Corporate Governance report on page 54 of this document.

Development and implementation of strategy

The Group's Board and management decision-making framework and structures are constituted to ensure an effective process within which key strategies are developed and implemented. The Board is responsible for ensuring clear strategic direction, while management is held to account in delivering tangible results. As a team, our goal is to become even more responsive and accountable to our stakeholders, which is pivotal in ensuring responsible growth and sustainable profitability. This target is instilled throughout the organisation's performance management systems.

People development

Management's focus on recruiting, developing and retaining suitable personnel is centred on ensuring the business is optimally staffed to achieve the Group's growth objectives and to deliver a superior shopping experience for our customers.

Italtile's culture is based on the values of partnership, empowerment, entrepreneurship, mentorship and leadership development. In this regard, further substantial investment was made through a range of mechanisms to promote these values, including training and partnership and incentive opportunities.

In the review period, CTM's Operator Training Programme conducted in conjunction with Stellenbosch University produced another 11 graduates, while nine candidates completed the recently launched Retail Academy Programme conducted by the Gordon Institute of Business Science. Both of these programmes are designed to develop the Group's pipeline of potential store operators. Good progress was also made in our rural learnership and workplace experience programmes, which are structured to create a resource from which to recruit future employees.

Staff Share Incentive Scheme

Over the past two decades the Group has implemented profit-sharing practices designed to promote ownership and partnership in the business with our employees. Furthermore, in 2014 we introduced an equity-settled Staff Share Scheme aimed at incentivising employees to participate in the growth and profitability of the business. This scheme is extended to every member of staff in the organisation who has achieved three or more years of service with the Group.

During the reporting period an allotment of 3,1 million shares (2015: 3,6 million shares) was allocated to 161 eligible employees of the Group as well as franchisees (2015: 171 employees). As at 30 June 2016 qualifying staff members held 15,3 million of the Group's shares net of forfeitures.

Ceramic Industries

As discussed extensively on pages 19 and 69 of this document, Italtile submitted a binding offer on 15 July 2016 to Ceramic, to acquire up to a further 73,5% of the company's issued share capital.

The rationale for acquiring Ceramic is based on the Board's and management's positive view of opportunities for growth in this country, and the far-ranging benefits of this transaction for both Italtile and Ceramic.

The transaction is subject to attainment of certain conditions, including approval by the Competition Tribunal, which is currently assessing the proposed Acquisition. Management is confident that the Acquisition will be successfully concluded.

Prospects

Our primary objective in the year ahead will be to build on the momentum gained in this review period and continue to strive to be our customers' first choice retailer. This will be achieved through continued entrenchment of BOP across the organisation, investing in our people, and improving the shopping experience across our three brands.

We will continue to grow the store footprint of all our brands. The TopT network is particularly well-poised to be rolled out briskly in the short term; in the year ahead, management plans to open a further 15 TopT stores, bringing the network to 65 stores with representation in nine provinces by the end of the 2017 financial year.

The Group will continue to explore opportunities to expand its footprint in sub-Saharan Africa. Management is of the opinion that compared to similar economies, the per capita consumption of tiles in the region is relatively low and affords potential for growth.

Appreciation

The Group has delivered another good set of results in market conditions which have been challenging. This achievement would not have been possible without the contribution of our people – their enthusiasm, dedication and resilience is to be applauded.

The management team has been instrumental in developing and implementing strategies which have met demanding targets in the short term and will continue to position the Group for growth over the long term. I would like to congratulate them on their efforts.

My gratitude is also extended to my fellow Board members for their continued support and contribution over this past year.

Our long-standing and new shareholders have demonstrated their confidence in our business and we will continue to strive to reward their investment.

The Group's suppliers, business partners and advisers make an important contribution to the success of the business and we appreciate their support.

The gain in market share which the Group achieved over the past year reflects the continued and growing support of new and existing customers. This loyalty inspires us to continuously raise our standards and improve our offering to exceed their expectations.



G A M Ravazzotti
Chairman



Financial highlights

		% change from 2015	2016	2015
Group and franchise results				
Turnover (Rm's)				
– by Group-owned stores and entities	14		3 539	3 115
– by franchise-owned stores (unaudited)	15		2 416	2 109
System-wide turnover (Rm's)	14		5 955	5 224
Number of stores*			146	126
Group results				
Turnover (Rm's)	14		3 539	3 115
Trading profit (Rm's)	16		1 047	905
Total assets (Rm's)	22		3 790	3 102
Cash and cash equivalents (Rm's)	(11)		347	392
Number of shares in issue (000's)	—		1 033 332	1 033 332
Headline earnings per share (cents)	21		86,9	71,6
Ordinary dividends declared per share (cents)	16		29,0	25,0
Net asset value per share (cents)	22		362	296
Number of employees	31		1 248	956

*Includes webstores.



The Group's overriding goal is to be the first-choice retailer in its market segment. To achieve this, management is cognisant that all components of the business model – the retail brand operations and the Support and Supply Chain businesses – need to operate at their peak and interface flawlessly.



Review of operations

Overview

The Group's overriding goal is to be the first-choice retailer in its market segment, by offering an unrivalled shopping experience for customers. This ambition is underpinned by the retail excellence strategy, "Right product, at the right time, place and price". To achieve this, management is cognisant that all components of the business model: the retail brand operations and the Support and Supply Chain businesses, need to operate at their peak and interface flawlessly.

At the end of the prior reporting period, management stated that there was clarity of strategy and structure across the organisation, and opportunities for growth in the year ahead were identified both within the business and outside of it:

- ◆ Internally, the Business Optimisation Programme ("BOP") would be rolled out from the Supply Chain businesses to the retail brand operations. Focus would be on improving retail excellence and in-store execution, honing the human capital portfolio, and enhancing analysis of the Group's value proposition and its trading intelligence. Further investment would be made in systems, technology and personnel to meet the programme's goals.
- ◆ Externally, the Group would expand its retail footprint across all three brands, Italtile Retail, CTM and TopT, to build on the steady growth in market share which the Group had gained over recent years.

Benchmarked against these goals, management is pleased to report that the business delivered in line with expectations.

BOP was entrenched in the retail operations and started to record notable improvements in key areas, including stock management (availability, range and price matrix; and stock turn); the personnel complement (which was better aligned with the Group's growth targets through improved recruitment and training); and information technology ("IT") and e-commerce (capitalising on trading intelligence and developing a seamless shopping experience across sales platforms).

In terms of expanding the store network, the Group opened 20 new stores during the reporting period: 15 TopTs, three CTMs and two Italtile Retail stores, and launched a CTM web store in Kenya. Particular emphasis was placed on introducing flexible store formats to align each offering optimally with its respective market; this flexibility enabled the Group to gain market share in existing and new markets.

Trading conditions

While the renovations market grew during the reporting period, the new build segment remained sluggish, illustrated by the negligible increase in the number of building plans passed. This statistic reflects the deterioration in consumers' investment sentiment, based on uncertainty in the economy and socio-political environment, with homeowners more likely to upgrade existing properties than commit to more substantial new-build spend.

Across the industry competitor activity intensified, featuring aggressive pricing and promotions as traders sought to retain market share.

Currency volatility and cash flow constraints led to further rationalisation of less established operators. In this context, the Group benefited from its solid balance sheet and integrated supply chain which ensured consistent availability of high quality reputable brands and stable pricing.

Results

The Group reported improved results in each of the retail brands, as well as in all its Support and Supply Chain businesses.

The gratifying performance recorded for the year is attributable to continued expansion of BOP across key areas of the Group, which facilitated further improvements within the business and a meaningful gain in market share from competitors.

While 20 new stores were opened in the review period, their full contribution to revenue will only be reflected in the following six months.

System-wide turnover increased by 14% to R5,96 billion (2015: R5,22 billion), while like-on-like revenue at the retail store level also grew 14%, and total retail turnover growing with 17%.

Trading profit rose 16% to R1 047 million (2015: R905 million), while margins firmed, primarily due to a decline in overhead expenses derived from improved management of utilities, efficiencies gained across the back-end Support Service functions and containment of freight and distribution costs. Average price inflation was 6,5%.

The Group's basic earnings per share ("EPS") rose 16% to 87,8 cents (2015: 75,9 cents), while headline earnings per share ("HEPS") increased 21% to 86,9 cents (2015: 71,6 cents).

Earnings growth includes the impact of the following:

- ◆ The increased contribution of R95 million (2015: R62 million) to Group profit from associate Ceramic Industries (Pty) Ltd ("Ceramic") and Ezee Tile;
- ◆ Net finance income of R23 million (2015: R11 million) attributable to improved average net cash holdings of the Group;
- ◆ A normalisation of the effective taxation rate as non-recurring taxation benefits were recorded in the previous corresponding period;
- ◆ The absence of once-off gains of R33 million (adjusted for in headline earnings) reported in the previous corresponding period derived from:
 - the reclassification of a subsidiary (SER-Export s.p.a.) to an associate following the disposal by the Group of a portion of its shareholding in this company (gain of R14 million); and
 - the reclassification to income of foreign currency translation reserve related to Italtile Mauritius (Pty) Ltd, previous bearer of certain of the Group's non-South African trademarks, following the liquidation distribution of that company's net assets to South Africa (gain of R19 million).

Inventories rose to R693 million (2015: R479 million) to meet growing demand from the existing retail operation as well as the new stores added to the network during the period. The increase also reflects the weakening of the Rand which impacted on the landed cost of imported inventory in the Supply Chain businesses, as well as the introduction of the shower enclosure merchandise category into the operation. Stock management remained a core discipline across the business, with improved stock turn and reduced stock losses being key performance indicators.

Capital expenditure for the period was R375 million (2015: R219 million), incurred primarily on acquisitions and upgrades of properties in the Group's Property Investment portfolio to support the business's expansion programme.

Dividend payments totalled R279 million (2015: R212 million), resulting in net cash reserves of R347 million (2015: R392 million) at the end of the period.

The Group's net asset value was 362 cents per share (2015: 296 cents per share).

Investment in associates

Ceramic Industries

Italtile holds a 20% strategic stake in manufacturer, Ceramic, the Group's primary supplier of tiles, sanitaryware and bathware. This tactical investment is significant in underpinning Italtile's growth agenda.

Improved results were reported by Ceramic's South African and Australian tile plants and the local sanitaryware factory. This performance is attributable to higher production volumes, which led to better capacity utilisation and enhanced efficiencies.

During the review period, the business launched its new Gryphon plant, which manufactures large format glazed porcelain tiles that compete favourably with high quality imported product. Market response to the range has been very positive. Gryphon's impact on turnover is expected to grow materially over time.

Ceramic's contribution to Group profit for the period rose 51% to R83 million (2015: R55 million).

Offer to acquire shares in Ceramic

Further to the SENS announcements published on 8 April 2016, 26 April 2016, 9 June 2016, 20 July 2016 and 14 September 2016, Italtile submitted a binding offer on 15 July 2016 to Ceramic, to acquire up to a further 73.5% of the company's issued share capital ("the Acquisition"). The balance of 6.5% comprises treasury shares held by National Ceramic Industries South Africa, a subsidiary of Ceramic.

In terms of the Acquisition, the purchase consideration equates to R3.4 billion and will be settled in cash (50%) and the balance by the issue of Italtile shares at R11.57 per share. Post the Acquisition, Italtile

will offer a total of approximately 227.3 million rights offer shares to ensure equitable treatment of all shareholders and afford minority shareholders the opportunity to avoid dilution of their shareholding as a result of the Acquisition. A total of 22 shares will be offered for every 100 shares held in Italtile at a subscription price of R11.57 per rights offer share.

A further consequence of the Acquisition will be an increase in the Group's total effective holding in Ezee Tile to 68.95%.

Italtile's rationale for acquiring Ceramic is based on the Board's and management's positive view of opportunities for growth in South Africa, and the benefits of this transaction for both Italtile and Ceramic, which are far-ranging:

- ◆ The long-term success and sustainability of both businesses are inextricably intertwined and have been for the past two decades.
- ◆ The combination and integration of the two management teams will add depth in terms of experience and skill in the business, and enhance the management structure to facilitate improved succession planning at the combined group level.
- ◆ Both businesses will benefit from shared access to better, real-time market intelligence, improved efficiencies and reduced costs, enhanced allocation of capital, and alignment of long-term growth strategies, thereby fostering sustainable returns for shareholders.

The Acquisition is subject to attainment of certain conditions precedent, and approval from competition authorities and Italtile shareholders. Shareholders will continue to be apprised of progress and are referred to the SENS announcements published on 20 July 2016, 28 July 2016, 11 August 2016 and 14 September 2016, and the Acquisition Circular distributed to shareholders on 23 August 2016 for further detail.

The matter was tabled for discussion at the general meeting held on 21 September 2016.

Ezee Tile

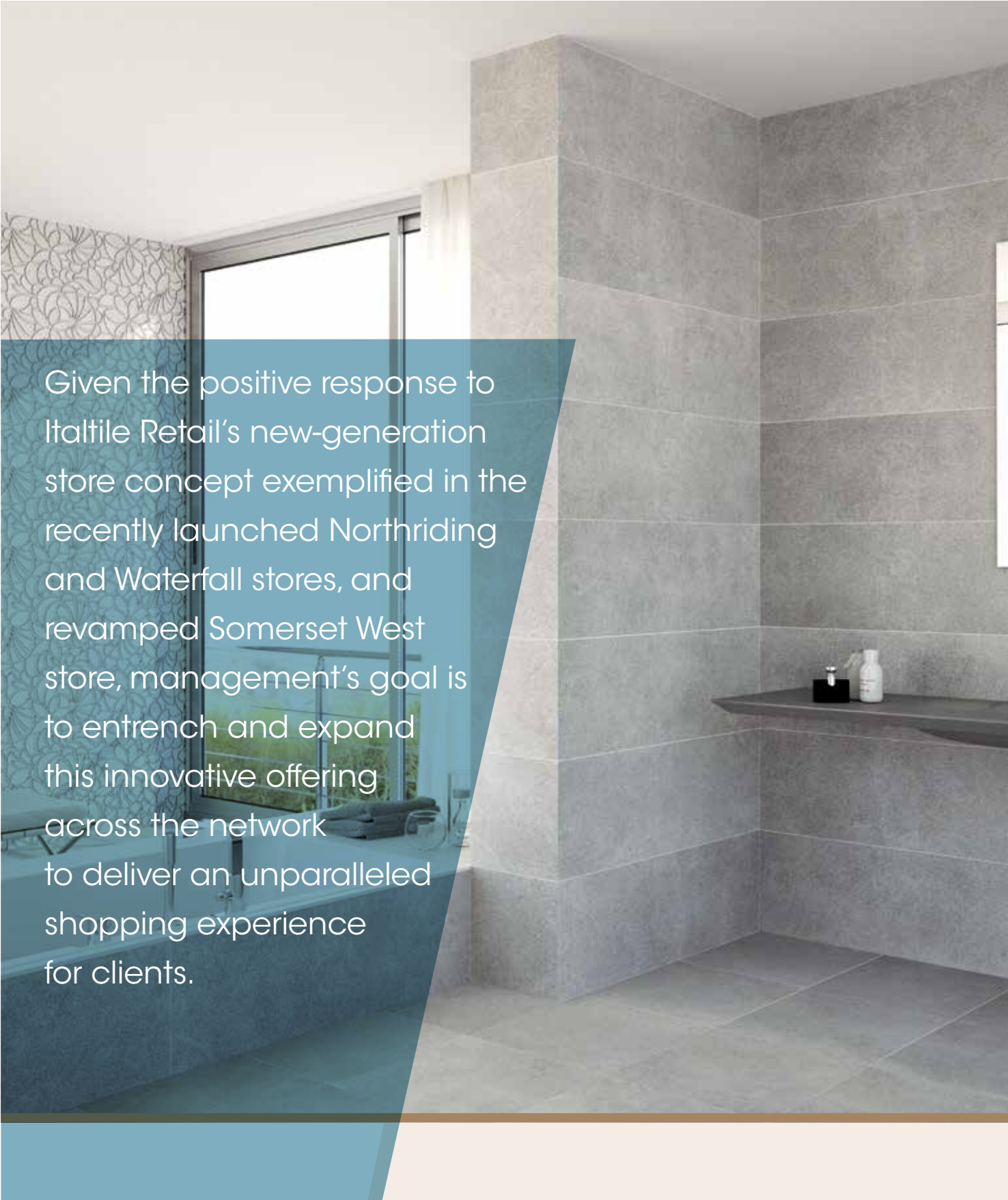
The Group holds an effective 46% stake in Ezee Tile, a national manufacturer of grout, adhesive and related products. As noted above, a consequence of Italtile acquiring Ceramic will be an increase of its total effective holding in Ezee Tile to 68.95%.

Ezee Tile's business-wide restructuring programme implemented over the past two years continued to deliver projected results, harnessing further efficiencies in the factories. Sales volumes to the Group and open market clients grew, and the business contributed R12 million (2015: R7 million) to Group profits, an improvement of 71% over the prior comparative period.

Italtile Australia

Management's stated intention over the past several years has been to dispose of its Australian property holding company when market conditions improve. During the reporting period a buyer was identified for the business which comprises four retail properties. The transaction should be concluded during the first half of the new financial year.

Review of operations continued



Given the positive response to Italtile Retail's new-generation store concept exemplified in the recently launched Northriding and Waterfall stores, and revamped Somerset West store, management's goal is to entrench and expand this innovative offering across the network to deliver an unparalleled shopping experience for clients.



Italtile Retail report

Overview and performance matrix

Nature of business	Leading fashion retailer of exclusive ranges of tiles, bathware and related products.	
Target market	LSM 8 – 10 Discerning consumers in the upper middle and premium end segment and professional projects market	
Number of stores	11 including web store	
Key performance indicators	Trends 2016	Trends 2015
Sales	↑	↑
Average price inflation	↑	↑
Margins	↔	↔
Net profit	↑	↑
Stock turn	↑	↑
Key differentiators	Trendsetter and leading buyer of exclusive high quality fashionable international and local products. Widely recognised as industry front-runner in environmentally sensitive products. Well-established specialist expertise and nationwide network.	
Strategic positioning	Live beautifully.	

ITALTILE

LIVE BEAUTIFULLY



For further information on the Italtile Retail division please visit the website www.italtile.co.za

Review of operations continued



While currency volatility and aggressive competitor activity dominated the review period, Italtile Retail delivered a good performance, growing sales and profits and gaining market share. Margins remained stable as a function of an improved product/price matrix, enhanced efficiencies and intensified cost-containment measures.

During the period a range of milestones were achieved which entrenched Italtile's status as the leading trendsetter in the home improvement market and contributed to the brand's good results:

- ◆ The opening of two new generation stores – in Northridge and Waterfall (Gauteng) and the comprehensive rebuild of the Somerset West (Western Cape) store. These stores, which showcase the brand's improved retail formula in terms of customer-centricity, were very well received, and served to drive sales and market share gain during the period;
- ◆ The entrenchment of BOP in the business as a procurement management model, which improved stock management and translated into better service and customer satisfaction;
- ◆ Enhancement of the brand's depth of management with the appointment of three new joint-venture managers and several other senior appointments;
- ◆ Through enhanced recruitment and training practices, the brand's personnel complement attained improved demographic representation. Developing skills competencies across the business will remain a priority focus in ensuring optimal customer service;
- ◆ Improved responsiveness to customer demand with the extension of the bathroom accessories, furniture and cladding categories, as well as wider ranges of highly fashionable large format tiles;
- ◆ The brand's Style Book, which is published monthly in five premier national magazines, continued to drive foot-fall in-store and online; ongoing analysis of sales demonstrated the efficacy of this medium;
- ◆ The Italtile Way is the brand's minimum operating standard and best practice benchmark programme. During the period, mystery shopper evaluations reflected a further improvement in the programme's key performance indicators;
- ◆ The brand's e-commerce web store, launched in 2015, continued to be upgraded to meet increased demand from customers as the offering gained traction. Aligned to this web store is Italtile's bespoke online I-Spec application which is designed to develop unique specifications for individual projects; increased requests from clients for this service demonstrate the strategic value this tool has for the business; and
- ◆ Over the past five years, Italtile has hosted an annual educational tour for its Commercial Projects' clients to international supplier factories. The 2016 tour included visits to the Tivoli concealed cistern factory, the Laufen sanitaryware factory in Switzerland, and the Sant'Agostino tile plant and Nobili tap factory in Italy. The purpose of the trip is to educate senior industry leaders and decision makers regarding the world-class products available from Italtile Retail.

Priorities and prospects

The brand's Commercial Projects business will be a core focus in the year ahead. Growth in this division of the business will be underpinned by Italtile's ability to supply environmentally sensitive brassware (Tivoli and Idral) and sanitaryware (Laufen) products in the country, a significant advantage in a sector where reducing consumption of non-renewable resources is paramount.

Italtile's web store will continue to increase its contribution to sales, and ongoing fine-tuning of this offering to align it with the in-store experience will be prioritised to support this potential growth opportunity. The brand's unique I-Spec application has substantial benefits for clients, particularly in the Commercial Projects segment, and is expected to continue to gain traction.

Given the positive response to the new-generation store concept exemplified in the recently launched Northriding and Waterfall stores, and revamped Somerset West store, management's goal is to entrench and expand this innovative offering across the network to achieve the brand's overriding goal to deliver an unparalleled shopping experience for customers.



Review of operations continued



Management's goal to gain market share to meet CTM's targets and ambitions will be achieved by capitalising on opportunities for growth in the stores, through innovation, operational excellence and flawless execution, and externally, by increasing the store footprint and rejuvenating existing stores through enlargements and revamps.



CTM report

Overview and performance matrix

Nature of business	Leading specialist retailer of tiles, laminate boards, taps, sanitaryware, shower enclosures, bathroom furniture and accessories.	
Target market	LSM 5 – 8 Middle income DIY customers and small builders.	
Number of stores	85 (in South and East Africa). Group-owned: 48* Franchised: 37 *includes two web stores	
Key performance indicators	Trends 2016	Trends 2015
Sales	↑	↑
Average price inflation	↑	↑
Margins	↓	↓
Net profit	↑	↑
Stock turn	↑	↑
Key differentiators	Local and international buying power. Year-round value offering. Integrated Supply Chain ensuring consistent availability of stock.	
Strategic positioning	Big savings. More style.	



For further information on the CTM division please visit the website www.ctm.co.za

Review of operations continued

In the review period, CTM reported an improved quarter-on-quarter performance, with a notably strong final quarter. Results for the year reflect good organic sales growth and an increase in profits. Margins declined very slightly, reflecting the deliberate strategy to retain key price points in the tile category to anchor the brand's competitive value positioning.

The business's improvement over the year is based on sustained efforts to grow sales and gain market share through improved execution and operational effectiveness, manifested through improved stock turn and in-stock levels of business critical products; enhanced product innovation and range development (underpinned by the launch of the new Gryphon glazed porcelain tile range); and an increased and concentrated marketing effort at a national and local level.

The average basket grew in value and the brand gained market share in new and existing markets and across most of its merchandise categories.

From a regional perspective, the Gauteng stores delivered an improved performance compared to the previous year; the Western Cape region continued to build on momentum recorded in the prior reporting period, while a solid performance was also reported by the KwaZulu-Natal and Limpopo regions. The provinces of the North West, Mpumalanga and the Free State lagged their peers, reflecting subdued local economic conditions evident in the main towns in those regions.

The brand's web store continued to gain traction with customers, illustrated by good growth in total user sessions and an increase in online sales.

During the year under review, management continued to implement measures to realise CTM's goal of establishing sales and customer service as core, defensible competencies and capabilities.

The following achievements were recorded:

- ◆ Depth of management in the business was enhanced.
- ◆ Skills development was increased and management capacity improved through two primary mechanisms, the Retail Academy and the Operator Training Programme ("OTP"), whose purpose is to identify and nurture high potential individuals in the business for future management roles and build a pipeline of qualified store operators.
- ◆ Recruitment methodology and practices were also reviewed during the period and boosted with the introduction of more rigorous retail-specific tools and criteria which will enhance the calibre of candidates appointed to store operator and sales positions.
- ◆ In a major drive to effect a step-change in the brand's management of customer service, CTM launched a national customer experience campaign in the second quarter of the financial year.
- ◆ The strategy to position CTM as a benchmark customer-centric business was advanced by complementing the retail offering with a strong service element.
- ◆ The brand launched three new stores, in Mitchells Plain (Western Cape), Hazyview (Mpumalanga) and Waterfall (Gauteng) during the year. The Waterfall flagship "Millennial" store is a new-generation concept, which while retaining CTM's heritage, features a more contemporary design and customer-centric technology aimed at improving the shopping experience. The stores in Middelburg (Mpumalanga) and Mokopane (Limpopo) were relocated and enlarged and have traded positively since re-opening.
- ◆ CTM's marketing activities for the review period were substantially intensified, featuring a marked increase in the frequency and differentiation of promotions. Management is satisfied that these initiatives delivered a pleasing return on spend, and will be replicated and refined over the forthcoming period.

Priorities and prospects

Management's overriding goal is to build organisational capacity and capability in order to gain market share to meet the brand's targets and ambitions.

This will be done by capitalising on opportunities for growth in the stores, through innovation, operational excellence and flawless execution, and externally, by increasing the store footprint and rejuvenating existing stores through enlargements and revamps.

Among the priorities identified for the forthcoming period are:

- ◆ Developing an optimal human capital structure to facilitate attaining the brand's growth goals. A key focus will be on improved recruitment and empowering and enabling the workforce through enhanced training;
- ◆ Performance management will be a key lever to drive growth in the year; accordingly all store operators will henceforth be affiliated to a rewarding profit share scheme which is anticipated to incentivise and promote improved performance;
- ◆ In its first year of implementation in the business, BOP made good inroads into improving in-stock levels and increasing stock turn. In the forthcoming year, focus will be on better analysis of trading intelligence to refine qualitative aspects to create an optimum inventory and an improved offering. This will include introducing new innovative categories, brands and products as the opportunities present themselves and demand is proved;
- ◆ Continue to drive unrivalled customer service as a defining principle. Aligned to the existing initiatives, a technology-based final evaluation review mechanism will be introduced to precisely assess customer feedback;
- ◆ Roll out the value-add installation and delivery service offering to all Gauteng stores in the third quarter of calendar year 2016;
- ◆ Embrace technology whereby the online showroom offering will continue to be upgraded in line with the bricks and mortar version, while e-commerce innovations will be engineered into the physical stores through digital and mobile technologies to promote interactivity, a sense of "theatre" and to empower staff to deliver a better sales and service offering;
- ◆ The intensified marketing activities undertaken in the review period will continue apace. Opportunities in the digital and social media arenas will be explored and capitalised on where appropriate; and

- ◆ A second store was opened in Thohoyandou (Limpopo) in the first quarter of the new financial year, and the brand's second Millennial store will open in October 2016 on a new site in Somerset West (Western Cape), replacing the existing store.

CTM East Africa

CTM's East African footprint comprises two stores in Kenya and three stores in Tanzania, the latter being a franchised operation.

A solid performance was delivered by the business in this region, with particularly good results reported by the Kenyan stores.

At the start of the review period, the CTM business in Kenya was integrated into the Group's SAP network and has been operating successfully on this platform for the past year. An online web store was also launched for the operation in April 2016, offering a customised product range, pricing and payment options specifically for the local market. Given the brand's limited retail footprint in Kenya, the web store will provide an important vehicle to increase CTM's presence in the country and drive customers in store.

As of 1 July 2016 the CTM operation in Tanzania was also integrated into the SAP network. The Group plans to acquire this franchise operation during the second half of the 2017 financial year.

Management's view is that East Africa offers a portal for expansion into the rest of Africa. In this regard opportunities to expand the store network and establish a distribution centre in the region will continue to be investigated.



Review of operations continued



As we continue to build the TopT Brand, our values of passion, belonging, honesty, partnership and respect will form the foundation of a sustainable “TopT Way”. These values will define our unique culture and how we deal with the critical areas of our business being our people, customers, suppliers and communities.



TopT report

Overview and performance matrix

Nature of business	Retailer of home-finishing products including tiles, paint, ceiling décor, taps, sanitaryware, hardware and accessories.	
Target market	LSM 4 – (lower) 7 Entry-level value offering strategically situated in underserved rural areas and outlying markets in close proximity to urban townships.	
Number of stores	50 (Group-owned: 13; franchised: 37)	
Key performance indicators	Trends 2016	Trends 2015
Sales	↑	↑
Average price inflation	↑	↑
Margins	↑	↓
Net profit	↑	↑
Stock turn	↑	↑
Key differentiators	Flexible, opportunistic home-finishing product range. Affordability and availability of stock and accessibility to market. Strong community relationships and local marketing.	
Strategic positioning	Every price a LOW price.	



For further information on the
TopT division please visit the website
www.topt.co.za

Review of operations continued

TopT achieved a number of milestones during the reporting period, including opening 15 new stores, to bring the total network to 50 stores and extend the brand's footprint to eight provinces across the country.

Turnover and profit increased in line with budgets, and margins improved slightly as a function of an enhanced product/price mix.

The brand gained market share in both its existing and new markets, attracting a wider audience of consumers based on its improved range and growing appeal to a new segment of cost-conscious shoppers seeking quality value offerings in the difficult economic climate.

While overall stock levels grew, aligned with increased sales and the addition of new stores to the network, average store inventory decreased slightly due to improved stock management facilitated by BOP.

TopT's continued strong growth can be attributed to the following factors:

- ◆ Roll out of new stores in previously untapped areas, including Queenstown and East London (Eastern Cape), Seshego, Mokopane and Louis Trichardt (Limpopo), Alberton, Germiston, Bronkhorstspuit and Randfontein (Gauteng), Middelburg, Elukwatini and Nkomazi (Mpumalanga), and Bloemfontein, Ficksburg and Ladybrand (Free State);
- ◆ A customer base whose primary asset and expense is their home, and who continue to invest in their properties as and when finance permits, irrespective of broader economic and political uncertainty;
- ◆ The brand operates in a historically informal, poorly organised segment of the market, dominated by small independent traders. Typically, product has been costly, often of inferior quality and inconsistent in supply in this sector. TopT has capitalised on the opportunity this disorder presents with the introduction of consistent, large volumes of affordable, aspirational and quality products;
- ◆ TopT's unique opportunistic business model which is structured for flexibility to quickly adapt to new home improvement trends and customer desires by introducing innovative products and categories as demand emerges;

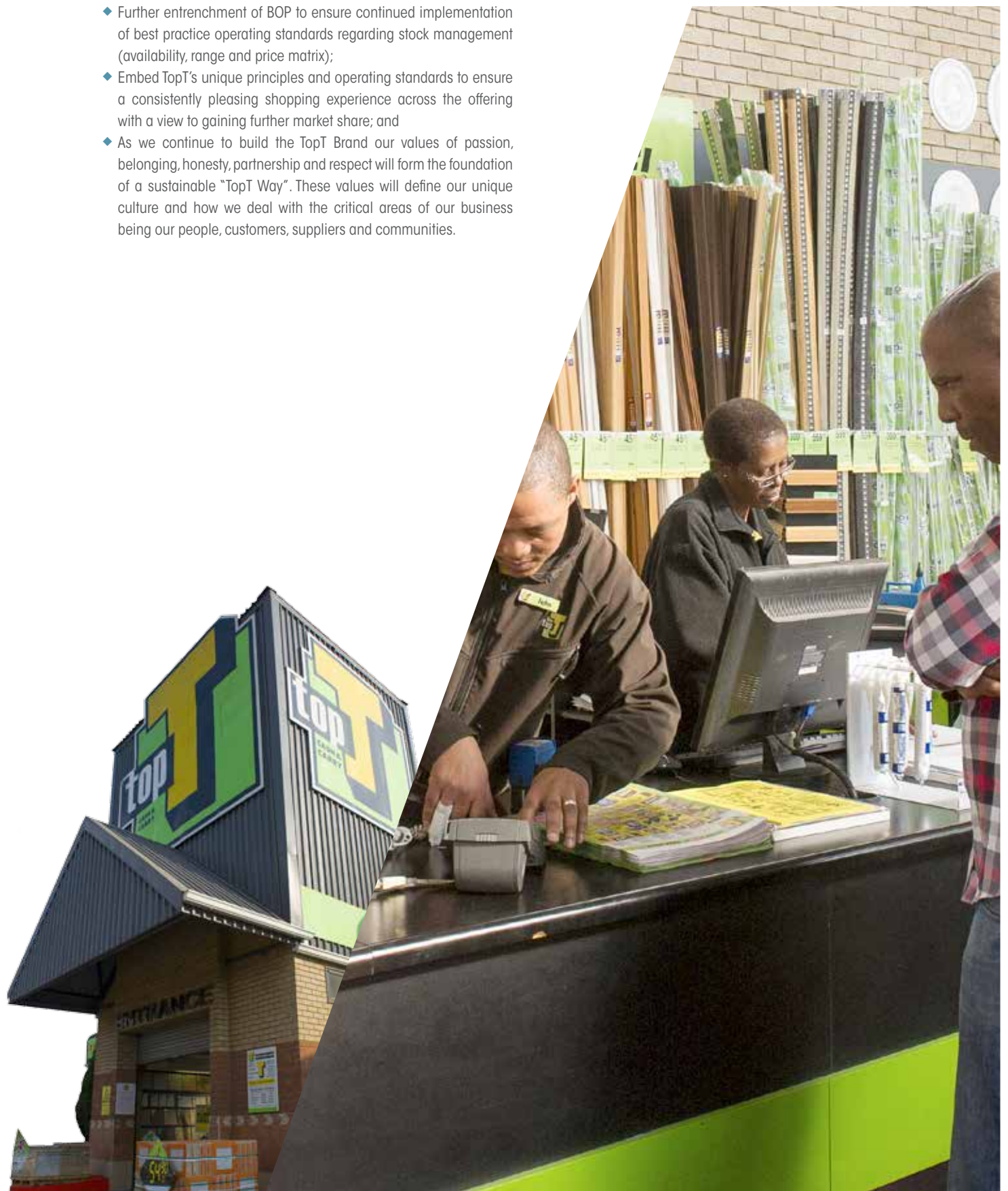
- ◆ The brand has developed a reputation for simplifying and enhancing the shopping experience for customers. Stores are located close to transport hubs, employees are drawn from the local community and have affinity with shoppers, and the business model ensures that each customer is assisted by the same staff member from entrance to exit, creating an efficient user-friendly process;
- ◆ During the period TopT successfully implemented BOP in all 50 stores in the network, improving business critical in-stock levels and general stock management;
- ◆ Improved the range across the categories and grew the home décor category with the introduction of lighting and related products, among others; and
- ◆ Enhanced communications with customers through improved targeted marketing and promotions; the website was also overhauled to offer improved ease of use, and functionality was installed to develop a web store in the future.

Priorities and prospects

The following opportunities will be capitalised on to ensure continued momentum of TopT's growth:

- ◆ Fifteen stores are planned for opening in the forthcoming financial year; the goal is to extend the network in the Free State and establish a footprint in the Western Cape. While the brand's strategy is to rent the majority of its trading properties, where appropriate opportunities arise in proven markets, sites will be acquired. In this regard, three properties were purchased during the year, in the Western Cape and Gauteng;
- ◆ Improved training and knowledge sharing will be prioritised to increase staff competence and skills, and build depth of management in the business, aimed at facilitating continually higher standards of customer service. In the year ahead e-learning programmes will be used extensively to expand training initiatives to stores in outlying areas and those with a limited staff complement;
- ◆ As the store network grows, one of the brand's key challenges is to ensure its supply chain continues to keep abreast of growing demand. Management enjoys respectful, mutually supportive relationships with its key suppliers and will continue to collaborate closely with them to achieve shared goals and targets;

- ◆ Further entrenchment of BOP to ensure continued implementation of best practice operating standards regarding stock management (availability, range and price matrix);
- ◆ Embed TopT's unique principles and operating standards to ensure a consistently pleasing shopping experience across the offering with a view to gaining further market share; and
- ◆ As we continue to build the TopT Brand our values of passion, belonging, honesty, partnership and respect will form the foundation of a sustainable "TopT Way". These values will define our unique culture and how we deal with the critical areas of our business being our people, customers, suppliers and communities.



Review of operations_{continued}

International Tap Distributors (“ITD”) report

Overview and performance matrix

Nature of business	Importer and distributor of brassware and accessories.	
Target market	CTM, Italtile Retail and TopT store network.	
Key performance indicators	Trends 2016	Trends 2015
Sales	↑	↑
Average price inflation	↑	↑
Margins	↓	↔
Net profit	↑	↑
Stock turn	↑	↑
Key differentiators	Integral component of the Group’s Supply Chain. Long-standing relationships with international suppliers and extensive import experience. State-of-the-art robotic warehouse facility.	

ITD reported a pleasing performance for the review period, delivering another consecutive year of record turnover and an increase in profits. This result was underpinned by strong growth in the Group’s retail operations which gained market share from competitors in a sector which experienced general disarray. Furthermore, in contrast to other industry participants, the business procures substantial volumes of stock from Italy in euros, and thus benefited from exemption from exchange duty.

In light of consumers’ increased price sensitivity in the current economic climate, ITD responded by deliberately ensuring a steady succession of competitive promotional activity.

A degree of margin pressure was experienced due to the deliberate strategy to delay implementing price increases until the third quarter, to support the retail brands’ value positioning.

Operations

ITD’s operation comprises a robotic warehouse facility through which stock is received, packaged and despatched.

Improved performances were achieved by both units, despite an increase in headcount of only two, and the reduction in working hours from 24/7 to an eight hour, five day work week:

- ◆ In the warehouse, increased efficiencies and productivity were achieved through restructuring, empowering and incentivising the team, who responded extremely positively. In addition, enhanced training and recruitment has facilitated the development and retention of a pipeline of talent in the business;
- ◆ Substantial cost savings and improved customer service were achieved through the introduction of a new, more secure packaging system for merchandise transported to stores across the country;
- ◆ The introduction of a customer care portal has made a material impact on improving customer service through improved interaction response time on queries and complaints. ITD’s receipt of CTM’s Supplier of the Year Award, as well as the Customer Care accolade awarded to an ITD technician, are recognition of the business’s efforts to improve its service; and
- ◆ In the robotic warehouse, an upgrade in the operation and improvements in maintenance procedures and related staff training ensured minimal downtime of the facility during the review period.

Range and stock management

- ◆ Stock on hand increased to keep pace with demand in the Group’s retail operations, while implementation of BOP in the business played a significant role in ensuring optimal levels of business critical products;
- ◆ The two new exclusive Hansgrohe ranges introduced into Italtile and CTM respectively, outperformed management’s sales forecasts;
- ◆ Brands and ranges were rationalised in each of the retail offerings, Italtile, CTM and TopT, ensuring the range matrix remained contemporary and relevant; and
- ◆ Pursuing the business’s strategy to treat each retail brand as distinct, new exclusive accessory brands were launched into CTM (Urban and Portofino), Italtile (Infinity) and TopT (Stella) respectively. Rewarding growth in this merchandise category reflected the positive response to these new brands.

Priorities and prospects

- ◆ Entrenchment of BOP will continue to improve trading intelligence between the stores and ITD, resulting in further efficiencies in stock management;
- ◆ Restraints on warehouse capacity in the existing premises resulted in the business leasing additional space off-site for a temporary period. Discussions are under way with the Board to develop a permanent solution;
- ◆ Anticipated continued volatility in the industry will provide opportunities to gain further market share; and
- ◆ TopT’s ongoing rapid store roll-out will provide an important growth lever.

Based on the above mentioned prospects and additional opportunities for internal improvements in the business, management is satisfied that the good performance recorded for the year is sustainable over the forthcoming period.

Cedar Point report

Overview and performance matrix

Nature of business	Importer and distributor of tiling tools, laminated floor boards, bathroom furniture, shower enclosures, accessories, décor and other home finishing products.	
Target market	Italtile Retail, CTM and TopT store network	
Key performance indicators	Trends 2016	Trends 2015
Sales	↑	↑
Average price inflation	↑	↑
Margins	↔	↓
Net profit	↑	↑
Stock turn	↑	↑
Key differentiators	Integral component of supply chain across merchandise categories. Strong relationships with international suppliers. Leading buyer and supplier of high quality European laminated floor board range in South Africa.	

During the review period, a new management team was appointed at Cedar Point, and a comprehensive restructuring of the company undertaken to capitalise on opportunities inherent in this key Supply Chain business.

In this regard, a range of remedial initiatives and operational improvements were introduced, which albeit in the early phase of implementation, started to deliver good results both in terms of increased sales and improved customer satisfaction. Year-on-year revenue and profitability grew, stock turn increased and market share was gained, reflecting the strong performance of the Group's retail brands. Margins were held steady to support the stores' competitive positioning.

Highlights for the period include:

- ◆ Introduction of a substantial new merchandise category, namely Crystaltech shower enclosures during the third quarter of the period. This business, which was previously outsourced, made a notable contribution to sales and illustrates the long-term revenue potential of this category;
- ◆ Re-engineering of the warehouse to facilitate improved efficiencies in capacity and stock management;
- ◆ Fine-tuning of the range matrix in a number of categories based on better analysis of trading data;

- ◆ Improvement in the business critical stockholding thereby enhancing customer service;
- ◆ Restructuring and supplementing the staff complement with the addition of specialist skills, and better definition of roles and responsibilities, which served to improve morale and teamwork; and
- ◆ Improved training which resulted in increased competency levels and effected efficiencies across the organisation.

Priorities and prospects

Based on the restructuring implemented in the review period and further planned strategic expansion initiatives, the business should continue to respond positively:

- ◆ Management will intensify its focus on training and developing Cedar Point's personnel, aimed at creating a stable, skilled workforce with the capability and capacity to achieve the business's growth targets;
- ◆ A key priority will be to grow the market for shower enclosures, capitalising on the potential available in this generally erratic sector. Opportunities will also be explored to enlarge the offering to Italtile Retail and TopT in line with each of those brands' unique positioning;
- ◆ More effective use of BOP as a tool to interpret trading data will improve the business's response to and interaction with the Group's retail operations;
- ◆ The range/price matrix will remain under review to ensure an optimal offering. In this regard, opportunities exist in the décor, flooring and furniture categories; and
- ◆ The business will continue to leverage its buying power and the long-standing relationships it enjoys with suppliers to ensure cost-conscious customers benefit from a consistent, high quality competitively priced offering.

Review of operations continued

Distribution Centre report

Overview and performance matrix

Nature of business	Procures stock for the Group, and is the single largest importer of polished and glazed porcelain tiles in South Africa. Provides warehousing, distribution and logistics services to the Group.	
Target market	The Group's retail store network and integrated suppliers.	
Key performance indicators	Trends 2016	Trends 2015
Sales	↑	↑
Margins	↓	↓
Net profit	↑	↑
Stock turn	↑	↑
Key differentiators	Long-standing relationships with international suppliers and transport agents. Extensive (+30 years) import experience. Strong financial position facilitates optimal investment in inventory.	

As a key strategic Supply Chain partner to the brands and integrated suppliers, this division benefited from the expansion of BOP into the retail operations. The programme, which improved trading intelligence in terms of inventory levels, stock turn and range coordination in the stores and integrated suppliers, enabled Distribution Centre to respond with greater insight and efficiency in areas including logistics and distribution, thereby enhancing customer service.

This development was material in driving the business's growth in turnover, reflecting stronger sales to Italtile Retail and TopT, as well as the integrated suppliers, Cedar Point and ITD. Margins declined due to the tactic to underpin the stores' competitive pricing policy.

The volatility of the currency during the period was a significant challenge, but despite currency depreciation, management succeeded in:

- ◆ Ensuring consistent supply of high quality imported ranges;
- ◆ Negotiated maintenance of average buying prices to support the retail operations; and
- ◆ Brokered improved rates with ocean freight suppliers.

Priorities and prospects

Distribution Centre's pivotal role is to ensure the retail operations benefit from consistent availability of the right stock at the right time, place and price. In this regard, the business's key priorities in the year ahead will be to:

- ◆ Manage the inflationary environment and Rand volatility by containing costs;
- ◆ Continue to leverage long-standing relationships to ensure stability of price and supply; and
- ◆ Capitalise on BOP as a tool to improve service to stores and the integrated suppliers.

Management is satisfied that by attaining these targets, the business will deliver results in line with the FY2016 performance.

e-Commerce and Information Technology report

Overview and performance matrix

Nature of business	To provide relevant, effective IT solutions to enable an optimal user and shopping experience in the Group's retail stores, online and in the Supply Chain, by ensuring simplicity and functionality for the end-user, maintenance of data integrity, and minimising downtime and risk.
Target market	The Group's retail operations, its customers, and the Support Services businesses.
Key performance indicators	Continual enhancement of the SAP system to unlock efficiencies, thereby enabling growth. Management of potential downtime and system failure risk. Prevention of network penetration. Roll out of technology. Improved interactivity of retail websites.

The Group's support ("IT") and sales ("e-commerce") functions are structured as separate entities; each division employs fit-for-purpose skilled personnel and is managed and measured independently.

e-Commerce

This division's priority goal over the past 18 months has been to provide a fully functional online shopping experience enabling customers to transact and receive delivery of listed products from the Group's CTM and Italtile Retail brands anywhere in South Africa. This ambition to offer a "total" retail solution to customers was realised during the review period, whereby customers are now able to:

- ◆ Purchase online or via any omni-channel option of their choice from any Group store in the country and receive delivery at their premises; and
- ◆ Utilise a "click and collect" service whereby merchandise can be purchased online and the products will be sourced, packed and made available for collection at the branch of the customer's choosing.

During the review period:

- ◆ CTM's web store delivered a pleasing increase in online revenue, and exceeded management's target of two million total user sessions. Customers are now engaging with CTM not only through online channels but also through the sales and service contact centre, via the medium of their choice;

- ◆ Italtile Retail's recently launched online store exceeded sales budgets and total user session targets; and
- ◆ An online web store was successfully launched for the CTM operation in Kenya in April 2016, offering a product range, pricing and payment options tailored for the local market.

Total investment in the e-commerce development for the period was R2,4 million.

Priorities and prospects

Management is mindful that the omni-channel shopping experience provides a vital strategic advantage in the rapidly evolving retail and technological environments. In this regard, continual innovation and best practice benchmarking will be prioritised, while further investment will be made in software and hardware enhancements, content, and contact centre solutions.

CTM

Management is targeting a significant increase in online revenue which should be achievable given the offering's growth track record to date. Key focus areas in the forthcoming period will be to implement service offerings and lifestyle/inspiration shopping options, and to enhance the in-store shopping experience by replicating digital assets created in the web store for the brick and mortar offering.

Italtile

The priority focus in the year ahead will be to enhance the online shopping experience to complement the service offering in store. The web store offering provides a useful opportunity to increase the retail footprint in areas where there are no brick and mortar stores.

CTM Kenya

The key priority is to grow the web store's online customer base and drive customers in store to purchase. Given the brand's limited retail footprint in Kenya, the web store will provide an important vehicle to increase the brand's presence in the country.

Information Technology ("IT")

This division played an integral role in unlocking further efficiencies in the SAP environment to capitalise on growth opportunities in the business.

The following achievements were recorded for the reporting period:

- ◆ SAP functionality underpins BOP, and the roll-out of this programme from the integrated Supply Chain to the retail operations was proficiently supported by enhanced utilisation of SAP systems which served to align the front and back-ends of the business more effectively;
- ◆ The CTM operation in Kenya was integrated into the Group's SAP network on 1 July 2015 and has been operating successfully on this platform for the past year. As of 1 July 2016 the CTM operation in Tanzania was also integrated into the SAP network. The Group's entire operation now transacts on the common SAP ERP system;

Review of operations continued

- ◆ In September 2015 the SAP hardware environment was upgraded to latest technology, which facilitated enhanced system performance and improved stability. In order to remain current and meet the business's growing demand, contracts with suppliers have been renegotiated to ensure more frequent refreshment of hardware;
- ◆ The data centre and disaster recovery centre ensure uninterrupted, seamless operation across the retail network, Supply Chain and Support Services businesses. In order to enhance operational efficiencies and minimise risk, the Group made a strategic decision to acquire the data centre from the current supplier, at a consideration of R5,5 million and relocate certain of the IT operations to a new site;
- ◆ The stores utilise mobile Point of Sale ("POS") handsets (a unique in-store application which integrates SAP, credit card payments and web shopping functionality) to improve the customer experience by affording more personal, knowledgeable and quicker sales service, from the store door to despatch. For the year under review, the number of sales and quotes performed on mobile POS devices continued to increase, and this trend is expected to continue to gain momentum; and
- ◆ The division's capability and capacity were boosted with the recruitment of additional specialist skills in SAP development and experience in digital offerings and integration of online retail solutions into the SAP ERP system.

Capital expenditure of R11 million was incurred in the year under review.

Priorities and prospects

A range of strategic imperatives have been outlined by the IT department for the year ahead:

- ◆ To optimise the integration of digital platforms into the Group's existing systems and processes, enabling customers to interact with the Company regardless of the time of day or their location;
- ◆ Provide multiple platforms on which customers are able to interact with the retail brands;
- ◆ Ongoing development of in-store technology to enhance the Group's competitive advantage;
- ◆ Implementation of new functionality of the POS devices to improve the despatch function at all existing stores. The first phase will commence in the first quarter of the new financial year;
- ◆ Continue to underpin BOP as the business grows and evolves; and
- ◆ Maintain the track record of uninterrupted SAP functionality across the business.

Further investment will be made in both the IT and e-commerce businesses to ensure continued optimisation of retail opportunities in this environment and security of the Group's critical systems.

Property Investment report

Overview and performance matrix

Nature of business	Underpins the Group's retail operations by ensuring that stores are optimally located on high visibility destination sites or within easy access of previously underserved rural and outlying areas.	
Target market	Italtile Retail, CTM and TopT store network.	
Key statistics	2016	2015
Portfolio market value	R2,4 billion	R2,0 billion
Total number of stores	143	124
Capex incurred (new and refurbishments)	R284 million	R164 million
Portfolio changes		
– Properties acquired	7	4
– Properties sold	3	2
New stores opened		
Italtile	2	–
CTM	3	–
TopT	15	11

The Group's property portfolio affords strategic advantage to the retail brand operations by ensuring stores are easily accessible, well-presented and maintained, and contribute to an aspirational shopping experience. The portfolio is continuously evaluated and enhanced to ensure optimal returns.

While investment properties are in short supply and prices remained high over the review period, the Group has the advantage of being familiar with the market, having been a constant participant for over 20 years; given the business's solid balance sheet, the Group is well positioned to capitalise on opportunistic acquisition prospects as they emerge.

During the period, good progress was made in terms of securing and developing a pipeline of properties to meet the Group's robust expansion programme.

The following achievements were recorded:

Italtile Retail

New stores were opened in Northriding and Waterfall (Gauteng) during the review period and the Somerset West (Western Cape) store was comprehensively redeveloped.

Management has secured a pipeline of properties to facilitate Italtile Retail's store roll-out programme over the next few years. These stores will be opened in line with the brand's strategic growth plan.

CTM

The brand opened new stores in Hazyview (Mpumalanga), Mitchells Plain (Western Cape) and Waterfall (Gauteng), while the Middelburg (Mpumalanga) store was relocated and the Mokopane (Limpopo) store was redeveloped. New sites have been secured in Limpopo, KwaZulu-Natal, Gauteng and the Western Cape and stores will open on these over the next two years.

In response to sustained strong market demand, the brand will continue to expand its national store network. Departing from traditional policy, management has adopted the approach that in markets which are under-represented by the brand and where opportunities to buy properties are finite, sites will be rented. This pragmatic stance will facilitate greater flexibility and expedite the store roll-out programme.

Kenya

The CTM operation in Kenya continues to trade well and supports management's goal to extend the footprint to five stores by 2019. The network currently comprises two stores, in Nairobi and Mombasa. Three further properties have been secured for the expansion programme.

TopT

Fifteen new stores were opened by the brand during the reporting period, bringing the total network to 50. New stores include Queenstown and East London (Eastern Cape), Seshego, Mokopane and Louis Trichardt (Limpopo), Alberton, Germiston, Bronkhorstspuit and Randfontein (Gauteng), Middelburg, Elukwatini and Nkomazi (Mpumalanga), and Bloemfontein, Ficksburg and Ladybrand (Free State).

This aggressive roll-out was partially assisted by the failure of two large furniture retailers, which resulted in the availability of a number of properties in the brand's target areas: high density trading sites in rural and entry-level markets.

While the strategy for TopT is to rent the bulk of its trading properties, where appropriate opportunities arise in proven markets, sites will be acquired. During the period three properties were acquired in Somerset West and Maitland (Western Cape) and Randfontein (Gauteng).

TopT plans to open 15 stores in the forthcoming financial year, extend its presence in the Free State and establish a footprint in the Western Cape.

Australian investment

The Group's Australian property holding company comprises four retail properties. During the year under review a buyer was identified for the business. It is anticipated that the sale transaction will be concluded during the first half of the new financial year.

Environmental sustainability

Wherever possible the Group's sustainability agenda is promoted by this division in the construction of new buildings and renovation of older buildings. Cost-effective, energy efficient concepts and practices are prioritised throughout the process, from design of buildings which optimise use of natural light to installation of solar technology, new generation lighting and environmentally sensitive building materials.

Priorities and prospects

Current conditions experienced in the property development market will persist for the foreseeable future: the cost of building materials will continue to rise; indicative of the subdued economy, smaller construction companies will remain hampered by cash flow constraints; and bureaucratic and legislative delays in approving plans will continue to impede development.

Flexibility of the property development model will be a key watchword in the forthcoming year, both in terms of store size format, and ownership and/or rental of properties as appropriate.

The Property division's key challenge in the year ahead will be to ensure it is optimally structured in terms of capacity, specialist skills and systems to support and expedite the Group's growth strategy by ensuring uninterrupted momentum of the robust store roll-out plans.

Review of operations continued

Environment and Sustainability report

Overview and performance matrix

Nature of business	Measures, manages and reduces the Group's impact on the environment and promotes its long-term sustainability.
Target audience	The Group's retail operations and Support Services businesses.
Key performance indicators	
Generation of renewable energy and reduction in consumption of all resources	Targets were achieved in generating renewable energy and reducing consumption of resources across the organisation.
Reduction of carbon footprint	Sixth carbon footprint study: decrease of 1,2% in direct CO ₂ emissions per Rand value of turnover (previous study: decrease of 4,8%). Since 2013 there has been a reduction in CO ₂ emissions of 37%.

The Group's environmental and sustainability agenda is centred on continuing to reduce its carbon footprint and developing social investment programmes designed to contribute to the betterment of communities in which the business operates.

During the year under the following achievements were recorded:

Environment

Energy management

Through climate change mitigation and adaptation measures, targets were exceeded in generating renewable energy and reduction of resources across the organisation. The following developments were recorded:

- ◆ Generation of new renewable energy totalled 185kWp, exceeding the annual target of 150kWp; while energy savings of 1 269 915kWh (2015: 624 608kWh) were achieved for the review period;
- ◆ Photovoltaic panels were installed at the Group's ITD Supply Chain business (traditionally a major consumer of energy) and in two stores;
- ◆ Energy efficient technologies and lighting were installed in all new, upgraded and relocated stores and retro-fitted in older stores; and
- ◆ The Private Sector Energy Efficiency organisation undertook an audit of the Group's operations and provided recommendations with regard to solar power, LED lighting and heating/cooling systems in certain of its facilities. The results of this study endorsed management's strategies and programmes, which will continue to be rolled out to other areas of the business.

Water management

While the Group's activities do not consume large volumes of water, ongoing conservation programmes remain a high priority.

The retail brands continued to improve their range of water-saving products and increase communication with employees and customers in-store and online through complementary information and education regarding water-efficient devices and behaviour.

Water-wise social investment

Through its Adopt-a-Plot programme, the Group initiated a water conservation project in conjunction with the community of Boiketlong in Vereeniging to rehabilitate their local river and wetland, establish a water-wise vegetable garden and educate inhabitants regarding sustainable water management.

Once this project has proved its sustainability, the goal is to identify a local resident to champion the initiative over the long-term, thereby promoting community stewardship.

Waste management

This discipline continues to be the subject of research and evaluation. During the year the Group piloted a waste reduction project at the Support Centre in Bryanston, Gauteng.

Knowledge network and stakeholder engagement

Through engagement and collaboration with industry leaders, NPOs, local government and key stakeholders, the Group improved the quality of its sustainability reporting:

- ◆ Italtile responded to the Carbon Disclosure Project ("CDP") for the first time. In order to assess the global carbon budget, the CDP encourages companies to disclose their emissions and impacts on the environment through their supply chain, water disclosure and forestry programmes, and provides decision makers with the information to drive mitigating and remedial action;
- ◆ The Group utilised the Water Risk Filter Tool launched by the WWF to assist in prioritising the water conservation interventions to the high risk areas. It was through this tool that the Boiketlong Adopt-a-Plot project was realised; and
- ◆ Further valuable support and training of the community on the Adopt-a-Plot programme was provided by the Water Research Commission and Wildlife and Environment Society of South Africa.

Priorities and prospects

Continued promotion of sustainability across the Group's operations will remain a key strategic imperative. Goals for the year ahead include:

- ◆ Accelerating the generation of renewable energy across the Group;
- ◆ Measuring and managing waste and determining an optimal waste reduction programme;
- ◆ Further improving sustainability reporting through becoming a first time responder to the CDP, as well as aiming to respond to the Water Disclosure Project; and
- ◆ Successfully concluding the Boiketlong project and identifying similar opportunities to make a meaningful, sustainable difference to local communities.

The Group's seventh carbon footprint study has been commissioned. Over the past six consecutive studies, there has been a notable downward trend in CO₂ emissions; this together with the current programmes in place, signifies further reduction in the Group's footprint in the year ahead.

Social investment

The Group's community investment programmes focus on education, entrepreneurship, welfare, environment and conservation.

The Company is an anchor sponsor of the Soweto Sports Field, a Platinum Partner of the National Sea Rescue Institute, and a sponsor of Sparrow Ministries and the Stop Rhino Poaching organisation.

The corporate social responsibility narrative on page 63 of the Corporate Governance report outlines in detail the charitable activities of the Group during the year.

Human Resources and Training report

Overview and performance matrix

Nature of business	Add value through recruiting and retaining fit-for-purpose personnel. Develop and empower the Group's human capital resource through relevant training and support. Provide an efficient payroll and administration function.
Target audience	Support Centre, franchisees and employees
Key performance indicators	◆ Improved analysis of the personnel matrix in the business ◆ Improved recruitment of fit-for-purpose personnel ◆ Improved engagement with employees across the Group ◆ Developed appropriate skills training, learnerships and competencies: Training interventions (2016/17) – Company programmes: 1 418 (2015: 2 130) – e-Learning modules completed: 1 954 (2015: 99) – Rural learnerships: 6 (2015: 14) – Workplace experience learners: 13 (2015: 12) – Operator Training Programme candidates: 13 (2015: 15) – Retail Academy Programme candidates: 9 (2015: 0)

At the outset of the reporting period, the HR and Training departments identified their primary goal to be to ensure their activities supported the Group's targets in terms of its growth objectives and its overriding strategy to deliver an incomparable customer experience.

The following areas were prioritised: recruitment and retention of fit-for-purpose employees; development of leadership capability and capacity; upgrade of the existing retail-specific knowledge base; and improvement in productivity and performance to achieve retail best practice benchmarks through appropriate training and development programmes.

Review of operations continued

In the year under review, the division recorded the following achievements:

- ◆ The Construction Education and Training Authority formally accredited the Group's Academy for Practical Tiling, Plumbing and Laminate Flooring. The Academy is now compliant with the South African Qualification Authority to provide training and related assessment services against specific unit standards as registered on the National Qualification Framework. In the year under review, 248 candidates (2015: 363 candidates) completed the Academy's course;
- ◆ During the period store managers were exposed to various training initiatives focusing on improving performance and productivity;
- ◆ Twenty candidates from CTM and TopT completed a retail-specific training programme, the Retail Practice Professional Development Programme, conducted by the University of Johannesburg;
- ◆ The CTM Retail Academy Programme was launched in August 2015. Nine candidates completed the course, six of whom now hold store operator positions and the others will be placed in the forthcoming period;
- ◆ CTM's Operator Training Programme ("OTP") is conducted in conjunction with Stellenbosch University's Business School and is designed to develop the Group's pipeline of potential store operators. Eleven candidates graduated in the 2015/16 academic year (2014/15: nine graduates), six of whom are managing stores;
- ◆ Implementation of improved analytical measures enabled better insight into the existing pipeline of talent in the business and identification of relevant skills training and coaching opportunities across the organisation;
- ◆ The introduction of Skills Development Committees specific to each brand and business division assisted in improved assessment of the unique needs of the individual business units and brands and informed future recruitment and training strategies;
- ◆ In 2015 the Group conducted an employee engagement survey designed to develop an understanding of employees' current sentiment and establish a basis and benchmark against which to track year-on-year improvements. During the reporting period a subsequent survey was conducted, which reflected an improvement on the prior year's good results. The percentage achieved accords the Group "top company status – representative of an organisation that is striving to be world class, with motivational levels which will facilitate growth and change"; and
- ◆ In the prior year the Group introduced rural learnerships and workplace experience for learners in the various business units and retail brand operations. In this, the second year of the initiative, six candidates completed the CTM programme and have been placed in positions in the organisation. Continued investment will be made in this project, which is structured to develop a potential resource from which to recruit future employees.

Priorities and prospects

Aligned to the Group's current and anticipated future growth, the HR and Training departments will be required to ensure that the Group's fit-for-purpose personnel complement is appropriately recruited, trained, empowered, incentivised and retained, to keep pace with the business's staffing needs.

In the year ahead, investment will be made in better use of technology in training, including mobile technology. The aim is to encourage interactive learning as opposed to classroom-based education, more relevant to contemporary learners. e-Learning initiatives will be particularly suitable for training TopT staff in stores in outlying areas and those with a small staff complement.

The Group has prioritised improved compliance with revised BBBEE legislation. Significant opportunities to conform with the new scorecard are afforded by appropriate recruitment and training, and in this regard, the division has budgeted for increased investment in rural learnerships, and has contracted a specialist provider to assist with recruitment of disabled individuals.

Outlook

Prevailing economic and socio-political conditions are unlikely to improve materially in the forthcoming year. In this context, consumers will continue to allocate their discretionary spend cautiously, seeking out optimal value offerings. While the home improvement segment of the construction industry is expected to continue to grow, forecasts for increased new-build activity are less positive. Furthermore, competition in the market will intensify, as participants strive to retain and gain market share.

Faced with these trading conditions, management is emphatic that to sustain results at current levels, opportunities for growth must be realised within the business.

In this regard, the following priorities have been identified:

- ◆ Ensure that the business is steeped in the principles of retail excellence as a standard throughout the organisation. This includes continuing to entrench BOP; enhance training and recruitment practices; better measurement of trading intelligence; and management of performance in the drive to deliver a peerless offering to customers;
- ◆ Continue to expand the Group's store network, including opening 15 TopT stores in the year ahead, and additional CTM and Italtile stores in the following year;
- ◆ Capitalise on opportunities to gain market share from imported product through Gryphon's glazed porcelain tile ranges;
- ◆ Leverage growth levers in the Supply Chain, in particular improving logistics and distribution;
- ◆ Continue to invest in information technology and e-commerce to keep abreast of opportunities in that rapidly changing environment; and
- ◆ Assuming the Group's successful conclusion of the acquisition of Ceramic Industries, integrate the IT platform of that business and the Ezee Tile operation as seamlessly as possible into its own.

Appreciation

In order to grow the business in the current trading environment demands were placed on the people of Italtile to raise their game even higher, to employ their ingenuity, energy and unwavering commitment to accomplish the stretch goals set and attain the benchmarks laid down.

It is a credit to the entire team that the Group succeeding in gaining market share and delivering results they can be proud of in a highly competitive market. They are to be congratulated on their efforts.

The year ahead will present new challenges and tougher targets, but it is without doubt that the people of Italtile have the resilience and resourcefulness to triumph.



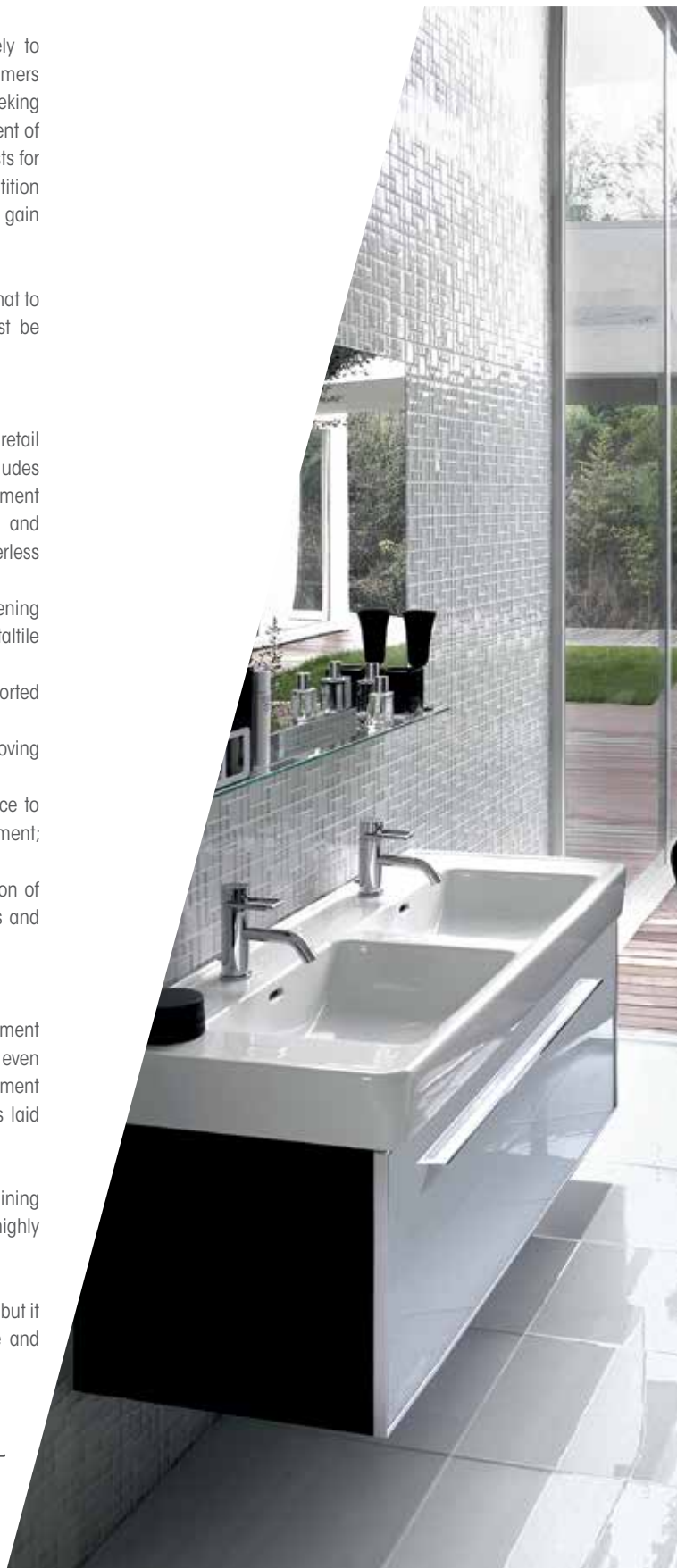
N Booth
Chief Executive
Officer



J N Potgieter
Chief Operating
Officer



B G Wood
Chief Financial
Officer



Strategic imperatives and material risks



ENTERPRISE AND ECONOMIC

Stakeholders: shareholders, franchisees, employees, customers, suppliers and business partners

Strategic focus	2016	2017 focus and targets
Enterprise Risk Management	◆ The Group's Enterprise Risk Management ("ERM") is overseen by the Board of directors and is centred on managing the activities of the business to minimise the effects of risk on the Group's capital and earnings. The ERM programme serves to ensure that the risks are adequately addressed through: – specifying the sources of assurance over the Group's risks; – linking risk management and assurance activities, which facilitates review of risk management effectiveness; and – providing a basis for identifying assurance gaps. ◆ The ERM structure is based on a combined assurance model comprising three components: – management (divisional and executive directors); – external auditors ("EY"); and – Support Centre oversight (including the internal audit function). ◆ The Group's flat reporting structures continued to facilitate transparent communication and oversight in the business. ◆ Throughout the year, management conducted regular regional and divisional meetings. The executive directors paid frequent visits to stores and Supply Chain partners; embraced regular communication with and motivation of staff; and continued to foster a culture of partnership and empowerment. ◆ The external audit function focused on addressing perceived audit risk related to presented financial information and internal controls. ◆ The Group's accounting, operational and HR functions are largely centralised at the Support Centre, which facilitates effective oversight of operations and results. The internal audit function continued to focus primarily on the assessed risks of inventory and cash management and identifying possible obstacles to achieving key targets. ◆ The Group's 'Be Heard' anonymous tip-off hotline is a useful mechanism to enable staff to report suspected fraud or any other improper workplace practices.	◆ The Group has a consistent track record of unmodified audit reports, and by enforcing a robust control environment, will maintain that status. ◆ Management's focus on best practice benchmarks and hands-on approach will continue to ensure attention is centred on safeguarding assets and compliance with relevant policies. ◆ Support Centre oversight will continue to be enhanced through improvements that ensure consistent business practices instore. The internal audit function will continue to grow with the business and will play an increasingly important role.
Market risk and financial viability	◆ The Group's well-established business model, underpinned by its integrated Supply Chain and strong balance sheet, ensured continued stability, consistency and profitability despite the current uncertain economic climate. ◆ Notwithstanding testing trading conditions, the Group increased system-wide turnover by 14% and trading profit by 16%. ◆ Market share grew across the retail operations (all three brands and most merchandise categories) and the Supply Chain businesses. This achievement was enabled by the Group's unwavering strategy to deliver the right stock at the right time, place and price, together with an uncompromising focus on quality.	◆ Preventing potential loss of revenue, market share and future growth is an overriding strategic imperative and a key management focus. ◆ Continued growth and market share gain will be achieved through implementing ongoing improvements across the business and Supply Chain, and optimising on opportunities in the industry.



ENTERPRISE AND ECONOMIC (continued)

Stakeholders: shareholders, franchisees, employees, customers, suppliers and business partners

Strategic focus	2016	2017 focus and targets
Reliance on key suppliers	◆ The Group is reliant on its key suppliers, Ceramic Industries (tiles, baths and sanitaryware) and Ezee Tile (adhesive and grout), and its growth targets are dependent on Ceramic Industries meeting its demand in terms of volume, pricing and quality. In order to strengthen these relationships, the Group holds a 20% strategic stake in Ceramic Industries and an effective 46% stake in Ezee Tile. ◆ The Group's requirements continued to be met efficiently by these suppliers during the review period.	◆ The Group has made an offer to acquire up to a further 73,5% stake in Ceramic Industries. A further consequence of this transaction will be the transferral of Ceramic Industries' 22,95% stake in Ezee Tile to the Group, increasing its total effective holding in Ezee Tile to 68,95%. ◆ The Group's relationships with its key suppliers will continue to be managed rigorously to ensure requirements are consistently executed. Primary focus areas will include projection planning, ongoing monitoring, and preparation to facilitate increased supply capacity if required. ◆ In the unlikely event of inadequate product supply from Ceramic Industries and Ezee Tile, the Group could source alternative supply from other local vendors.
Supply Chain Management (optimum procurement and prevention of capacity constraints and supply disruption)	◆ The Supply Chain underpins the Group's capacity and capability to procure, store, supply and distribute stock to the retail operation. ◆ Efficient functioning of the Supply Chain is critical to meet the Group's growth targets (this centres on the Group's policy of 'right product at the right place, time and price'). ◆ In the context of continued currency and market volatility, vital support was provided by the Supply Chain to the retail operations through competitive pricing and consistent availability of quality fashionable merchandise. ◆ Improvements made in the automated ordering process and model stock matrixes served to increase stock turn across the Group and enhance the efficacy of the Supply Chain. ◆ The Group's Distribution Centres provided seamless supply during the year. ◆ A disaster management plan is in place to enable the Group to withstand interruption of operations due to difficulties encountered by product suppliers and transporters (road and sea), labour disruptions, and warehouse storage constraints.	◆ Long-standing, collaborative relationships with well-established local and international product suppliers and transporters will remain essential to ensuring continuous supply and mitigating the impact of currency fluctuations. ◆ Growth opportunities are afforded by optimising functionality in the Supply Chain. Accordingly, all areas of the stock management discipline will be a core focus in the year ahead. ◆ By maintaining model-stock inventory levels the Group will mitigate any short-term disruption to supply. ◆ While the Distribution Centres in Durban and Cape Town currently provide optimum warehousing capacity, additional space could be sourced without difficulty. Furthermore, additional land has been acquired for future expansion of the Distribution Centre operation, if required.

Strategic imperatives and material risks continued



ENTERPRISE AND ECONOMIC (continued)

Stakeholders: shareholders, franchisees, employees, customers, suppliers and business partners

Strategic focus	2016	2017 focus and targets
Market share and fashion leadership	◆ Remaining fashionable is the Group's single biggest challenge, and has significant influence on the market share the business enjoys. ◆ In the intensely competitive, trend-driven home improvement environment, the Group holds sizeable market share, and is regarded as an industry leader. This reputation is based on its high quality, fashionable offering that keeps pace with international vogue but is cognisant of local price sensitivity. Management is constantly mindful that to retain this status the Group's brands must remain contemporary and relevant to consumers, be well presented at all times, and offer a positioning that is distinct from competitor brands. ◆ To entrench its reputation as a fashion icon the business employs a range of practices: – conducts continuous, comprehensive consumer and peer research; – employs experienced, skilled brand and divisional managers and dedicated buyers who specialise in key products and areas; – ensures regular attendance at international industry trade shows; – holds regular regional meetings to obtain insight into markets and product feedback; – monitors and adjusts costs and pricing as appropriate; – implements opportunities to expand distribution channels; – constantly refreshes store displays and trading space; and – shares best practice principles across the Group. ◆ During the review period a new inventory provisioning process was implemented in the stores to ensure improved product life cycles. This initiative will make an important contribution to increasing stock turn and enhancing responsiveness to evolving fashion trends.	◆ Management's primary objective will be to ensure that the Group's brands retain their aspirational status among consumers by continuing to deliver an offering that meets customer demand. This will be achieved through: – formal, structured product research aimed at improving responsiveness; – regular strategy sessions across the Group to communicate fashion trends, product innovation, merchandise and store improvements, market analysis, and opportunities for growth; – the Business Optimisation Programme implemented across the Group will improve product lifecycles, thereby ensuring constant fashion sensitivity; and – optimal range/pricing structures will remain a priority.
International competitiveness	◆ Inspired by global offerings, local consumers continue to demonstrate increasingly sophisticated demands in terms of fashionable merchandise, in-store service and technology innovation. The Group is mindful that successfully catering for these expectations provides a significant competitive advantage, and accordingly strives to deliver a contemporary, aspirational offering through ongoing range improvements, keen pricing, technology enhancement and use of new business channels (e-commerce and social media).	◆ The Group's stated intent is to be a world-class, low-cost retailer through alignment of customer satisfaction and profitability. By providing an unparalleled shopping experience and implementing best practice business principles across its operations, the Group will continue to advance its achievement of this goal.
Foreign currency management	◆ Approximately 20% of the Group's merchandise range is imported, and consequently, the business is subjected to fluctuations in the local currency and volatility of international markets. Management of foreign currency exposure remained a key priority and, wherever possible, risk was mitigated.	◆ Company risk management policy dictates that foreign currency fluctuations will continue to be managed judiciously and all foreign liabilities will be matched with forward exchange contracts on confirmation of order.



ENTERPRISE AND ECONOMIC (continued)

Stakeholders: shareholders, franchisees, employees, customers, suppliers and business partners

Strategic focus	2016	2017 focus and targets
Computer-based business processes	◆ The IT environment affords significant opportunities to grow the business and enhance customer service. ◆ The Group's BOP is underpinned by SAP functionality, and during the period further optimisation of SAP systems played a critical role in aligning the Supply Chain and retail operation more effectively, contributing to increased efficiencies in the business and improved customer satisfaction. ◆ External penetration of the Group's networks is recognised as a key risk to the business. The Group employs a range of mechanisms, policies and procedures to prevent hostile penetration. These interventions are reviewed and updated on a regular basis. During the period, payment card industry ("PCI") and protection of personal information ("POPI") compliance projects were commenced, entailing gap analyses to assess risks and identity mitigation plans. ◆ The business maintained its minimal downtime track record in the year under review.	◆ Opportunities to improve SAP functionality and optimise technology in the retail operations and Supply Chain will continue to be capitalised on. ◆ Uninterrupted operation of the Group's IT infrastructure is critical to the business, therefore the Group's disaster recovery plan is constantly appraised and modified as circumstances demand. ◆ Security of the Group's network is paramount to its operations. In the forthcoming months, the PCI and POPI compliance projects will be concluded. Where appropriate, the results of these interventions will be incorporated into new policies and action plans to warrant that potential risks are further minimised, and to ensure compliance with the POPI Act when it comes into effect. ◆ Management of potential downtime, external network penetration and system failure risk will remain a key priority.
Electricity supply	◆ While electricity supply normalised during the period, the Group is prepared for load shedding should it recur. Generators, inverters and UPS technology have been installed in the data centres and large stores, and the stores are equipped to trade manually if necessary. In addition, most of the store buildings are designed to optimise on natural daylight to enable uninterrupted shopping. ◆ The Group's key local supplier, Ceramic Industries, has worked closely with Eskom to limit supply constraints, and where possible, builds up inventory volumes to satisfy customer demands.	◆ The occurrence of load shedding reduced substantially, but the situation will continue to be closely monitored by management.
Liquidity, cash reserves and treasury	◆ The Group's cash reserves continued to exceed operational requirements. Intensive cost containment and cash flow management contributed to this position, supported by the strong cash generating nature of the business. ◆ The Group has in place an effective treasury policy designed to anticipate and mitigate potential major treasury risks, including: – sub-standard investment returns; – inadequate liquidity of investments to meet commitments; and – institutional/commercial risk relating to funds into which investments are made.	◆ Capital management and containment of costs and overheads will remain key priorities in the forthcoming year. ◆ The treasury policy serves the Group well and will continue to attenuate risks linked to investments.

Strategic imperatives and material risks continued



ENTERPRISE AND ECONOMIC (continued)

Stakeholders: shareholders, franchisees, employees, customers, suppliers and business partners

Strategic focus	2016	2017 focus and targets
Credit management	◆ Exposure to consumer credit risk was negligible due to the retail operations' cash-centric model. ◆ The limited consumer credit facility which the Group does offer, is outsourced through RCS, an independent financial services business specialising in credit products. Italtile and CTM also offer a trade credit facility that is managed and insured by an outsourced specialist debtors' solutions company. Credit applications and credit management continued to be intensively monitored and well administered.	◆ In the current economic climate, credit applications and management thereof will remain a priority focus area.
Brand reputation	◆ The Group's long-standing Italtile Retail and CTM brands are respectively 47 and 33 years old, and they, and all other Group brands, are pivotal to the business model and the Company's profitability. Accordingly, reputation management of all these brands is a major priority, conducted through continuous review and brand-enhancing activities. ◆ Potential areas of reputational risk include: poor customer service; loss of identity and lack of clear brand positioning; poor presentation; inferior product quality and unrealistic pricing; inadequate staff management; negative environmental impact; non-compliance with legislation and standards (health and safety/employment equity, etc.); and inappropriate behaviour by franchises (non-adherence to values/policies). ◆ Each of these risk areas was closely monitored and mitigated through the following mechanisms: – Dedicated, hands-on brand managers who have extensive relevant experience in their market and merchandise segments; – Continuous sharing of best practice principles across the Group; – Ongoing training for staff on service and products; – Unethical behaviour is addressed timeously and appropriately by management; – Ongoing internal audit of all stores; – Whistle-blowing facility for staff; – Employee engagement surveys; – A mystery-shopper programme to monitor levels of service; – A clearly defined customer care and customer complaints process; – Implementation of an employment equity policy; – Employment of an environmental officer and implementation of an environmental sustainability programme; – Involvement of the services of a Health and Safety expert; and – Various corporate social investment initiatives aimed at building community relationships.	◆ The Group's three retail brands each have customised strategies in place that focus on growth opportunities for the respective brands and maintaining the good reputation they enjoy in the market.



ENTERPRISE AND ECONOMIC (continued)

Stakeholders: shareholders, franchisees, employees, customers, suppliers and business partners

Strategic focus	2016	2017 focus and targets
Property investment portfolio	◆ The Property division manages this strategic portfolio of well-maintained branded stores situated on highly visible, accessible sites. The stores are designed to afford customers an optimal shopping experience in an aesthetically pleasing environment, and they contribute significantly to the competitive advantage of the Group's retail operation. ◆ The portfolio has an estimated market value of R2,4 billion (2015: R2,0 billion) and returns are in line with those of the retail operation.	◆ The portfolio and the marketplace are analysed on an ongoing basis to ensure that risk is minimised and potential investment opportunities realised. The Property division's primary goal is to continuously improve the quality of its investment properties to support the retail operations in delivering the required rate of return.
Preservation of the organisational philosophy and structure	◆ Empowerment, partnership, entrepreneurship and autonomy are central pillars of the Group's business model and philosophy. Individual business units continued to be managed and operated independently within the broader Group structure, facilitating development of management experience and expertise across the organisation. ◆ Management endeavour to entrench the Group's core values by enacting and sharing them on a daily basis.	◆ The Group's organisational structure and culture will be maintained through mentorship, empowerment, encouraging transparent communication facilitated by flat reporting lines, and ensuring best practice leadership development.
Succession planning	◆ The Group endeavours to comply with relevant King legislation in terms of its Board composition. ◆ Ongoing recruitment, training and leadership development has substantially enhanced the depth of management in the Group.	◆ The Group's succession plan is based on ensuring that each key management position has cover, which includes a successor in both the short term and long term. ◆ Attracting, developing and retaining quality personnel will remain a key focus, with mentorship and leadership programmes prioritised.
Leadership development	◆ The executive directors conduct a management mentorship programme through which the values and ethics of the business are instilled across the organisation. This initiative complements the other formal leadership development programmes discussed under Training in this report. ◆ Divisional management and the executive directors are closely involved in the day-to-day operations of the business and regular regional meetings and other interactions are held. This flat reporting structure and management's open-door policy plays an important role in fostering mentorship.	◆ In order to achieve its growth targets, the Group will continue to commit significant resources to developing leaders with extensive experience and expertise to build the business.

Strategic imperatives and material risks continued



SOCIAL

Stakeholders: franchisees, employees, customers, government and the community

Strategic focus	2016	2017 focus and targets
Recruitment and retention	◆ The Group's staff complement including franchised stores is: 2 064 (2015: 1 719). ◆ The retail industry features a highly competitive labour market due to a wide-scale shortage of skills and experience. In this environment, the Group continued to strive to be an employer of choice through competitive remuneration and reward strategies, career development programmes, and opportunities for empowerment and entrepreneurship (including franchise and joint venture partnerships). ◆ During the period the Group conducted its second employee engagement survey which reflected a further improvement in sentiment on the prior year's pleasing results. ◆ The Group has in place a Staff Share Incentive Scheme aimed at promoting partnership in the business. Participants in the scheme benefit directly from growth in the Group's sales and profitability, thereby incentivising staff to contribute to the success of the business. At 30 June 2016 15,3 million shares (2015: 14,5 million shares) were held by eligible staff members.	◆ The Group has a culture of developing and promoting from within; this will be augmented through recruitment of fit-for-purpose individuals to fast-track the skills resources required to achieve the business's growth targets. ◆ Continued improvements in training will enhance motivation and empowerment of employees, which will have a positive impact on retention. Leadership development is a key component of the training agenda. ◆ Empowerment and entrepreneurship are central to the Group's ethos, and are significant employee retention mechanisms. This culture will continue to be facilitated through a range of means, including ownership opportunities. ◆ The Group's profit and share schemes will remain key staff incentives. In terms of the Staff Share Incentive Scheme, a further allocation of shares will be made to qualifying staff members who achieved three years of service on 31 August 2016. ◆ Employee engagement surveys will continue to be conducted and reviewed by Group management to assess the organisational climate.
Training	◆ Management's primary goals in the review period were to: – implement a more structured approach in supporting the business as the Group evolves and grows; – instil greater retail-specific focus in training and development programmes; and – continue to build leadership capability and capacity through a range of initiatives. Good progress was achieved in this regard in the review period: – Total number of people interventions undertaken: 1 418 – Total number of e-learning modules completed: 1 954 – The CTM Retail Academy Programme was launched in August 2015 with nine candidates, all of whom have been, or will be, placed in store operator positions. – CTM's Operator Training Programme ('OTP'), conducted in conjunction with Stellenbosch University's Business School, produced 11 graduates (2015: nine graduates), six of whom are managing stores. – The Construction Education and Training Authority formally accredited the Group's Academy for Practical Tiling, Plumbing and Laminate Flooring. The academy is now South African Qualification Authority-compliant to provide training and related assessment services against specific unit standards as registered on the National Qualification Framework. During the period 248 candidates (2015: 363 candidates) completed the academy's course.	◆ The goals for the year ahead are to: – continue to be recognised as an employer of choice; – improve on gap analysis exercises to assess the business's personnel requirements; – build on the existing pipeline of talent to support the Group's growth agenda; – grow leadership capability and capacity through the Group's Career Advancement Training mechanisms, including the OTP initiative and Retail Academy Programme; and – invest in technology to improve relevance of training (through e-learning, mobile applications, etc.). ◆ Knowledge-sharing across the Group will continue to be fostered through formal training courses, regular regional meetings and other interactions, and close involvement of divisional managers and executive directors. ◆ The Group's training spend is significant and will remain a key budget item in the year ahead.

**SOCIAL (continued)**

Stakeholders: franchisees, employees, customers, government and the community

Strategic focus	2016	2017 focus and targets
Transformation	◆ The Group has an employment equity plan in place and annually submits its report to the Department of Labour. Employment equity targets were attained at all levels except top-level management. ◆ A Staff Share Incentive Scheme has been introduced and all employees with three or more years of service participate in this scheme. Eighty percent of the employees in this scheme are designated as employment equity candidates.	◆ Achievement of employment equity targets will remain a priority.
BEE rating	◆ Despite management's best efforts, the Group was penalised by priority elements, and accordingly, did not comply with certain criteria of the new scorecard. The Group achieved a non-compliant BBBEE contributor status according to the new scorecard (2015: Level 5 according to the previous scorecard). During the period, management identified measures and initiatives to improve compliance with the new scorecard.	◆ The BBBEE contributor status target for the year ahead is Level 8 (new scorecard). Management has strategised an approach to improve compliance with the new legislation, through, among other means, training and recruitment, and supplier and enterprise development. Immediate-term goals are to increase the scale of the Group's rural learnerships and workplace experience programmes; the Group has also contracted a specialist provider to assist with the recruitment of disabled individuals.

**ENVIRONMENTAL**

Stakeholders: shareholders, franchisees, employees, suppliers and business partners, customers and the community

Strategic focus	2016	2017 focus and targets
Resource consumption and reduction	◆ A customised policy is in place for each of the three retail brands regarding preservation of natural resources, and is managed within the Group-wide sustainability agenda.	◆ The Group will continue to target an annual water and energy consumption saving.
Water	◆ The Group's water conservation programme comprises an internal and external focus: – In-store and online, the Group sells a wide range of water-saving products, and provides complimentary information and education regarding water-saving products and behaviour. – The Group has initiated a water conservation project in conjunction with the community of Boiketlong in Vereeniging to rehabilitate the local river and wetland, establish a water-wise vegetable garden and educate inhabitants on sustainable water management.	◆ Management recognises that water shortages are likely to become a significant problem in this country, and accordingly, a risk management strategy is in place outlining contingency measures to ensure stores have access to water to operate efficiently. ◆ Once the Boiketlong project has proved its sustainability, the goal is to identify a local community inhabitant to champion the initiative over the long term.

Strategic imperatives and material risks continued



ENVIRONMENTAL (continued)

Stakeholders: shareholders, franchisees, employees, suppliers and business partners, customers and the community

Strategic focus	2016	2017 focus and targets
Energy	– The goal of generating 150 kilowatts of renewable energy was achieved through increased use of solar power across the business. Photovoltaic ('PV') solar panels (which produce 40% of each store's energy requirements) were installed in two stores and at the ITD warehouse. – Reduction in energy consumption was achieved through retro-fitting new efficient lighting and heating/cooling systems in some of the Group's older stores, and improved buy-in and behaviour change of employees in the organisation. – Independent metering equipment installed at stores experiencing inaccurate billing continued to improve management of energy consumption.	◆ The Group will continue to strive to achieve targets for generating renewable energy and reducing consumption as set out in the five-year energy management plan. ◆ Where feasible, PV systems will continue to be rolled out across additional stores nationwide in the forthcoming year. ◆ Energy efficient technologies and lighting will be implemented in all new, upgraded and relocated stores, and rolled out to the Group's older stores lacking this technology.
Waste minimisation	◆ The Group has in place a five-year plan targeting reduction in waste for recycling and waste to landfill by all stores. During the review period the Support Centre in Bryanston, Gauteng, piloted a waste minimisation programme.	◆ The Group's long-term goal is to continuously reduce waste to landfill. This will be achieved by re-using packaging materials where possible within the Group and throughout the Supply Chain.
Carbon footprint	◆ The Group's sixth carbon footprint study confirmed a decrease of 1,2% (FY2015: 4,8% decrease) in direct CO₂ emissions per Rand value of turnover.	◆ The Group's seventh carbon footprint study (FY2017) has been commissioned. Given the consistent downward trend to date, combined with recent initiatives implemented, it is anticipated that a further reduction in the Group's direct CO₂ emissions will be achieved.



GOVERNANCE AND REGULATORY ENVIRONMENT

Stakeholders: government, regulators, shareholders, franchisees, employees, customers, suppliers and business partners

Strategic focus	2016	2017 focus and targets
Compliance with legislation and regulations	◆ The Group's primary strategic imperative is to ensure long-term sustainability of the business, and management is mindful that adherence to good corporate governance practices across its operations will advance this goal. Accordingly, the Group strives to comply with the Companies Act, JSE Listings Requirements, the King Code, BBBEE, employment equity and labour legislation, the Competition Act, the Consumer Protection Act and all relevant tax legislation.	◆ The Group will continue to engage appropriate professionals and legal advisers as required. ◆ Pertinent seminars and training related to legislative and other updates will be attended by management. ◆ The internal audit function will continue to perform limited reviews with regard to compliance with basic legislation. ◆ The external auditors will continue to conduct key legislative reviews and support management in ensuring compliance.

Group review

for the year ended 30 June 2016

(All amounts in Rm's)		Seven-year compound growth %	2016	2015	2014	2013	2012	2011	2010
Operations									
Turnover	15		3 539	3 115	2 745	2 141	1 845	1 521	1 354
Trading profit	16		1 047	905	740	612	523	448	389
Profit before taxation	18		1 166	978	760	632	550	469	404
Profit attributable to equity holders of the parent	18		813	700	509	444	378	321	273
Headline earnings	18		804	661	530	436	377	319	274
Ordinary dividends paid	13		252	204	157	141	119	101	88
Financial position									
Non-current assets			2 309	2 023	1 856	1 858	1 223	1 070	991
Current assets			1 365	1 079	857	793	1 400	1 226	1 075
Equity attributable to equity holders of the parent			3 292	2 672	2 179	2 247	1 931	1 637	1 422
Non-current liabilities			18	44	12	53	323	327	344
Current liabilities			384	324	471	293	292	262	239
Cash flow									
Cash flows from/(utilised by) operating activities			306	443	(127)	376	226	254	(283)
Cash flows utilised in investing activities			(358)	(175)	(50)	(694)	(148)	(107)	(72)
Cash flows from/(utilised by) financing activities			7	(125)	123	(296)	—	(19)	399
Cash and cash equivalents at end of year			347	392	249	303	917	839	711

Group review continued

for the year ended 30 June 2016

		Seven-year compound growth %	2016	2015	2014	2013	2012	2011	2010
Financial ratios									
Returns									
Trading profit to turnover (%)			29,6	29,1	27	28,6	28,3	29,5	28,7
Return on shareholders' interest (%) ⁽¹⁾			27,3	28,9	23	21,2	21,2	21	20
Average consumer price index (%) [†]			5,6	5,1	6,0	5,5	5,5	5,0	4,2
Earnings per share (cents)	15		87,8	75,9	55,3	48,3	41,1	34,9	33,0
Headline earnings per share (cents)	15		86,9	71,6	57,6	47,4	41,0	34,7	33,1
Ordinary dividends declared per share (cents)	15		29,0	25,0	19,0	16,0	14,0	12,0	11,0
Special dividend declared per share (cents)			—	—	—	50,0	—	—	60,0
Productivity									
Turnover per employee (R000's)			2 836	3 258	2 977	2 799	2 701	2 498	2 375
Total assets per employee (R000's)			3 037	3 245	2 943	3 465	3 840	3 770	3 625
Trading profit per employee (R000's)			839	947	803	800	766	736	682
Turnover growth (%)			13,6	13,8	28,2	16,0	21,3	12,3	3,9
Number of employees			1 248	956	922	765	683	609	570
Number of stores			146	126	115	116	112	108	104
– Owned [#]			72	55	55	54	50	47	47
– Franchised			74	71	60	62	62	61	57
Solvency and liquidity									
Interest cover (times) ⁽²⁾			523,5	150,8	37	36	21,8	18,7	14,4
Dividend cover (times) ⁽³⁾			3	3	3	3	3	3	3
Gearing ratio (%) ⁽⁴⁾			0,1	1,1	7,6	2	17,7	20,2	24,1
Current ratio (times) ⁽⁵⁾			3,6	3,3	1,8	2,7	4,8	4,7	4,5
Acid test ratio (times) ⁽⁶⁾			1,8	1,9	1,0	1,6	3,6	3,8	3,6

⁽¹⁾ Return on shareholders' interest: Profit attributable to equity holders of the parent as a percentage of average equity attributable to equity holders of the parent.

[†] As per Statistics South Africa.

[#] Includes web stores.

⁽²⁾ Interest cover: Trading profit divided by finance cost.

⁽³⁾ Dividend cover: Headline earnings per share divided by dividends declared per share (excluding special dividends).

⁽⁴⁾ Gearing ratio: Interest-bearing loans and borrowings as a percentage of equity attributable to equity holders of the parent.

⁽⁵⁾ Current ratio: Current assets divided by current liabilities.

⁽⁶⁾ Acid test ratio: Current assets, less inventory, divided by current liabilities.

		Seven-year compound growth %	2016	2015	2014	2013	2012	2011	2010
Financial ratios <i>(continued)</i>									
Stock exchange performance									
Market capitalisation* (Rm's)	29		12 673	10 707	7 875	5 514	5 147	4 094	3 316
Closing share price at year end (cents)	26		1 370	1 160	855	600	560	445	360
Market value per share									
– High (cents)			1 370	1 325	860	665	570	465	465
– Low (cents)			1 035	835	590	550	410	340	260
Closing share price to net asset value per share			3,78	3,92	3,53	2,4	2,57	2,39	2,88
Price-earnings ratio (times)			15,62	15,28	15,46	12,42	13,63	12,75	10,9
Dividend yield (%)			2,2	2,2	2,2	2,7	2,5	2,7	3,0
Earnings yield (%)			6,4	6,5	6,5	8,1	7,3	7,8	9,2
Number of shares in issue (millions)*			926	924	921	921	919	920	921
Volume of shares traded (millions)			70	70	20	50	25	34	32
Value of shares traded (R000's)			843 529	763 680	147 964	304 481	115 085	128 853	111 034
Volume of shares traded as a % of total issued shares*			7,6	7,6	2,2	5,4	2,4	3,2	3,4

* Excluding treasury shares.

GOVERNANCE

Italtile recognises that maintaining high ethical standards is essential to the long-term economic success of the business. The Group believes in integrity and transparency, hands-on involvement, partnerships to promote entrepreneurial spirit and passion for customer service.

Corporate governance

Overview

Italtile is committed to applying, in all material respects, the principles contained in the King report on Governance for South Africa, 2009 ("King III"), which became effective on 1 March 2010, as well as the additional requirements for good corporate governance stipulated in the JSE SRI index.

King III

The JSE Listings Requirements require all JSE-listed companies to provide a narrative of how they have applied the recommendations contained in King III, in respect of financial years commencing on or after the effective date.

Ongoing measurements and reviews are conducted to ensure continued compliance with the implications of King III by the Group.

Overall application and compliance with King III

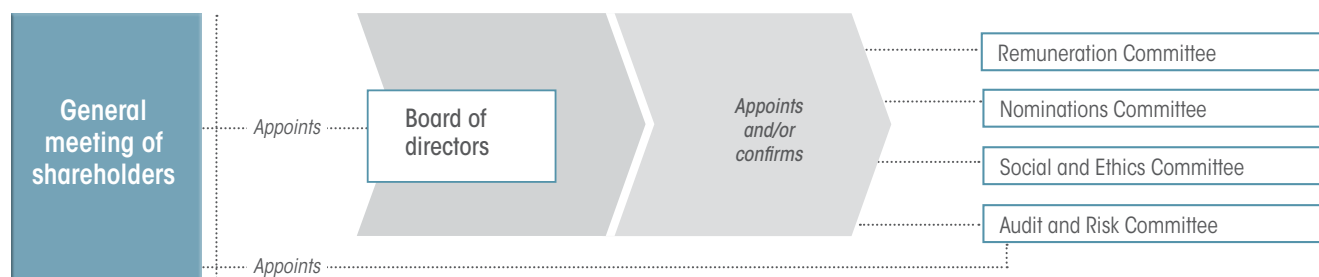
Italtile accepts the obligation to apply the practices prescribed by King III and has resolved as a business philosophy to adopt and pursue the same. It therefore strives to meet those objectives in accordance with the content of the table below.

The Group subscribes to the Institute of Directors' Governance Assessment Instrument ("IoDSA GAI"). The following report on the application of King III is extracted from that tool, and the full report on all 75 principles of King III is included on the Italtile website, www.italtile.com.

King III Governance Register at 30 June 2016

AAA	Highest application	AA	High application	BB	Notable application	B	Moderate application	C	Application to be improved	L	Low application
Italtile Limited – 1955/000558/06						IoDSA GAI		Applied/partially applied/not applied			
+ Chapter 1: Ethical leadership and corporate citizenship						AAA		Applied			
+ Chapter 2: Boards and directors						AAA		Applied			
+ Chapter 3: Audit committees						AAA		Applied			
+ Chapter 4: The governance of risk						AAA		Applied			
+ Chapter 5: The governance of information technology						AAA		Applied			
+ Chapter 6: Compliance with laws, rules, codes and standards						AAA		Applied			
+ Chapter 7: Internal audit						AAA		Applied			
+ Chapter 8: Governing stakeholder relationships						AAA		Applied			
+ Chapter 9: Integrated reporting and disclosure						AAA		Applied			
Overall score						AAA					

Corporate governance continued



Board of directors

A formal Board charter, as recommended by King III, has been adopted. The charter includes a code of ethics to which all directors subscribe. Procedures exist in terms of which unethical business practices can be brought to the attention of the Board by directors.

Composition of the Board

The Board comprises three executive directors, a non-executive Chairman and five non-executive directors of which four are independent.

The directors are individuals of a high calibre with diverse backgrounds and expertise, facilitating independent judgement and broad deliberations in the decision-making process.

Classification of directors

The basis on which directors have been classified in terms of their independence in this report, is as follows:

- ◆ Executive directors are involved in the management of Italtile and/or its subsidiaries and are employed in a full-time capacity by Italtile.
- ◆ Non-executive directors are those who have been nominated by a shareholder owning more than 20% of the Group, or who were in the employ of the Group in the preceding financial year and non-executive directors are not involved in day-to-day management and are not in full-time salaried employment of Italtile and/or its subsidiaries.
- ◆ Independent non-executive directors are all other directors irrespective of the period during which they have been members of the Board and as defined in the King Code and JSE Listings Requirements.

No director has an automatic right to a position on the Board. All directors are required to be elected by the shareholders at an annual general meeting on a rotational basis.

Board responsibilities

The Board is responsible to shareholders for the conduct of the business of the Italtile Group, which includes providing Italtile with clear strategic direction. The schedule of matters reviewed by the Board includes:

- ◆ Approval of the Group's strategy and annual budget;
- ◆ Overseeing Group operational performance and management;
- ◆ Ensuring that there is adequate succession planning at senior levels;
- ◆ Overseeing director selection, orientation and evaluation;
- ◆ Approval of major capital expenditure or disposals, material contracts, material acquisitions and developments;

- ◆ Reviewing the terms of reference of Board Committees;
- ◆ Determining policies and processes which seek to ensure the integrity of the Group's risk management and internal controls;
- ◆ Maintaining and monitoring the Group's systems of internal control and risk management;
- ◆ Communication with shareholders, including approval of all circulars, prospectuses and major public announcements;
- ◆ Approval of the interim statement and Integrated Annual Report and accounts (including the review of critical accounting policies and accounting judgements and an assessment of the Company's position and prospects); and
- ◆ Approval of dividends.

The Board retains full and effective control over the business of Italtile. The Board has defined levels of materiality through a written delegation of authority, which sets out decisions the Board wishes to reserve for itself. The delegation is regularly reviewed and monitored.

Division of responsibility

The Company conducts an annual evaluation of its Board, Board Committees and individual directors, and is confident that there is an appropriate balance of power and authority on the Board to ensure that no one director has unfettered powers of decision making.

The division of responsibilities maintains a balance of power and authority on the Board.

Term of office

The three executive directors have a fixed term of employment. In accordance with the Company's Memorandum of Incorporation, all non-executive directors are subject to retirement by rotation and re-election by shareholders at least every three years.

If requested to serve a further term, those retiring directors may offer themselves for re-election by shareholders. Any director appointed during the year must retire at the annual general meeting held immediately after his or her appointment.

Board meetings

The Board meets at least every quarter or more frequently if circumstances require. At the meetings, the Board considers both financial and non-financial qualitative information that might have an impact on the Group's stakeholders. Prior to every Board meeting, each director receives an information pack that provides background information on the performance of the Group for the year to date and any other matters for discussion at the meeting.

Board members have full and unrestricted access to relevant information, management, and the Company Secretary, and may, at the cost of the Group, seek independent professional advice in the fulfilment of their duties.

Details of attendance at Board meetings are set out below:

Board member	Attendance at meetings
G A M Ravazzotti	4/5*
N Booth [#]	5/5
J N Potgieter [#]	5/5
S M du Toit	5/5
S I Gama	3/5
A Zannoni	3/5*
S G Pretorius	5/5
N Medupe	5/5
B G Wood [#]	5/5

[#] Executive.

* There was one extraordinary Board meeting in regard to the proposed acquisition of Ceramic Industries (Pty) Ltd, from which Mr Ravazzotti and Ms Zannoni recused themselves due to a conflict of interest.

Board appointment policy

The Board evaluates its composition each year to ensure an appropriate mix of skills, experience, professional and industry knowledge to meet the Company's strategic objectives. Demographic representation is also a consideration. New directors are subject to a "fit and proper" test. An induction programme is available to incoming directors, providing guidance on their responsibilities. The appointment of the directors is approved at the annual general meeting of shareholders.

None of the non-executive directors have entered into service contracts or standard letters of appointment with Italtile.

Lead independent director

While the Board is led by a non-executive Chairman, Ms S M du Toit continues to serve as lead independent non-executive director to the Company's Board.

Board Committees

The Board has established four committees to which it has delegated specific responsibilities in meeting its corporate governance and fiduciary duties.

These committees operate within written terms of reference approved by the Board. These are:

- ◆ Audit and Risk Committee;
- ◆ Remuneration Committee;
- ◆ Nominations Committee; and
- ◆ Social and Ethics Committee.

Audit and Risk Committee

Accounting and internal controls

The Board has established controls and procedures to ensure the accuracy and integrity of the accounting records and to provide reasonable assurance that assets are safeguarded from loss or unauthorised use and that the financial statements may be relied upon for maintaining accountability for assets and liabilities and preparing the financial statements.

Management monitors the operation of the internal control systems in order to determine if there are deficiencies. Corrective action is taken to address control deficiencies as they are identified. The Board, operating through the Audit and Risk Committee, oversees the financial reporting process and internal controls systems. The Group applies the principles of integrated reporting.

The Italtile Limited Group Company Secretary, E J Willis, attends all meetings of the Committee as secretary. The Chief Executive Officer and Chief Financial Officer attend all meetings by invitation.

The report of the Audit and Risk Committee is on page 68 of this document. The current members of the Committee are:

Ms S M du Toit (Chairman), Ms N Medupe, Mr S I Gama and Mr S G Pretorius.

Remuneration Report

Composition and terms of engagement

The Remuneration Committee is a sub-committee of the Board of directors. The Committee meets at least twice per annum. The Committee is chaired by an independent non-executive director and is comprised of three directors, the majority of directors on the Committee are independent. The current members of the Committee are:

Ms S M du Toit (Chairman), Mr G A M Ravazzotti and Mr S G Pretorius.

The Board considers the Committee's composition to be appropriate in terms of the necessary knowledge, skills and experience of its members.

The Italtile Limited Group Company Secretary, E J Willis, attends all meetings of the Committee as secretary. The Chief Executive Officer and Chief Financial Officer attend all meetings by invitation in order to provide input and guidance with regard to executive director and senior management remuneration.

No attendee may participate in any discussion or decision regarding his or her own remuneration.

The Committee met twice during the year. Attendance at the meetings was as follows:

Members and invitees	Attendance at meetings
S M du Toit	2/2
G A M Ravazzotti	2/2
S G Pretorius	2/2

Corporate governance continued

Remuneration Committee – role and responsibilities

The Committee operates within a written terms of reference confirmed by the Board, which includes:

- ◆ Assisting the Board in setting the Group's remuneration policy;
- ◆ Advising on the fees for non-executive directors;
- ◆ Determining the total remuneration of the executive directors and executive management;
- ◆ Reviewing and recommending short and long-term incentive policies for directors, executive management and staff; and
- ◆ Reviewing and recommending performance management policies.

The Committee reviews and evaluates the contribution of each director and member of senior management and determines their salary adjustments on an annual basis. The Committee reviews remuneration and Board best practice reviews published by PwC, EY and the Institute of Directors.

Details of directors' remuneration are set out on page 73 of this report.

Remuneration policy

Italtile is committed to maintain pay levels that reflect an individual's worth to the Group. The Group's philosophy is to treat employees as business partners. Remuneration policies are designed to attract, reward and retain the executives and employees needed to deliver on Italtile's business strategy. Italtile is cognisant of the ratio between the pay of the CEO and that of entry-level workers.

Executive directors' and key management remuneration

For executives and key management, remuneration is structured to include guaranteed remuneration, and short-term and long-term incentives to drive performance. The short-term incentive component rewards executives and key management for achieving or exceeding financial performance targets, agreed on at the beginning of each financial year.

Executive and key management performance management

Executive and key management's performance is measured in five categories, with specific performance targets/indicators per category: employee engagement, financial performance, customer satisfaction, cultural fit/values and progress against the strategic plan milestones.

Components of remuneration for employees

The components of total remuneration for permanent employees are fixed remuneration and variable remuneration.

Fixed remuneration comprises a basic salary and benefits, aligned to roles and performance. Variable remuneration comprises short-term incentives and long-term incentives, aimed at retention of critical employees. For employees, performance is measured against set performance indicators. All employees share in Group profits, based on an individual's contribution to the Group.

Composition of executive directors' remuneration

Composition of executive directors' remuneration comprises:

Policy on short-term incentives (variable remuneration)

Executives take part in the Executive Profit Share Scheme.

Policy on long-term incentives

There are three long-term incentive schemes within the Italtile Group, each rewarding performance in an appropriate manner, designed to reward and retain key personnel. The long-term incentives include the Italtile Long-Term Incentive Plan, the Share Appreciation Scheme and the Executive Retention Plan.

Long-Term Incentive Plan

In accordance with the Long-Term Incentive Plan ("LTIP"), selected directors and employees of the Group are entitled to receive conditional notional Italtile Limited share awards. 25% of the awards vest after three years from grant date, and the balance (75%) after five years. There is no strike price attached to these awards, and the exercise price is defined as the volume weighted average price of Italtile Limited shares as traded on the JSE over the 10 trading days preceding and including the vesting date.

Share Appreciation Rights Scheme

In accordance with the Share Appreciation Rights Scheme ("SARS"), selected directors and employees of the Group are entitled to a conditional cash award linked to the value of notional Italtile Limited shares ("shares"). 25% of the awards vest after three years from grant date, and the balance (75%) after five years. The value of an award is equal to the increase in the value of the shares between grant date and vesting date (the value at the latter date is defined as the volume weighted average price of Italtile Limited shares as traded on the JSE over the 10 trading days preceding and including the vesting date).

Executive Retention Plan

The Executive Retention Plan is an additional mechanism, over and above the existing Italtile Limited Share Appreciation Rights Scheme and Italtile Limited Long-Term Incentive Plan, to retain and reward selected employees and directors in line with the Group's values and remuneration philosophy of partnership. Italtile selectively enters into Retention Plan agreements with employees and directors in terms of which retention payments are made to them in conjunction with awards in terms of the Share Scheme. The payment of a Retention Award to an employee or director is subject to such employee or director remaining with the Group for a period of at least three years. The employee or director shall be the registered and beneficial holder of the shares acquired pursuant to the retention award from the date of transfer of such shares.

Awards from these three schemes are to be applied towards the obligatory subscription and/or purchase of Italtile Limited ordinary shares.

Details of share incentive schemes are set out on page 92 to page 95 of this report.

Non-executive directors' fees

Non-executive director remuneration is fee-based and not linked to the share price of Italtile Limited.

The Remuneration Committee takes cognisance of market norms and practices when setting non-executive director fees.

Italtile Limited non-executive directors do not receive bonuses or share options to ensure actual and perceived independence. However, it should be noted that Mr S I Gama participates in the Group's BEE transaction.

Nominations Committee

The Nominations Committee is a sub-committee of the Board and meets on an *ad hoc* basis as required, but at least once a year. The Committee is chaired by the non-executive Chairman and comprises a majority of independent non-executive directors. The current members of the Committee are: Mr G A M Ravazzotti (Chairman), Mr S G Pretorius and Ms S M du Toit.

The Nominations Committee's key roles include the identification and evaluation of suitable candidates for appointment to the Board, as well as succession planning.

The Committee met once in the period under review. Attendance at the meetings was as follows:

Members and invitees	Attendance at meetings
G A M Ravazzotti	1/1
S G Pretorius	1/1
S M du Toit	1/1

The Board considers the composition of the Nominations Committee to be appropriate for the needs of the Group at this time, and believes that the members are suitably equipped with the necessary knowledge, skills and experience.

Social and Ethics Committee

Composition

The Social and Ethics Committee ("the Committee") is a sub-committee of the Board of directors as required by the Companies Act, No 71 of 2008 (as amended). The Committee has adopted a formal charter that was approved by the Board of directors. The Committee conducts its affairs in compliance with its charter. The Committee meets at least twice per annum and is chaired by an independent non-executive director. The Committee is comprised of three directors. The chairmanship of the Committee was changed during the financial year, with Ms S M du Toit stepping down and Ms Medupe taking over. The current members of the Committee are: Ms N Medupe (Chairman), Mr N Booth and Mr B G Wood.

The Board considers the Committee's composition appropriate in terms of the necessary knowledge, skills and experience of the members.

The Italtile Group Company Secretary, Ms E J Willis, attends all meetings of the Committee as secretary. A representative from Human Resources attends all meetings by invitation in order to provide input and guidance to the Committee on employment and ethics related matters. Mr G A M Ravazzotti attends all meetings by invitation.

The Committee met three times during the year. Attendance at the meetings was as follows:

Members and invitees	Attendance at meetings
S M du Toit	2/2
N Medupe	1/1
N Booth	3/3
B G Wood	3/3

Role and responsibilities

The Committee's role and responsibilities include its statutory duties as per the Companies Act, No 71 of 2008 (as amended), and the principles of the King III Code, which includes:

- ◆ Monitoring the Group's activities with regard to matters relating to:
 - social and economic development;
 - good corporate citizenship, including the Group's promotion of equality, prevention of unfair discrimination, reduction of corruption, contribution to development of the communities in which its activities are predominantly conducted or within which its products or services are predominantly marketed, and record of sponsorship, donations and charitable giving;
 - the environment and health and public safety;
 - consumer relationships, including the Group's advertising, public relations and compliance with consumer protection laws; and
 - labour and employment.
- ◆ Monitoring the Group's performance and interaction with its stakeholders and ensuring that this interaction is guided by the Constitution and Bill of Rights;
- ◆ Determining clearly articulated ethical standards and ensuring that the Group takes measures to achieve adherence to these in all aspects of the business, thus achieving a sustainable ethical corporate culture within the Group; and
- ◆ Providing effective leadership based on an ethical foundation and ensure that the Company is and is seen to be a responsible corporate citizen.

Corporate governance continued

Social and ethics policy

This policy sets out Italtile's commitment to undertake its business activities in a socially and environmentally responsible and ethical manner, and sets out the standards by which all employees, representatives and franchisees will be guided in their actions and dealings with colleagues, customers, suppliers and business partners. The policy was approved by the Board of directors and is communicated to all directors and employees.

Italtile is committed to a policy of fairness and integrity in its business dealings. Italtile recognises that maintaining high ethical standards is essential to the long-term economic success of the Group. The Group believes in integrity and transparency, hands-on involvement, partnerships to promote entrepreneurial spirit and passion for customer service.

1. Italtile's relationship with employees

Italtile strives to treat all employees equally and believes in providing a workplace that is free from unfair discrimination. In this pursuit Italtile subscribes to the following principles and supports the following programmes and initiatives:

- ◆ All employees have the right to work in an environment that is free from any form of discrimination on the basis of race, age, place of origin, religion, creed, gender, sexual orientation, political persuasion, marital or family status, disability, nationality or HIV/Aids.
- ◆ Italtile promotes the health, safety and welfare of all employees.
- ◆ Italtile provides appropriate training and the opportunity for development to all employees, management and leadership.
- ◆ Italtile gives fair remuneration to employees that reflect an individual's worth to the Group and abides by both the terms of contracts of employment and its human resources policies. An important element of the Group's remuneration philosophy is the profit share, shared by all employees. Depending on individual contribution and Group performance, the profit share can have a significant impact on an individual's earnings.
- ◆ Italtile does not exploit labour and upholds the principle of fair labour practices.
- ◆ Italtile respects an individual's right to freedom of association.
- ◆ Italtile is committed to employment equity. The Employment Equity Committee meets regularly to monitor and implement the requirements of the Employment Equity Act, 1998.

2. Employees, leaders, franchisees and business partners' relationship with Italtile

All employees and leaders will demonstrate high levels of integrity, professionalism and performance in their work.

- ◆ Integrity – We are open, honest and fair in all our relationships. We make and keep commitments and accept accountability for our actions.
- ◆ Professionalism – We try to achieve our full potential as leaders and employees. We commit to winning by learning as much as we can, improving and working as an effective team every day.
- ◆ Performance – We strive for continuous improvement, set clear goals and reward excellence.

3. Italtile's relationship with its franchisees and business partners

Italtile's association with its business partners and franchisees is conducted in a spirit of partnership. We will:

- ◆ Honour all commitments;
- ◆ Strive to achieve Italtile's business objectives; and
- ◆ Preserve the entrepreneurial nature of the business.

4. Dealings with colleagues

In dealing with Italtile colleagues we are open, honest, fair and respectful.

5. Dealings with customers

Italtile exists because of its customers. Customer service is thus our top priority. We will provide:

- ◆ Friendly, courteous, knowledgeable and professional service and advice at all times; and
- ◆ Quality, fashionable products that provide good value for money.

6. Dealings with suppliers

Relationships with suppliers are conducted in a professional manner in order to support Italtile's reputation and business objectives. In doing business, we will:

- ◆ Honour Italtile's commitments;
- ◆ Not knowingly associate with suppliers who exploit labour or discriminate on any basis;
- ◆ Not deal with suppliers who conduct unethical or improper business practices; and
- ◆ Encourage dealings with suppliers committed to the process of transformation.

7. Dealings with competitors

Italtile recognises that competition is essential to continuous improvement. Every action that Italtile takes will comply with both the spirit and the letter of the law.

We will compete fairly in the marketplace.

8. Compliance with laws and regulations

Employees and leaders must comply with all applicable laws and regulations relating to their activities for and on behalf of Italtile.

9. Conflict of interest

Employees and leaders must be independent from any organisation providing goods or services to Italtile. In maintaining independence:

- ◆ Employees and leaders must not take a direct or indirect financial interest in such organisations, nor accept gifts or favours that create an actual or perceived obligation to such organisations; and
- ◆ Employees and leaders must not use their position at Italtile for their own personal benefit.

Company Secretary

The Company Secretary is Ms E J Willis and she is neither a director nor a shareholder of Italtile or any of its subsidiaries. On that basis, the Board believes that E J Willis maintains an arm's-length relationship with the executives, the Board and the individual directors in accordance with paragraph 3.84(j) of the Listings Requirements of the JSE.

The Company Secretary is responsible for administering the proceedings and affairs of the directorate, the Company and, where appropriate, owners of securities in the Company, in accordance with the relevant laws. The Company Secretary is available to assist all directors with advice on their responsibilities, their professional development and any other relevant assistance they may require.

The Nominations Committee has considered the skills and experience of the Company Secretary and the level of competence she has demonstrated as Italtile's Group Company Secretary since 2009, and in her role as a company secretarial consultant since 2001. The Board, on the recommendation of the Nominations Committee, is satisfied with the level of competence of the Company Secretary as required in terms of paragraph 3.84(i) of the Listings Requirements of the JSE. It requires a decision of the Board as a whole to remove the Company Secretary, should this become necessary.

Code of business and ethics

The Group has adopted a formal Code of Business Ethics and Conduct ("the Code") which requires all directors and employees to act with honesty and integrity and to maintain the highest ethical standards. The Code deals with compliance with laws and regulations through a system of values and standards.

The Board oversees and ensures that management throughout the Group assumes responsibility for training and mentoring staff on the Group's values and standards and ensuring compliance.

The Code will be evaluated on a regular basis to ensure it aligns with the Corporate Compliance policy, King III and relevant new legislation.

Stakeholder communication

Italtile is committed to open, honest and regular communication with key stakeholders on financial and non-financial matters. A working partnership between the Group, its suppliers, franchisees, employees and members of the community forms the basis of a mutually beneficial association.

The annual general meeting provides an opportunity to communicate directly with shareholders. The Chairman has the opportunity to present to the shareholders a report on current operations and developments. The meeting also provides a forum for shareholders to question and express their views about the Company's business. The Chairmen of the Audit and Risk and Remuneration Committees are available at the meetings to answer questions from shareholders.

Notice of the annual general meeting and related documents are mailed to shareholders at least 15 business days before the meeting. Separate resolutions are proposed on each substantially different issue. The notice is contained in the Integrated Annual Report.

The Group's executive management team meets with investors after the publication of interim and annual results to present an update on the industry, current operations of the business and its prospects.

Share dealings

All directors of the Company are required to comply with the requirements of the JSE regarding inside information, transactions and disclosure of transactions.

In line with the Financial Markets Act, No 19 of 2012, the Board enforces a restricted period for dealing in Italtile shares, in terms of which any dealings in shares by all directors and senior personnel is disallowed from the time that the reporting period has elapsed to the time that results are released and at any time that such individuals are aware of unpublished price-sensitive information, whether the Company is trading under cautionary announcement as a result of such information or not.

Risk management and internal controls

Italtile recognises that managing risk and compliance is an integral part of generating sustainable shareholder value and enhancing stakeholder interests.

The Group has in place an Enterprise Risk Management framework which is based on a combined assurance model comprising: management (divisional and executive directors); external auditors (Ernst & Young Inc.); and Support Centre oversight (including the internal audit function). The structure of this model and its activities are designed to ensure that the Group's risks are adequately addressed.

The Board, assisted by the Audit and Risk Committee, is responsible for risk, risk tolerance determination, risk management within the Group, performance of risk assessments, the use of acceptable risk methodologies and the monitoring of risk on a continual basis.

The Board ensures there is regular assessment of financial and non-financial risks in the context of the Group's business environment, with a view to mitigating and/or eliminating risk through the Group's strategies and processes.

Internal controls are designed to manage rather than eliminate risks of failure to achieve business objectives, and provide reasonable rather than absolute assurance against material misstatement or loss. The internal audit function is a structured review of internal controls based on risk assessment.

The Strategic Imperatives and Material Risks report on page 42 of this report discusses the Group's key risks and issues and the management thereof in detail. In brief they are identified as follows:

Suppliers and Supply Chain management

The Group has strong relationships with its supply partners, being the largest customer to most of its suppliers. Opportunities to increase capacity by suppliers if required is constantly reviewed, as are alternative sources of supply should any potential disruption be identified. The Group's acquisition of a strategic stake in Ceramic Industries (Pty) Ltd is evidence of its policy to strengthen key supplier relationships.

Remaining competitive/fashionable

Ensuring that the Group remains fashionable and internationally competitive is critical to its continued existence. Staying abreast of fashion trends and evolving consumer behaviour, employing experienced brand managers and capitalising on leading-edge technology are key priorities in this regard.

Corporate governance continued

Brand reputation

Reputational risk is managed by ensuring intensive focus on customer service, product quality and competitive pricing. Staff training, motivation and incentivisation are key activities in promoting positive brand awareness. Italtile's corporate governance, sustainability and environmental policies all contribute to upholding the Group's brand reputation.

Preservation of the organisational philosophy and structure

Central to the Group's success is its business model that promotes partnerships and autonomy (an effective motivator), and has been flexible and adaptable in the past. The Group would be negatively impacted if this philosophy and structure are not adequately preserved. A range of factors mitigate this risk, including: close involvement in the operations of the Group by divisional management and executive directors which serves to reinforce the values of the Group; flat reporting structures which facilitate transparent communication and oversight; and optimal recruitment and training programmes to ensure the business model is entrenched.

Treasury risk

The Group has in place a treasury policy, which serves to mitigate against risks, including: under-performing investment returns; inadequate liquidity of investments to meet commitments; and institutional/commercial risk relating to funds into which investments are made.

Currency risk

Foreign currency exposure in imported product is actively managed. All foreign liabilities are matched with forward exchange contracts upon confirmation of import orders.

Credit risk

Trade credit is provided by reputable third-party credit providers, and is available through the retail stores. The Board is confident that an adequate system of internal control is in place, which mitigates areas of significant risk to an acceptable level.

Recruitment, retention and succession planning

Attracting, developing and retaining human capital is a major focus for the Group. Keen attention is paid to optimal recruitment processes, comprehensive training, and motivation and incentivisation of employees. Ongoing development of leadership and management

potential is a critical initiative advanced through high-level training programmes.

Computer-based business process

All major business processes are computerised and the Group has a formally documented and tested disaster recovery plan in place.

Regulatory compliance

In order to mitigate against the risk of non-compliance with relevant legislation and regulations, the Group regularly engages various professionals and legal advisers. In addition, management attends workshops and training related to legislative and other updates. To an extent, the external audit also provides some assurance related to compliance.

Sustainability

Italtile is committed to good corporate citizenship practices and organisational integrity in the direction, control and stewardship of the Group's affairs.

The Group recognises the imperative to balance returns for shareholders with the long-term needs of the business, its employees, the broader society and the environment.

The Company is aware of its responsibility to safeguard the interests of all stakeholders and believes that good governance is essential to the Group's long-term sustainability and functioning. The Group's objective is to conform stringently to transparency, while operating profitably and remaining accountable to the broader community which it serves.

Shareholders, customers, employees, suppliers, regulators and the communities in which the Group operates are regarded as key stakeholders.

King III places emphasis on the principles of strategy, sustainability and governance and provides for greater integration of those elements. Accordingly, Italtile continues to strive to align the Group's practices with the recommendations of King III.

Transformation

Italtile is committed to empowerment in its business and is supportive of transformation in the country. The Group endorses the principles in the Employment Equity Act and aligns its human resources policies accordingly.

Employment equity

Employee composition statistics

As at 30 June 2016

	Male				Female			
	African	Coloured	Indian	White	African	Coloured	Indian	White
Skilled to top management	84	18	5	60	20	7	4	30
Semi-skilled and unskilled	454	64	8	84	184	32	4	30
Total	538	82	13	144	204	39	8	60

The above statistics apply to South African operations only and do not include the franchised stores. The Group submits its employment equity reports to the Department of Labour on an annual basis and has consistently met relevant targets in recent prior years.

Corporate social responsibility

The Group is committed to uplifting the societies in which it operates through following sound employment practices and meeting the real needs of those communities.

Italtile continues to invest in South Africa and neighbouring countries in education, training and skills transfer through the Italtile training academy which has provided tiling, technical and business skills to numerous previously unemployed individuals.

Ad hoc contributions were also made to the following deserving causes:

- ◆ Sparrow Ministries Aids Village, a non-profit organisation that provides care and comfort to adults and children who have been infected or affected by the HIV/Aids pandemic;
- ◆ One School at a Time;
- ◆ Little Eden;
- ◆ World Wildlife Fund;
- ◆ Stop Rhino Poaching; and
- ◆ National Sea Rescue Institute.

Furthermore, the Group implemented a community investment programme to establish sports grounds in areas lacking such facilities. This initiative is based on an existing successful venture, the Soweto sports ground, a community-centred facility sustained by various sponsorship efforts, with which the Group has been involved for many years.

In addition, a number of Group and franchised stores make ongoing corporate social investments to various community causes.

The Italtile Foundation Trust

The Italtile Foundation Trust ("the Foundation") is a Broad-Based Black Ownership Scheme, with the objective of carrying on public benefit activities in a non-profit manner and with an altruistic and philanthropic intent, working towards the transformation and upliftment of previously disadvantaged communities. The Foundation accepts and deploys Social Economic Development donations in terms of the BBBEE legislation.



The Foundation's distributions are towards public benefit activities relating to education, sport and conservation, and current projects include:

- ◆ A bursary programme sponsoring financially needy students with high potential, in collaboration with the University of Johannesburg and One School at a Time.
- ◆ Working with Dreamfields in setting up Dream Leagues in five-a-side football and mini-netball at schools in Thohoyandou and the Buffelshoek areas.

- ◆ Sponsorship of two Birdlife South Africa projects, namely the Bird Guide Training Programme and the Important Biodiversity Area Programme.

Occupational health and safety

Italtile complies with the Occupational Health and Safety Act, No 85 of 1993 and other relevant legislation, regulations and codes of practice for South Africa. The aim of the Group's Health and Safety policy is to prevent and minimise work-related injuries and health impairments by ensuring that all employees are provided with adequate training and supervision to undertake their roles.

Environmental management

The Group's Environmental department is instrumental in implementing Italtile's long-standing environmental consciousness values across the business. Programmes are aimed at measuring, managing and reducing the Group's impact on the environment and promoting its long-term sustainability. This department operates in conjunction with executive management, with a view to better aligning and integrating the Green agenda into the day-to-day processes and functioning of the business.

The Group's Green agenda is discussed in greater detail on page 38 of this report.

Human capital development

Italtile strives to be the employer of choice in its industry. The Group's strategy is to recruit and retain the best people from South Africa's diverse population base, and to ensure they are empowered, accountable for their actions and rewarded accordingly.

The Group's goal is:

- ◆ To match the demographics of the organisation with the diverse markets in which it operates. To achieve this, a representative team is tasked with managing the employment equity plan and ensuring that targets are achieved;
- ◆ To employ a range of mechanisms to promote worker participation in the operational decision-making process;
- ◆ To continue to implement the profit incentive scheme instituted in 1990, whereby all members of staff share in the Group's trading profits;
- ◆ To cultivate entrepreneurship within the Group by ensuring trading operations are franchised or in partnerships with the Group; and
- ◆ To evaluate and evolve training initiatives continuously to improve the skills level in the organisation.

Skills development

Training and development initiatives are formulated and conducted in-house, ensuring relevance to the Group's culture, values and strategy.

Training courses are designed for students ranging from beginners to intermediate and advanced levels. Training courses include an induction course for all new employees, as well as focused business, technical, management and corporate governance programmes.

Corporate governance continued

Minimum training competencies have been mapped for all job titles to support consistent standards across the Group.

Over the past year training spend and operating costs amounted to R10 million (2015: R10 million). 3 413 (2015: 2 207) staff members completed courses in the review period.

In addition to Group-wide training interventions, Italtile's Tiling, Plumbing and Laminate Academy continues to raise the benchmark in product knowledge training.

Value added statement

	Group			
	2016 Rm's	%	2015 Rm's	%
Turnover	3 539		3 115	
Cost of goods and services	(1 821)		(1 659)	
Income from investments and interest received	1 718		1 456	
Value added	25		17	
	1 743		1 473	
Value distributed and retained				
Employees				
– Salaries, incentives and benefits	248	14	223	15
Providers of capital	290	17	235	16
– Outside equity holders	38	2	31	2
– Ordinary dividend	252	15	204	14
Taxation	313	18	245	17
Reinvested in Group activities	892	51	770	52
– Depreciation	79	4	70	5
– Retained income	813	47	700	47
	1 743	100	1 473	100

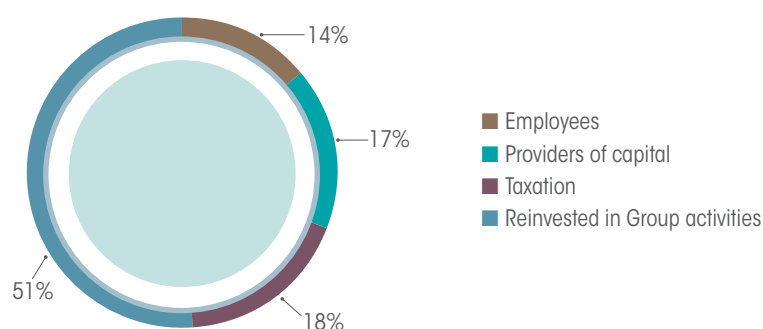
Economic impacts

Italtile is committed to satisfying the needs of its customers while delivering acceptable profit growth. The Group endeavours to create wealth for the benefit of all stakeholders.

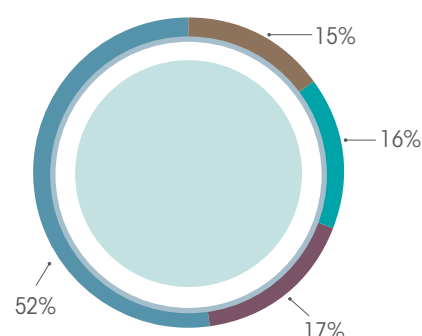
The value added statement is a measurement of the wealth the Group created in its operations by adding value to the cost of raw materials, products and services purchased. The statement shows the total wealth created and how that was distributed.

The statement also takes into account the amounts retained and reinvested in the Group for the replacement of assets and development of future operations.

Value distributed and retained 2016



Value distributed and retained 2015



Indirect impacts

The total economic impact of an organisation includes indirect impacts. These are usually benefits arising in the course of its business to which a monetary amount is not directly attributable. Italtile does not assess and quantify its indirect economic impacts although the Group does provide indirect economic benefits:

- ♦ The Group spent R1 821 million during the year purchasing tiles and sanitaryware as well as other products and services from suppliers. This in turn creates opportunities for suppliers to employ more staff to keep pace with the Group's demands.
- ♦ During the year the Group paid R313 million in taxation, for the ultimate benefit of all citizens in the territories it operates in.
- ♦ The Group paid R248 million during the year to employees in the form of salaries, incentives and benefits. These employees in turn supported their families, contributing to the economic activity of their communities and the overall economies.

Directorate and administration

Directors

Giovanni Ravazzotti (73)

Non-executive Chairman

Founder, in 1969, of the Italtile Group and Chairman of Ceramic Industries (Pty) Limited.

Nick Booth (56)

Chief Executive Officer

Appointed to the Board in 2014.

Nick was formerly Chief Executive Officer of Ceramic Industries (Pty) Ltd, a position he was appointed to in 2001.

Jan Potgieter (47)

BCompt (Hons), CA(SA)

Chief Operating Officer and executive director

Appointed to the Board in 2014.

Jan is a Chartered Accountant (SA) and has extensive senior level experience in the retail and supply chain sectors, having most recently served as Chief Executive Officer and formerly Financial Director of Massdiscounters (a division of Massmart). He also served as a business manager at Clover SA and spent eight years at SABMiller in senior financial roles. Jan currently serves as a non-executive director on the boards of Fortress Income Fund and Novus Holdings.

Brandon Wood (34)

BAcc, CA(SA)

Chief Financial Officer

Appointed to the Board in 2013.

Brandon is a Chartered Accountant (SA) and prior to joining the Group, was an audit manager at EY. He joined Italtile in 2010 as Group Financial Manager and was appointed as Chief Financial Officer in 2013.

Susan du Toit (43)

CA(SA), MCom (Financial Management)

Lead independent non-executive director

Appointed to the Board in 2009.

Susan is a Chartered Accountant (SA) and has held a number of positions within EY culminating in the position as lead audit partner on a number of entities listed on the JSE. Susan also held the position of team leader for a group of audit partners at EY.

Siyabonga Gama (49)

BCom (Hons), AEP, CAIB(SA)

Independent non-executive director

Appointed to the Board in 2004.

Siyabonga is a past Chief Executive Officer of the National Ports Authority of South Africa and Transnet Freight Rail, past Chairman of the Port Management Association of Eastern and Southern Africa, is Honorary Lifetime President of the Union of African Railways and is the Chief Executive Officer of Transnet.

Brand Pretorius (68)

MCom Business Economics

Independent non-executive director

Appointed to the Board in 2011.

Brand Pretorius is a well-known and respected businessman in South Africa, particularly in the motor industry where he held the position of Managing director for Toyota SA Marketing for eight years and that of Chief Executive Officer of McCarthy Limited from 1999 to his retirement on 1 March 2011. Brand currently serves as a non-executive director on the boards of Reunert, Tongaat Hulett and Metair Investments.

Alessia Zannoni (41)

Non-executive director

Appointed to the Board in 2009.

Alessia, an Italian resident, started her career in advertising and communication in 1998. Following her qualification in communication and design at Istituto Superiore di Comunicazione in Milan, Alessia worked as art director at several advertising agencies, after which she started an advertising and web agency in Modena, Italy. Alessia currently works as a freelance creative director, image and branding consultant.

Ndumi Medupe (45)

BAcc, CA(SA)

Independent non-executive director

Appointed to the Board in 2014.

Ndumi is a Chartered Accountant (SA), and is a founder and director of Indyebo Consulting (Pty) Ltd, a niche company that provides assurance, advisory and consulting services. Ndumi currently serves as a non-executive director on the boards of City Lodge, Pinnacle Holdings and Foskor.

Audit and Risk Committee

S M du Toit (Chairman), S I Gama, S G Pretorius, N Medupe, N Booth*, B G Wood*.

**By invitation.*

Remuneration Committee

S M du Toit (Chairman), G A M Ravazzotti, S G Pretorius, N Booth*, B G Wood*.

**By invitation.*

Nominations Committee

G A M Ravazzotti (Chairman), S M du Toit, S G Pretorius.

Social and Ethics Committee

N Medupe (Chairman), N Booth, B G Wood, G A M Ravazzotti*.

**By invitation.*

Directors' approval

The directors are responsible for both the preparation and integrity of the consolidated and separate financial statements and related financial information contained in the Integrated Annual Report. In their opinion, the consolidated and separate financial statements fairly represent the Group's financial position and results of operations. It is the responsibility of the independent auditors to report on the consolidated and separate financial statements. Their report to the members of the Company is set out on page 67.

In order for the directors to discharge their responsibility, the Group maintains adequate accounting systems, risk control procedures and accounting records. A system of internal control, focused on critical risk areas and designed to provide reasonable assurance that assets are safeguarded, and that the risk of error, fraud or loss is reduced in a cost-effective manner, has been implemented. All controls are frequently monitored and subject to review and audit. There was no material breakdown in the system of internal control during the year under review.

The Group adopts appropriate accounting policies and the consolidated and separate annual financial statements are prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. The consolidated and separate financial statements incorporate full and meaningful disclosure, and have been prepared using reasonable and proven judgements and estimates.

The consolidated and separate financial statements have been prepared under the supervision of the Chief Financial Officer, Mr B G Wood CA(SA), and have been audited in terms of the Companies Act of South Africa.

Going concern

The directors are of the opinion that the consolidated and separate business will continue as a going concern in the year ahead. The annual financial statements have accordingly been prepared on a going concern basis.

Code of ethics

The directors have complied with the Group's code of ethics.

Approval of annual financial statements

The annual financial statements of the Company and the Group set out in pages 69 to 118 were approved by the Board on 22 September 2016 and signed on its behalf by:



N Booth

Chief Executive Officer



B G Wood

Chief Financial Officer

Company Secretary's approval

In terms of the Companies Act, No 71 of 2008, I certify that the Company has lodged, with the Registrar of Companies, all such returns as are required of a public company in terms of the Act, and that all such returns are true, correct and up to date.



E J Willis

Company Secretary

22 September 2016

Independent auditors' report to the shareholders of Italtile Limited

Report on the annual financial statements

We have audited the consolidated and separate annual financial statements of Italtile Limited set out on pages 76 to 118, which comprise the consolidated and separate statement of financial position as at 30 June 2016, and the consolidated and separate statement of comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated and separate annual financial statements present fairly, in all material respects, the consolidated and separate financial position of Italtile Limited as at 30 June 2016, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate annual financial statements for the year ended 30 June 2016, we have read the Directors' report, the Audit Committee's report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between the report and the audited consolidated and separate financial statements. The report is the responsibility of the respective preparers. Based on reading the report we have not identified material inconsistencies between the report and the audited consolidated and separate financial statements. However, we have not audited the report and accordingly do not express an opinion on the report.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Incorporated has been the auditor of Italtile Limited for 27 years.

Ernst & Young Inc.

Ernst & Young Inc.

Director: **Sarel Jacobus Johannes Strydom**

Registered Auditor (RA)

Chartered Accountant (SA)

22 September 2016

102 Rivonia Road
Sandton

Audit and Risk Committee report

The Audit and Risk Committee ("Committee") submits this report in terms of the Companies Act 71 of 2008 ("Companies Act").

A formal Audit and Risk Committee Charter ("Charter"), approved by the Board, guides the Committee in terms of its objectives, authority and responsibilities. The Charter is reviewed annually and, if necessary, amended to meet market, regulatory and statutory requirements.

The Committee consists of four Independent Non-executive directors, namely Ms S M du Toit (Chairman), Mr S I Gama, Mr S G Pretorius and Ms N Medupe.

The Committee meets at least three times a year. The Chief Executive Officer, Chief Financial Officer, external audit partner, the Head of Internal Audit and the Head of Information Technology attend meetings by invitation. The Company Secretary, Ms E J Willis attends and minutes all meetings of the Audit and Risk Committee.

Name	20 Aug 2015	18 Sept 2015	15 Oct 2015	4 Feb 2016	5 May 2016
Ms S M du Toit	✓	✓	✓	✓	✓
Mr S I Gama	A	✓	A	✓	A
Mr S G Pretorius	✓	✓	✓	✓	✓
Mrs N Medupe	✓	✓	✓	✓	✓

✓ Present
A Apologies

The role of the Committee is *inter alia* to:

- ♦ review the effectiveness of the Group's systems of internal control, including internal financial control and risk management, and to ensure that effective internal control systems are maintained;
- ♦ oversee the risk management process;
- ♦ review financial statements for proper and complete disclosure of timely, reliable and consistent information and to confirm that the accounting policies used are appropriate;
- ♦ deal with concerns and complaints relating to accounting policies, internal audit, the audit or content of the Integrated Annual Report and internal financial controls;
- ♦ nominate the appointment of the external auditors as the registered independent auditor after satisfying itself through enquiry that the auditors are independent as defined in terms of the Companies Act;
- ♦ determine the fees to be paid to the external auditors and their terms of engagement;
- ♦ ensure that the appointment of the external auditor complies with the Companies Act and any other legislation relating to the appointment of auditors; and
- ♦ approve the scope of non-audit services which the external auditor may provide to the Group and pre-approve any non-audit services to be provided by the external auditors.

Risk management and coordination of assurance activities

The Committee oversees the risk management process. At least one Committee meeting a year is dedicated to the detailed review of the Group risk assessment including information technology risks. The Committee coordinates all assurance activities by means of the Group's combined assurance model. The Committee approves the internal audit plan and focus areas. Internal audit reports on findings of work performed to the Committee on a regular basis.

External auditors

During the year under review, the Committee, in consultation with executive management, approved the external audit plan and fee proposal and considered reports from the external auditors on the annual and interim financial statements. The Committee satisfied itself that Ernst & Young Inc. and Mr S Strydom, the designated auditor, are independent of the Company. The Chairman of the Committee has regular discussions and meetings with the external auditors, independently of management.

Whistle-blowing

The independent external whistle-blowing line operated effectively for the year under review. Instances of whistle-blowing are reported to the Chairman of the Committee.

Financial function

In accordance with the JSE Listings Requirements, the Committee must consider the appropriateness of the expertise and experience of the Chief Financial Officer of the Company on an annual basis. The Committee believes that Mr Wood, the Chief Financial Officer, possesses the appropriate expertise and experience to meet his responsibilities in that position.

The Committee is satisfied that the financial function of the Group incorporates the necessary expertise, resources and experience to adequately carry out its obligations.

Internal financial controls

Based on the results of work done by the internal audit function and external auditors on the Group's system of internal financial controls, and considering feedback and information from management, the Committee is of the opinion that the Group's system of internal financial control was effective for the year under review and that it formed a reliable basis for the preparation of the Group financial statements.

Financial statements

The Committee reviewed the financial statements of the Company and the Group and is satisfied that they comply with International Financial Reporting Standards and that the accounting policies applied are appropriate.

Sustainability reporting

The Committee reviewed and considered the Group's sustainability information as disclosed in the Integrated Annual Report. The Committee discussed the sustainability information with management and is satisfied, based on information and explanations from management, that the sustainability information is reliable.

Recommendation of the Integrated Annual Report

The Committee has noted the external auditors' opinion and findings on the Integrated Annual Report and has recommended the approval of the Integrated Annual Report to the Board.

The Committee reports that it has discharged its responsibilities and duties in compliance with its charter.



S M du Toit
Audit and Risk Committee Chairman

22 September 2016

Directors' report

Principal activities of the Company

Retail

Italtile Limited ("Italtile" or "the Company" or "the Group"), headquartered in Bryanston, Johannesburg, is a leading retailer of tiles, bathroomware and related products in South Africa.

Franchising

The Group operates as a national franchisor, featuring a streamlined parent operation focused on growing market share and fostering entrepreneurial opportunities through its franchise programme.

The Group is represented via its high profile branded retail outlets, Italtile Retail, CTM and TopT, which cater to homeowners across the income spectrum, holding appeal for market segments ranging from the premium upper end to entry level consumers. These stores are situated on high visibility sites and/or close to previously under-served markets, and their comprehensive offerings position them as one-stop solution destinations. Ranges include ceramic and porcelain wall and floor tiles, sanitaryware, bathroom furniture, brassware, fittings, accessories, laminated wooden flooring, shower enclosures, home-finishing products, décor and tools.

The store network comprises 146 stores, situated in Southern and East Africa.

Property Investment

Underpinning the retail network is an extensive property portfolio. The Group derives important strategic advantage by supporting its brands with high profile prime sites that enhance Italtile's positioning as a destination retailer.

Support Services

The Group's vertically integrated Supply Chain comprises International Tap Distributors ("ITD"), an importer and distributor of brassware and accessories, and Cedar Point, an importer and distributor of tiling tools, laminated boards, shower enclosures, cabinets and décor. The Group holds a controlling interest in both of these businesses. ITD and Cedar Point service the Italtile Retail, CTM and TopT retail network.

The Group's Distribution Centre, which has facilities in KwaZulu-Natal and the Western Cape, sources imported products and provides warehousing and distribution facilities to CTM, Italtile Retail and TopT. It is also responsible for arranging logistics and foreign exchange for the Group's retail brands as well as ITD and Cedar Point.

Investment in Associates

Ceramic Industries (Pty) Ltd ("Ceramic")

The 20% strategic investment in its largest supplier of tiles, sanitaryware and baths once again delivered tactical advantages in supporting the Group's growth programme. In the context of the weaker Rand, this relationship with Ceramic served to enable consistent supply of local high quality, affordable products. The all-round improved performance reported across this business resulted in a 51% growth in profitability and an increase in contribution to Group profit of R83 million for the full year (2015: R55 million).

Offer to acquire shares in Ceramic

Italtile submitted a binding offer on 15 July 2016 to Ceramic, to acquire up to a further 73,5% of the company's issued share capital ("the Acquisition"). The balance of 6,5% comprises treasury shares held by National Ceramic Industries South Africa and a subsidiary of Italtile.

In terms of the Acquisition, the purchase consideration equates to R3,4 billion and will be settled in cash (50%) and the balance by the issue of Italtile shares at R11,57 per share. Post the Acquisition, Italtile will offer a total of approximately 227,3 million rights offer shares to ensure equitable treatment of all shareholders and afford minority shareholders the opportunity to avoid dilution of their shareholding as a result of the Acquisition. A total of 22 shares will be offered for every 100 shares held in Italtile at a subscription price of R11,57 per rights offer share.

A further consequence of the Acquisition will be an increase in the Group's total effective holding in Ezee Tile to 68,95%.

Italtile's rationale for acquiring Ceramic is based on management's positive view of opportunities for growth in Southern Africa, and the benefits of this transaction for both Italtile and Ceramic, which are far-ranging:

- ◆ The long-term success and sustainability of both businesses are inextricably intertwined and have been for the past two decades.
- ◆ The combination and integration of the two management teams will add depth in terms of experience and skill in the business, and enhance the management structure to facilitate improved succession planning at the combined group level.
- ◆ Both businesses will benefit from shared access to better, real-time market intelligence, improved efficiencies and reduced costs, enhanced allocation of capital, and alignment of long-term growth strategies, thereby fostering sustainable returns for shareholders.

Directors' report continued

The Acquisition is subject to attainment of certain conditions precedent, and approval from competition authorities and Italtile shareholders. Shareholders will continue to be apprised of progress and are referred to the SENS announcements published on 20 July 2016, 28 July 2016, 11 August 2016, 14 September 2016 and the Acquisition circular distributed to shareholders on 23 August 2016 for further detail.

The matter was tabled for discussion at the general meeting held on 21 September 2016.

Ezee Tile

The Group holds an effective 46% strategic stake in this business, a national manufacturer of grout, adhesive and related products. Wide-ranging enhanced business processes and systems were implemented in the operation over the past year, delivering improved results. The business reported growth for the period, contributing R12 million (2015: R7 million) to Group profits.

Statements of responsibility

The responsibilities of the Group's directors are detailed on page 56 of this report.

Audit and Risk Committee

The Audit and Risk Committee report is on page 68. Page 57 of the Corporate Governance report also discusses the responsibilities of this committee and how these were discharged during the year.

Financial review

System-wide turnover

System-wide turnover across the Group from continuing operations increased 14% to R5,96 billion (2015: R5,22 billion). Growth was recorded by all three retail brands.

Normalised profit and trading operations

Reported trading profit from continuing operations grew 16% to R1 047 million (2015: R905 million). Retail gross margins declined slightly as a function of the Group's decision to absorb increased costs and currency fluctuations to support franchisees and customers and demonstrate Italtile's everyday value positioning.

Property, plant and equipment

The estimated current market value of the property portfolio increased to R2,4 billion (2015: R2,0 billion). Capital expenditure of R284 million (2015: R158 million) was incurred on new and refurbished properties.

Cash and cash equivalents

Capital expenditure of R375 million (2015: R219 million) was incurred primarily to enhance the Group's Property Investment portfolio through the acquisition of new properties and an ongoing store upgrade programme across the network. This investment, together with the net dividend of R279 million (2015: R212 million) paid during the period resulted in net cash reserves of R347 million (2015: R392 million) at the end of the period.

Interest-bearing loans and borrowings

In terms of interest-bearing debt, the Group's exposure includes R34 million (2015: R29 million) loan finance utilised in the acquisition of fixed property in Australia in prior periods.

Prospects

Prevailing economic and socio-political conditions are unlikely to improve materially in the forthcoming year. In this context, consumers will continue to allocate their discretionary spend cautiously, seeking out optimal value/quality offerings. While the home improvement segment of the construction industry is expected to continue to grow, forecasts for increased new build activity are less positive. Furthermore, competition in the market will intensify, as participants strive to retain and gain market share.

Faced with these trading conditions, management is emphatic that, to sustain results at current levels, opportunities for growth must be realised within the business.

In this regard, the following priorities have been identified:

- ◆ Ensure that the business is steeped in the principles of retail excellence as a standard throughout the organisation. This includes continuing to entrench BOP; enhance training and recruitment practices; better measurement of trading intelligence; and management of performance in the drive to deliver a peerless offering to customers;
- ◆ Continue to expand the Group's store network, including opening 15 TopT stores in the year ahead and more CTM and Italtile stores in the following year;
- ◆ Capitalise on opportunities to gain market share from imported product through Gryphon's highly acclaimed glazed porcelain tile ranges;
- ◆ Leverage growth levers in the Supply Chain, in particular improving logistics and distribution;
- ◆ Continue to invest in information technology and e-commerce to keep abreast of opportunities in that rapidly changing environment; and
- ◆ Assuming the successful conclusion of the Group's acquisition of Ceramic Industries, integrate the IT platform of that business and the Ezee Tile operation as seamlessly as possible into its own.

Staff Share Scheme

The Group implemented a Share Incentive Scheme in August 2013 for all employees of the Group and its franchisees that had been in the employ of the Group and/or franchise network for a period of three uninterrupted years at each allotment date in August every year from the implementation date. As a result, 15,3 million of the Group's shares net of forfeitures were held by qualifying staff members at 30 June 2016 (2015: 14,5 million). Until vesting, the shares will continue to be accounted for as treasury shares and have an impact on the diluted weighted average number of shares.

The scheme is classified as an equity-settled scheme in terms of IFRS 2 – *Share-based Payment*, and has resulted in a charge of R13 million (2015: R12 million) to the Group's income; R9 million (2015: R7 million) of this charge is an accelerated expense for franchise staff.

TopT Ceramics (Pty) Ltd

The Group sold a 10% stake in TopT Ceramics (Pty) Ltd at the beginning of the period under review to a new business partner identified during the previous financial year. This stake was sold at a cost of R7 million, and reduced the Group's interest in this entity to 90%.

Cedar Point Trading 326 (Pty) Ltd

The Group acquired a 10% non-controlling stake held by one of the previous business partners of Cedar Point Trading 326 (Pty) Ltd at a cost of R12 million effective 30 November 2015, which increased the Group's interest in this entity to 90%. An additional business partner has since been identified.

Italtile Mauritius Limited

Following the local establishment of a holding company regime for exchange control purposes and changes in local income tax legislation related to taxation of royalty flows, the Group decided to liquidate its operations in Mauritius during the prior period. Italtile Mauritius Limited housed the Group's non-South African trademarks and treasury function outside of South Africa.

In accordance with IAS 21 – *The Effects of Changes in Foreign Exchange Rates*, certain accumulated exchange differences related to this entity (recorded as foreign currency translation reserve) have been reclassified to income, resulting in a once-off gain of R19 million in the prior period results. As the transaction has been accounted for as a common control transaction, foreign currency translation reserves related to foreign investments distributed by the entity but retained by the Group are still recognised in foreign currency translation reserve.

SER-Export s.p.a.

During the prior period, the Group disposed of a 20% stake in SER-Export s.p.a. to its existing partner in this entity, reducing the Group's effective shareholding to 30%. The disposal took place for a total cash consideration of R13 million, and has been accounted for as a change in control from a subsidiary to an associate resulting in a fair value gain in the prior period of R14 million in accordance with IFRS 10 – *Consolidated Financial Statements*.

Assets held in disposal group

At 30 June 2016, management elected to sell the operations of Italtile Australia (Pty) Ltd, a subsidiary of Italtile Limited. The business of Italtile Australia (Pty) Ltd represents the Group's Australian property portfolio. As a buyer was identified before year end, the assets of the operations were treated as a disposal group at 30 June 2016. The sale is expected to be concluded during the first half of the 2017 financial year.

Stated capital

The authorised share capital remains unchanged at 3 300 000 000 shares of no par value. Issued share capital is 1 033 332 822 (2015: 1 033 332 822) shares of no par value.

Dividend announcement

The Board declared a final gross cash dividend (number 100) for the year ended 30 June 2016 of 15,0 cents per ordinary share to all shareholders recorded in the books of Italtile as at the record date of Friday, 16 September 2016. The Group has maintained its dividend cover of three times.

Directors' report continued

Directors and officers

The details of the directors of the Company are set out on page 65.

In accordance with the Company's Memorandum of Incorporation, Mr G A M Ravazzotti, Mr S I Gama, Ms S M du Toit, Ms N Medupe and Ms A Zannoni retire by rotation, and being eligible, offer themselves for re-election at the forthcoming annual general meeting ("AGM").

Directors' shareholding and other interests

Except for the long-term incentive schemes detailed below, the Company was not party to any arrangement during the year or at year end, which would enable the directors or officers, or their families, to acquire benefits by means of acquisition of shares in the Company.

Other than disclosed in note 33, none of the directors or officers of the Company had any interest in any contracts which significantly affected the affairs or business of the Company or its subsidiaries during the year.

It is Company policy that all directors and employees who have access to price-sensitive information may not deal directly or indirectly in the shares of the Company from the end of a reporting period until publication of the interim results or annual profit announcement.

The directors' beneficial and non-beneficial interest in the stated share capital of the Company at the reporting date is set out in the table below. Refer to the SENS announcement on 5 September 2016 for details of change of interests between 30 June 2016 and the date of this Integrated Annual Report.

	Beneficial direct	Beneficial indirect	Total	% held	Non-beneficial direct	Non-beneficial indirect	Total	% held
At 30 June 2016								
Director								
G A M Ravazzotti	3 637 088	345 980 215	349 617 303	33,83	—	—	—	—
S I Gama*	200 000	—	200 000	0,02	—	—	—	—
S du Toit	—	23 873	23 873	0,00	—	—	—	—
N Booth	1 000 000	—	1 000 000	0,10	—	—	—	—
J N Potgieter	1 000 000	—	1 000 000	0,10	—	—	—	—
B G Wood	500 000	—	500 000	0,05	—	—	—	—
At 30 June 2015								
Director								
G A M Ravazzotti	3 637 088	345 980 215	349 617 303	33,83	—	—	—	—
S I Gama*	200 000	—	200 000	0,02	—	—	—	—
S du Toit	—	23 873	23 873	0,00	—	—	—	—
A Zannoni	1 303 076	—	1 303 076	0,13	—	—	—	—
N Booth	1 000 000	—	1 000 000	0,10	—	—	—	—
J N Potgieter	1 000 000	—	1 000 000	0,10	—	—	—	—
B G Wood	32 669	—	32 669	0,00	—	—	—	—

*Beneficial interest in BEE Special Purpose Entity.

Directors' participation in share incentive schemes

Directors' holdings under the Long-Term Incentive Plan and Share Appreciation Rights Scheme are set out in the table below:

Director	Awards held at 1 July 2015	Awarded during the year	Vested and exercised during the year	Forfeited during the year	Awards held at 30 June 2016
N Booth	3 000 000	—	—	—	3 000 000
J N Potgieter	3 000 000	—	—	—	3 000 000
B G Wood	1 712 500	1 000 000	—	—	2 712 500

Directors' holdings under the Executive Retention Plan are set out in the table below:

Director	Awards held at 1 July 2015	Awarded during the year	Forfeited/cancelled during the year	Awards held at 30 June 2016
N Booth	1 000 000	—	—	1 000 000
J N Potgieter	1 000 000	—	—	1 000 000
BG Wood	—	500 000	—	500 000

Refer to note 6 for further details pertaining to these schemes.

Directors' emoluments

The emoluments paid to each director during the year ended 30 June 2016 by a subsidiary company are set out in the table below.

All emoluments paid to directors are short term in nature, other than gains on exercise of share options, and contributions to medical aid and provident fund.

The remuneration of both executive and non-executive directors is determined by the Remuneration Committee. Other benefits include once-off benefits paid and the fringe benefit value of Company cars for executive directors, and fees for services rendered by non-executive directors or as otherwise noted.

All figures in R000's	Salary	Bonus performance-related payments	Provident fund and medical contributions	Gain on share scheme awards	Other benefits	Total 2016	Total 2015
Executive directors							
N Booth	2 410	140	395	—	255	3 200	18 074
J N Potgieter	2 316	134	381	—	260	3 091	19 143
B G Wood	1 936	98	314	11 133	163	13 644	2 769
2016	6 662	372	1 090	11 133	678	19 935	39 986
2015	5 743	572	949	30 706	2 016		

All figures in R000's	Board fees	Other	Total 2016	Total 2015
Non-executive directors				
G A M Ravazzotti	1 215	—	1 215	5 898*
S I Gama	145	—	145	153
S M du Toit	492	—	492	335
A Zannoni	110	—	110	125
S G Pretorius	316	—	316	261
P D Swatton	—	—	—	145
N Medupe	284	—	284	111
2016	2 562	—	2 562	—
2015	2 130	4 898*		7 028
Aggregate emoluments of directors who served during the year			22 497	47 014

* Paid to Rallen (Pty) Ltd, the company that this director represents for his service as director of Italtile Limited in the prior year. Included in this amount is a performance related payment of R4,7 million for this director's tenure as Chief Executive Officer.

Directors' report continued

Subsidiary companies

Details of the Company's interest in its subsidiaries are set out on page 118.

The Company's interest in the profits and losses after taxation and the non-controlling shareholders' interest of its subsidiaries (direct and indirect) is:

	2016 Rm's	2015 Rm's
Profits	818	680

Corporate governance

The Corporate Governance report is set out on pages 54 to 64.

Shareholders

An analysis of the shareholdings of the Company appears on page 119 of this report.

Employees

The Group employs 1 248 employees (2015: 956).

Special resolutions

At the annual general meeting of shareholders held on Friday, 27 November 2015, three special resolutions were approved by the requisite majority of votes, namely: authorising the Company to repurchase its own shares; authorising the Company to provide financial assistance to related and inter-related entities and approving the Company's non-executive directors' fees.

Full details of the special resolutions passed will be made available to shareholders on request.

The Italtile Share Incentive Trust

In terms of the resolution passed at the shareholders' meeting on 12 January 1993 as amended and approved at the shareholders' meeting on 15 April 2013, the directors are authorised to make available for the purposes of the scheme a maximum aggregate number of 136 470 068 ordinary shares, representing 13% of the issued share capital.

The scheme exists for the directors and senior management of the Company with a limit of 15 400 000 shares which any one participant may acquire.

The Trust holds sufficient shares to meet its commitments. Shares will be bought in the open market by the scheme to meet any future allocations.

Share Incentive Schemes

Long-term Incentive Plan and Share Appreciation Rights Scheme

The Company adopted a Long-Term Incentive Plan ("LTIP") and a Share Appreciation Rights Scheme ("SARS") in the 2008 financial year (amended in the 2013 financial year), in accordance with which selected directors and employees of the Group will receive a conditional right to receive a cash award as determined by the rules of the plan and scheme. This award is to be applied towards the obligatory subscription and/or purchase of Company ordinary shares.

Directors and employees of the Company, as well as directors and employees of any subsidiary within the Group which is designated by directors of the Company as being a participating company, are eligible to participate in the LTIP and SARS. In addition, the directors of the Company may select certain franchisees of the Group to participate in the LTIP and SARS, in which event directors and employees of such franchisees will also be eligible.

The movement in the number of notional shares available to eligible participants is as follows:

	Number of awards*	
	2016	2015
At 1 July	17 687 500	14 456 250
Awarded during the year	6 100 000	8 500 000
Vested and exercised during the year	(1 100 000)	(3 943 750)
Forfeited/cancelled during the year	—	(1 325 000)
At 30 June	22 687 500	17 687 500

*LTIP and SARS combined.

Executive Retention Plan

The Executive Retention Plan is an additional mechanism, over and above the Long-Term Incentive Plan and Share Appreciation Rights Scheme, to retain and reward selected employees and directors. In terms of this scheme, retention payments are made to selected directors and employees to facilitate the purchase of Italtile Limited shares. The payment of the retention award is subject to the director or employee remaining with the Group for a period of at least three years. The director or employee shall be the registered and beneficial holder of the shares acquired pursuant to the retention award from the date of transfer of such shares.

The movement in the number of retention awards to eligible participants is as follows:

	Number of awards	
	2016	2015
At 1 July	3 200 000	1 200 000
Awarded during the year	1 000 000	2 000 000
Vested and exercised during the year	(1 200 000)	—
Forfeited/cancelled during the year	—	—
At 30 June	3 000 000	3 200 000

Refer to note 6 for further disclosure related to these schemes.

Borrowing powers

In terms of the Memorandum of Incorporation, the Company has unlimited borrowing powers.

Auditors

Ernst & Young Inc. continued in office as auditors of Italtile Limited. At the annual general meeting of 25 November 2016, shareholders will be requested to appoint Ernst & Young Inc. as auditors for the 2017 financial year and it will be noted that Ms P Wittstock will be the individual registered auditor who will undertake the audit.

Secretary

The Company Secretary is Ms E J Willis, whose business and postal address is:

<i>Registered office:</i>	The Italtile Building Cnr William Nicol Drive and Peter Place Bryanston 2021
<i>Postal address:</i>	PO Box 1689 Randburg 2125
<i>Telephone number:</i>	+27 (0) 11 510 9050
<i>Fax number:</i>	+27 (0) 11 510 9060

Statements of comprehensive income

for the year ended 30 June 2016

Company		Note	Group	
2016 Rm's	2015 Rm's		2016 Rm's	2015 Rm's
297	244	Revenue	3 888	3 419
		Turnover	3 539	3 115
		Cost of sales	(2 117)	(1 911)
		Gross profit	1 422	1 204
		Other operating income	342	330
4	4	Management fees		
(5)	(4)	Operating expenses	(728)	(636)
—	25	Impairment reversal of investments and loans		
		Profit on sale of property, plant and equipment	11	7
(1)	25	Trading profit	1 047	905
293	240	Finance income	25	17
		Finance cost	(2)	(6)
		Profit from associates – after tax	96	62
292	265	Profit before taxation	1 166	978
(#)	(1)	Taxation	(315)	(247)
292	264	Profit for the year	851	731
		Other comprehensive income, net of taxation:		
		Items that may be reclassified subsequently to profit or loss:		
		Foreign currency translation difference	25	21
		Other comprehensive income/(loss) from associates	8	(3)
292	264	Total comprehensive income for the year, net of taxation	884	749
		Profit attributable to:		
		Equity holders of the parent	813	700
		Non-controlling interests	38	31
292	264		851	731
		Total comprehensive income attributable to:		
		Equity holders of the parent	846	718
		Non-controlling interests	38	31
292	264		884	749
		Earnings per share: (all figures in cents)		
		Earnings per share	87,8	75,9
		Headline earnings per share	86,9	71,6
		Diluted earnings per share	86,4	75,0
		Diluted headline earnings per share	85,5	70,8

*Less than R1 million.

Statements of financial position

at 30 June 2016

Company		Note	Group	
2016 Rm's	2015 Rm's		2016 Rm's	2015 Rm's
340	317	Assets	2 309	2 023
		Non-current assets		
		Property, plant and equipment	1 594	1 296
		Investment property	—	97
207	184	Investments		
		Investment in associates	674	591
133	133	Long-term financial assets	15	15
		Goodwill	6	6
		Deferred taxation	20	18
593	580	Current assets	1 365	1 079
		Inventories	693	479
591	580	Trade and other receivables	306	202
2	#	Cash and cash equivalents	347	392
#	#	Taxation receivable	19	6
		Assets held in disposal group	116	—
933	897	Total assets	3 790	3 102
		Equity and liabilities		
		Equity attributable to equity holders of the parent	3 292	2 672
931	895	Stated capital	818	818
818	818	Non-distributable reserve	122	89
		Treasury shares	(454)	(461)
96	73	Share schemes reserve	95	72
17	4	Retained earnings	2 711	2 154
		Non-controlling interest	61	62
931	895	Total equity	3 353	2 734
2	2	Total liabilities	402	368
		Non-current liabilities	18	44
		Interest-bearing loans and borrowings	—	29
		Deferred taxation	18	15
2	2	Current liabilities	384	324
2	2	Trade and other payables	329	277
		Provisions	53	43
		Interest-bearing loans and borrowings	#	—
		Taxation payable	2	4
		Liabilities directly associated with assets held in disposal group	35	—
933	897	Total equity and liabilities	3 790	3 102

#Less than R1 million.

Statements of changes in equity

for the year ended 30 June 2016

Rm's	Stated capital	Non-distributable reserve	Treasury shares	Share schemes reserve	Retained earnings	Total	Non-controlling interests	Total equity
Group								
Balance at 1 July 2014	818	102	(472)	55	1 676	2 179	51	2 230
Profit for the year					700	700	31	731
Other comprehensive income for the year		18				18		18
Total comprehensive income for the year	—	18	—	—	700	718	31	749
Dividends paid					(204)	(204)	(8)	(212)
Subsidiary transactions (note 23)		(31)			(9)	(40)		(40)
Repurchase of non-controlling interest in subsidiary						—	(12)	(12)
Share incentive costs (including vesting settlement)			11	17	(9)	19		19
Balance at 30 June 2015	818	89	(461)	72	2 154	2 672	62	2 734
Profit for the year					813	813	38	851
Other comprehensive income for the year		33				33		33
Total comprehensive income for the year, net of taxation	—	33	—	—	813	846	38	884
Dividends paid					(252)	(252)	(27)	(279)
Transactions with non-controlling interests (note 35)					(7)	(7)	(12)	(19)
Share incentive costs (including vesting settlement)			7	23	3	33		33
Balance at 30 June 2016	818	122	(454)	95	2 711	3 292	61	3 353
Note	22	23	22	6				

Rm's	Stated capital	Share schemes reserve	Retained earnings	Total equity
Company				
Balance at 1 July 2014	818	56	(34)	840
Profit for the year/comprehensive income			264	264
Dividends paid			(227)	(227)
Share incentive costs (including vesting settlement)		17	1	18
Balance at 30 June 2015	818	73	4	895
Profit for the year/comprehensive income			292	292
Dividends paid			(279)	(279)
Share incentive costs (including vesting settlement)		23	#	23
Balance at 30 June 2016	818	96	17	931

Note

22 6

#Less than R1 million.

Statements of cash flows

for the year ended 30 June 2016

Company			Note	Group	
2016 Rm's	2015 Rm's			2016 Rm's	2015 Rm's
(1)	#	Cash generated by operations	27	892	864
10	12	Interest received	7	16	9
283	228	Dividends received	7	9	8
(#)	(1)	Taxation paid	28	(330)	(220)
		Finance cost	8	(2)	(6)
(279)	(227)	Dividends paid	29	(279)	(212)
13	12	Net cash flows from operating activities		306	443
		Cash flows from investing activities			
		Additions to property, plant and equipment	13	(375)	(219)
		Proceeds on disposal of plant and equipment		15	48
		Dividends from associates	15.2	21	12
		Purchase of interest in associates	15.2	—	(2)
		Proceeds from sale of interest in subsidiary*	37	—	13
		Decrease in cash from sale of controlling interest in subsidiary	37	—	(16)
		Purchase of interest in subsidiary ^o	35	(19)	(11)
1	13	Repayments of share trust loan	16		
(12)	(25)	Increase in amounts owing by subsidiaries	15.1		
(11)	(12)	Net cash flows utilised by investing activities		(358)	(175)
		Cash flows from financing activities			
		Repayment of interest-bearing loans and borrowings	24	—	(136)
		Treasury share movements from share scheme vestings	22	7	11
—	—	Net cash flows from/(utilised by) financing activities		7	(125)
2	#	Movement in cash and cash equivalents for the year		(45)	143
#	#	Cash and cash equivalents at beginning of year		392	249
2	#	Cash and cash equivalents at end of year	21	347	392

*Less than R1 million.

*Prior period proceeds related to the sale of controlling interest in SER-Export s.p.a (as per note 37).

^oTransaction with non-controlling interest of International Tap Distributors (Pty) Ltd and Cedar Point Trading 326 (Pty) Ltd.

Notes to the financial statements

for the year ended 30 June 2016

1. Accounting policies

1.1 Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS") its interpretations issued by the International Accounting Standards Board ("IASB"), International Financial Reporting Interpretations Committee ("IFRIC"), the JSE Listings Requirements, the requirements of the Companies Act, No 71 of 2008 of South Africa, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council.

1.2 Basis of preparation

The consolidated and separate financial statements are prepared on the historical cost basis, except for certain assets and liabilities that have been measured at fair value. The accounting policies set out below have been applied consistently to all periods presented in these consolidated and separate financial statements.

The following standard amendments are effective for the current financial year and resulted in additional disclosures for the Group (which includes the consolidated and separate financial statements) for the year ended 30 June 2016:

- ◆ IAS 1 – Amendment to IAS 1 – *Presentation of Financial Statements*.
- ◆ IAS 16 and IAS 38 – Amendment to IAS 16 and IAS 38 – *Property, Plant and Equipment and Intangible Assets*.
- ◆ IFRS 5 – Amendment to IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*.
- ◆ IFRS 7 – Amendment to IFRS 7 – *Financial Instruments: Disclosures*.
- ◆ IFRS 10, IFRS 12 and IAS 28 – Amendment to IFRS 10, IFRS 12 and IAS 28 – *Consolidated Financial Statements, Disclosure of Interest in Other Entities and Investments in Associates and Joint Ventures*.

The financial statements are presented in South African Rand and all values are rounded to the nearest million (Rm's), except where otherwise indicated, and have been prepared on a going concern basis.

1.3 Judgements and estimates

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

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

The key assumptions concerning the future and key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, relates to the following:

Inventory obsolescence provision

The Group determines whether there is obsolete inventory on an annual basis. This requires an estimation of the expected future saleability of inventory items based on historical experience, an analysis of market and fashion trends and a review of the ageing of the inventory items. Details pertaining to carrying values and write-offs are provided in note 19.

Classification of leased land and buildings

The Group leases certain properties it owns to its franchisees. The leased properties do not generate cash flows largely independently of other assets of the Group, as rental income is directly linked to the franchise agreement and does not account for the significant portion of income generated from the franchise agreement. The leased property has thus been classified as owner occupied, and not investment property.

Residual values and useful lives of buildings

The Group depreciates its buildings to estimated residual values over an estimated useful life. These estimates are reviewed annually by the Group at each reporting period with reference to expected usage of the buildings, expected physical wear and tear, and current market values. Details of residual values and useful lives are disclosed in note 1.9.

Impairment of tangible assets

The Group determines whether any of the tangible assets are impaired at each reporting date. This requires consideration of the current and future economic and trading environment; available valuation information and the physical state of the tangible assets, to ascertain if there are indications of impairment to those owned by the Group. Details of impairments recorded during the current financial year, and carrying values, are disclosed in notes 13 and 14.

1. Accounting policies *(continued)*

1.3 Judgements and estimates *(continued)*

Share-based payments

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in note 6.

1.4 Basis of consolidation

The consolidated financial statements incorporate the results and financial position of the Company, its subsidiaries, its associates, the Share Incentive Trust, the BEE Trust and the Foundation Trust.

Subsidiaries are those companies in which the Group has the power to exercise control over. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power of the investee. The results of subsidiaries are included from the effective dates of acquisition, being the dates on which the Group obtains control, until the dates that control ceases. The identifiable assets and liabilities of companies acquired are assessed and included in the statement of financial position at their fair values as at the effective dates of acquisition.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

All intragroup balances, transactions, unrealised gains and losses resulting from intragroup transactions and dividends are eliminated in full.

All companies in the Group maintain consistent accounting policies and have the same year ends.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the parent. Non-controlling interests are not fair valued post acquisition.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- ◆ Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- ◆ Derecognises the carrying amount of any non-controlling interest;
- ◆ Derecognises the cumulative translation differences, recorded in equity;
- ◆ Recognises the fair value of the consideration received;
- ◆ Recognises the fair value of any investment retained;
- ◆ Recognises any surplus or deficit in profit or loss; and
- ◆ Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

1.5 Business combinations and goodwill

New acquisitions are included in the Group's financial statements using the acquisition method whereby the assets, liabilities and contingent liabilities are measured at their fair value. The purchase consideration is allocated on the basis of fair values at the date of acquisition.

Goodwill is initially measured at cost and represents the excess of the purchase consideration over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition.

Notes to the financial statements continued

for the year ended 30 June 2016

1. Accounting policies *(continued)*

1.5 Business combinations and goodwill *(continued)*

Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill carried in the statement of financial position is not amortised. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the acquisition. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of the cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of, is included in the carrying amount of the operation when determining the gain or loss on disposal of that operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

1.6 Investment in subsidiaries (as accounted for on an entity level within the Group)

Investment in subsidiaries are initially recorded at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. Investments are carried at cost, less impairment.

The carrying value of the subsidiaries is reviewed for impairment at every reporting date. Where necessary, the value of the investment is impaired to the greater of the fair value less costs of disposal or the value in use.

The difference between the net proceeds on disposal and the carrying amount of investments is charged to profit or loss in the statement of comprehensive income.

1.7 Treasury shares

Shares in Italtile Limited held by the Group are classified in equity attributable to equity holders of the parent as treasury shares. These shares are treated as a deduction from the issued and weighted average number of shares. Dividends received on treasury shares are eliminated on consolidation. No gain or loss on the purchase, sale, issue or cancellation of the Group's listed shares is recognised in profit and loss. Consideration received or paid with regards to treasury shares is recognised in equity.

1.8 Foreign currencies

The consolidated and separate financial statements are presented in Rand, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences, including tax effects, are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The Group has investments in foreign subsidiary companies which are classified as foreign operations with functional currencies that are different to that of the Group. The financial statements of these subsidiaries are translated for incorporation into the Group financial statements as follows:

- ◆ Assets and liabilities at the rates ruling at the reporting date.
- ◆ Statement of comprehensive income items at a weighted average rate for the period.
- ◆ Cash flow items at a weighted average rate for the period.
- ◆ Equity items at the appropriate historical rate.

Exchange differences are taken directly to a foreign currency translation reserve which is disclosed in other comprehensive income in the statement of comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income, relating to that particular foreign entity, is recognised in profit or loss.

1. Accounting policies *(continued)*

1.8 Foreign currencies *(continued)*

The Group accounts for the disposal of a foreign subsidiary, by reclassifying accumulated exchange differences related to this entity (recorded as foreign currency translation reserve) to profit and loss. Where the transaction has been accounted for as a common control transaction, foreign currency translation reserves related to foreign investments distributed by the entity but retained by the Group are still recognised in foreign currency translation reserve (see note 23).

1.9 Property, plant and equipment

All buildings are carried at cost less accumulated depreciation and accumulated impairment, if any.

A valuation to open market value for existing use is done every three years for impairment assessment purposes.

All plant and equipment is stated at cost less accumulated depreciation and accumulated impairment, if any.

Depreciation is calculated on the straight-line basis estimated to write each asset down to estimated residual value over the term of its useful life at the following annual rates:

	Useful life	Residual value
◆ Buildings	5%	80%
◆ Plant and machinery	20% to 25%	zero
◆ Vehicles	20% to 25%	zero
◆ Computer equipment	20% to 33,3%	zero
◆ Furniture and fittings	16,6% to 33,3%	zero

Depreciation commences when the asset is available and in condition for use as intended by management. The useful lives, methods of depreciation and residual values are reviewed, and adjusted if appropriate, at each financial year end. Land is not depreciated.

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs of disposal, an appropriate valuation model is used. All repairs and maintenance are recognised in the statement of comprehensive income as incurred.

Impairment losses of continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset. In addition, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on derecognition of assets are determined by reference to their carrying amount and the net disposal proceeds and are taken to the statement of comprehensive income in the year the asset is derecognised.

1.10 Investment properties

Investment properties are carried at cost less accumulated depreciation and accumulated impairment, if any.

Depreciation is calculated on the straight-line basis estimated to write each asset down to estimated residual value over the term of its useful life at the following annual rates:

	Useful life	Residual value
◆ Buildings	5%	80%

Depreciation commences when the asset is available and in condition for use as intended by management. The useful lives, methods of depreciation and residual values are reviewed, and adjusted if appropriate, at each financial year end. Land is not depreciated.

Notes to the financial statements continued

for the year ended 30 June 2016

1. Accounting policies *(continued)*

1.10 Investment properties *(continued)*

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs of disposal, an appropriate valuation model is used. All repairs and maintenance are recognised in profit and loss as incurred.

Impairment losses of continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset. In addition, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

1.11 Inventory

Inventory is valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and costs necessary to make the sale. Cost is determined on a weighted average cost method and excludes cash discounts, rebates and relevant indirect taxes.

1.12 Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Current tax items relating to other comprehensive income are recognised in other comprehensive income or directly in equity.

Deferred income tax

Deferred income tax is provided on the liability method, on recognised temporary differences at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, other than in the circumstances described below. Deferred tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward or unused tax assets and unused tax losses can be utilised, other than in the circumstances described below. Furthermore, deferred tax assets are reviewed at each reporting date.

The carrying amount is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not recognised where they arise from goodwill arising on acquisition or from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

1. Accounting policies *(continued)*

1.12 Taxes *(continued)*

Offset of tax assets and liabilities

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied on the same entity by the same tax authority.

Value added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT except:

- ◆ Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense items, as applicable; and
- ◆ Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of other receivables or other payables in the statement of financial position.

Dividend withholding tax

Dividend withholding tax is imposed on shareholders at a rate of 15% on the receipt of dividends, and is withheld and paid to taxation authorities by the company paying the dividend. By election, the Group is exempt from dividend withholding tax on its dividend receipts, except for certain consolidated entities which hold treasury shares. The dividend withholding tax for such entities is included in the Group's taxation expense.

1.13 Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable and is recognised when the significant risks and rewards of ownership are transferred to the buyer. It excludes cash discounts, rebates and relevant indirect taxes.

Revenue from fixed property rental is turnover-related and recognised when the underlying sale of goods takes place.

Interest is recognised on a time proportion basis which takes into account the effective yield on the asset over the period it is expected to be held.

Dividends are recognised when the right to receive payment is established.

Revenue from franchise income and royalties is recognised on the accrual basis in accordance with the substance of the agreement.

1.14 Employee benefits

Retirement benefits

Defined-contribution plan

Current contributions to the retirement benefit plan are charged against profit and loss as services are rendered by the employee.

Short-term benefits

The cost of all short-term employee benefits is recognised as an expense during the period in which the employee renders the related service. Liabilities for employee entitlements to wages, salaries and leave represent the amount that the Group has a present obligation, as a result of employee services provided to the reporting date, to the extent that such obligation can be reliably estimated. The accruals have been calculated at discounted amounts based on current wage and salary rates.

Full-time employees of the Group are entitled to a profit incentive payment based on the performance of the Group. The Group thus has a present obligation as a result of the employee services provided to the reporting period, to the extent that such obligation can be reliably estimated. The accruals have been calculated at undiscounted amounts based on current wage and salary rates.

1.15 Equity participation plan

Selected employees, including directors, of the Group receive remuneration in the form of share options, whereby they render services in exchange for rights over shares. The cost of share options is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a Black-Schöles option-pricing model, further details of which are given in note 6. In valuing the share options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Italtile Limited.

Notes to the financial statements continued

for the year ended 30 June 2016

1. Accounting policies *(continued)*

1.15 Equity participation plan *(continued)*

The cost of the share options is recognised, together with a corresponding increase in shareholders' equity, over the vesting period ending on the date on which the service conditions are fulfilled and the employees become fully entitled to take up the share options. The cumulative expense recognised for share options granted at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of share option grants that will ultimately vest in the opinion of the directors of the Group, at that date. This is based on the best available estimate of the number of share options that will ultimately vest. No expense is recognised for share options that do not ultimately vest.

Where the terms of the share options are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transactions, as a result of the modification, as measured at the date of modification.

Where a share option is forfeited prior to vesting, any expense previously recognised for the award is reversed immediately. Where an award is cancelled, other than an award cancelled by forfeiture when the vesting conditions are not satisfied, it is treated as if it vested on the date of cancellation, and any expense not yet recognised, is recognised immediately. If a new share option is substituted for the cancelled share option, and designated as a replacement share option on the date that it is granted, the cancelled and new share option grant are treated as if they were a modification of the original grant, as described above.

The dilutive effect of outstanding options is reflected as a share dilution in the computation of diluted earnings per share (refer to note 10).

1.16 Financial instruments

Financial instruments carried on the statement of financial position comprise cash and cash equivalents, trade and other receivables, trade and other payables, and interest-bearing loans and borrowings.

Classification

The Group's financial assets and financial liabilities are classified as follows:

Description of asset/liability	Classification
Investments	At amortised cost
Investment in associates	Equity accounted
Loan to BEE Trust	Loans and receivables
Trade and other receivables	Loans and receivables
Cash and cash equivalents	Loans and receivables
Interest-bearing loans and borrowings	Financial liability carried at amortised cost
Trade and other payables	Financial liability carried at amortised cost

Measurement

All financial instruments are recognised at the time the Group becomes party to the contractual provisions of the instruments. Financial instruments are initially measured at fair value. Directly attributable transaction costs are included in the fair value, unless it is classified as fair value through profit or loss. The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Cash and cash equivalents that have a fixed maturity date are subsequently measured at amortised cost using effective interest rates. Generally, cash and cash equivalents have a maturity of three months or less.

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, trade and other receivables are subsequently carried at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in profit and loss when trade and other receivables are derecognised or impaired, as well as through the amortisation process. In relation to trade receivables, a provision for impairment is made where there is objective evidence (such as probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible. If there is objective evidence that an impairment loss on other receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the receivable is reduced through the use of an allowance account.

1. Accounting policies (continued)

1.16 Financial instruments (continued)

Measurement (continued)

Trade and other payables are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Fair value

The Group measures the fair value of financial instruments at each statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ◆ in the principal market for the asset or liability, or
- ◆ in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ◆ Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ◆ Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- ◆ Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Derivative financial instruments

The Group uses foreign exchange contracts to manage its risks associated with foreign currency fluctuations. Details of the Group's financial risk management objectives and policies are set out in note 32.

All derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Any gain or loss from remeasuring the derivative financial instrument to fair value is recognised immediately in profit or loss.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Derecognition of financial instruments

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- ◆ The rights to receive cash flows from the asset have expired;
- ◆ The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- ◆ The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flow from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Notes to the financial statements continued

for the year ended 30 June 2016

1. Accounting policies *(continued)*

1.16 Financial instruments *(continued)*

Derecognition of financial instruments (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit and loss.

Offset of financial instruments

Financial assets and liabilities are set off against each other where there is an intention to settle the amounts simultaneously, and a currently enforceable legal right of set-off exists.

1.17 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets, or the arrangement conveys a right to use the asset.

Group as a lessee

All leases are operating leases and the relevant rentals are charged to profit or loss on a straight-line basis.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Rental income from the leases are based on a percentage of turnover and is recognised when the underlying sale of goods by the lessee takes place. Contingent rents are recognised as revenue in the period in which they are earned.

1.18 Dividends paid

Dividends paid are recognised as appropriations of reserves in the statement of changes in equity at the dates of declaration.

1.19 Investment in associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

Profit and loss in the statement of comprehensive income reflects the share of the results of operations of the associate in profit or loss. Any change in other comprehensive income of the associate is presented as part of the Group's other comprehensive income. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of an associate is included in profit or loss. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in profit or loss.

1. Accounting policies (continued)

1.20 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

1.21 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intend to adopt those standards when they become effective. The Group expects that adoption of these standards, amendments and interpretations in most cases not to have any significant impact on the Group's financial position or performance in the period of initial application but additional disclosures will be required. In cases where it will have an impact the Group is still assessing the possible impact.

IAS 7 – *Statement of Cash Flows* (Amendment)

The amendments are part of the IASB's disclosure initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendment is effective for annual periods beginning on or after 1 January 2017 and will have a minimal impact on the Group.

IAS 12 – *Income Taxes* (Amendment)

The amendment clarifies the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendment is effective for annual periods beginning on or after 1 January 2017 and will have no impact on the Group.

IFRS 2 – *Share-based Payment* (Amendment)

The IASB issued amendments to IFRS 2 *Share-based Payment* in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas: The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity settled. The amendment is effective for annual periods beginning on or after 1 January 2018 and will have no impact on the Group.

IFRS 9 – *Financial Instruments: Classification and Measurement*

The IASB issued the final version of IFRS 9 – *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 – *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9.

The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 15 – *Revenue from Contracts with Customers*

IFRS 15 replaces IAS 11 – *Construction Contracts*, IAS 18 – *Revenue* and related interpretations. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRS, such as IAS 17 – *Leases*. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets, such as property or equipment. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgements and estimates. The standard is effective for annual periods beginning on or after 1 January 2018.

IFRS 16 – *Leases*

IFRS 16 replaces IAS 17 – *Leases and Related Interpretations*. IFRS 16 – The scope of IFRS 16 includes leases of all assets, with certain exceptions. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The impact of this is that lessee accounting will change extensively but lessor accounting will remain substantially unchanged. The standard requires lessees and lessors to make more extensive disclosures than under IAS 17. This standard is effective for annual periods beginning on or after 1 January 2019. The adoption of IFRS 16 will have an impact on how the Group accounts for its operating leases both as a lessee and a lessor and will result in more extensive disclosures in the Integrated Annual Report.

Company		Group	
2016 Rm's	2015 Rm's	2016 Rm's	2015 Rm's
	5. Trading profit		
	Trading profit is stated after taking into account the following terms:		
	Auditors' remuneration		
#	# – Audit fee	4	3
#	# – Other fees	1	1
#	# – Expenses	#	#
#	#	5	4
	Depreciation		
	Owned and leased		
	– Buildings	20	17
	– Plant and machinery	6	6
	– Vehicles	8	6
	– Computer equipment	8	9
	– Furniture and fittings	37	32
		79	70
	Operating lease payments		
	– Properties	28	22
	All the operating leases pertain to properties that are rented and then sublet to Group-owned and franchised stores. There are no trading restrictions on any of the leases.		
	Total of future minimum contracted operating lease payments:		
	Within 1 year	31	18
	Within 2 – 5 years	76	30
	Later than 5 years	106	3
		213	51
	Employee remuneration		
	– Salaries and wages	198	169
	– Profit share	31	37
	– Contributions to retirement benefits	19	17
		248	223
	Other		
	Profit on sale of property, plant and equipment	11	7
	Share-based payment expense	40	32

#Less than R1 million.

Notes to the financial statements continued

for the year ended 30 June 2016

6. Share-based payments

Black Economic Empowerment transaction

The Company issued 88 000 000 shares in terms of a Black Economic Empowerment, or BEE, transaction on 11 February 2008. The shares were issued at R4,57 per share, which represented a discount of 17% to the volume weighted average price of the Company's shares over the month of March 2007. The transaction was funded by way of the Company subscribing to preference shares in the empowerment vehicles, Four Arrows Investments 256 (Pty) Ltd (Four Arrows) and Arrow Creek Investments 74 (Pty) Ltd (Arrow Creek). These preference shares attracted dividends at a rate of 70% of the prevailing prime interest rate. Any dividends paid on the Company's shares to the empowerment vehicles are firstly used to fund the preference share dividends payable to the Company, and then to redeem a portion of the outstanding preference shares.

The initial terms of the transaction were as follows:

The BEE partners may not sell or otherwise encumber the shares for a period of seven years, after which the Company will have the pre-emptive right to reacquire the shares at 83% of the trade weighted average price at which the Company's shares traded on the JSE during the 10 trading days immediately preceding the date of purchase. The Company may force a repurchase of the shares after eight years have elapsed, again at 83% of the trade weighted average price at which its shares traded on the JSE during the 10 trading days immediately preceding the date of purchase. The cash proceeds from this sale will be used to settle any remaining obligations in terms of the preference shares.

The economic substance of this transaction is that the BEE partners have received an equity-settled call option over the Italtile Limited shares, which were to mature in eight years' time. The cost of the transaction was valued accordingly by using a Monte Carlo simulation model and using the following inputs:

Share price	R3,03
Exercise price	R4,57
Volatility	28%
Time to maturity	8 years
Risk-free interest rate	9,89%
Prime interest rate	13,21%
Dividend yield	2%

The model is not particularly sensitive to the risk-free and prime interest rate assumptions, as any change in the one would generally be offset by a change in the other. The predicted volatility is based on an analysis of the historic Italtile Limited share price volatility, over the last seven years.

The total cost of the transaction was determined as R25 million, which was recognised in the 2008 financial year (no additional costs have subsequently been recognised).

During July 2012, the Italtile shareholders were advised of the exit of Aka Capital which held its investment in Italtile through Arrow Creek. Arrow Creek owned 26,4 million shares in Italtile Limited which were purchased during 2007 for a total price of R120,6 million.

As the Company required these shares to be continued to be owned by a BEE shareholder, The Italtile Foundation Trust was created and acquired these shares from Arrow Creek for a purchase consideration of R120,6 million which was facilitated by an interest free loan of the same amount, from the Company. The loan shall become due and payable in full on the 10th anniversary of the advance date.

The objective of The Italtile Foundation Trust is to carry on one or more public benefit activities as determined by its trustees from time to time for the benefit of the Foundation Trust beneficiaries. At least 85% of all distributions made by the Foundation Trust will be for the benefit of black people.

Amendments to the Four Arrows preference shares subscription agreement were also concluded. The existing variable rate, equal to 70% of prime, at which dividends are calculated, are now to be calculated at a fixed rate of 5% of subscription price. The redemption of the Four Arrows preference shares has also been extended to 15 years of the date upon which they were subscribed by Italtile.

For further details on this transaction, refer to the circulars dated 20 June 2007 and 13 July 2012.

6. Share-based payments *(continued)*

Long-Term Incentive Plan

During the 2010 financial year, a long-term incentive plan was adopted by the Company, in accordance with which selected directors and employees of the Group are entitled to receive notional share awards. These awards vest as follows: 25% after three years, and 75% after five years. The exercise price is determined in accordance with the rules of the scheme.

The plan has been classified as an equity-settled share-based payment scheme and has been fair valued on each grant date using a modified Black-Schöles model. The following assumptions and inputs were used in valuing the notional awards on grant dates:

Grant date	14 August 2009	1 October 2010
Notional share award	4 850 000	2 200 000
Share price on grant date	R3,35	R3,70
Interest rate – zero yield curve*	7,06% – 8,36%	5,98% – 7,28%
Dividend	R0,11 per share per annum	R0,11 per share per annum

*Source: Standard Bank.

The movement in the number of awards during the year is as follows:

	Number of awards	
	2016	2015
At 1 July	600 000	1 781 250
Awarded during the year	—	—
Vested and exercised during the year	(600 000)	(1 181 250)
Forfeited during the year	—	—
At 30 June	—	600 000

The exercise price of awards exercised during the year was R11,80 (2015: R9,27) per award.

The weighted average vesting period of awards outstanding at year end is 0 years (2015: 0,25 years) as all awards have vested.

No awards were granted in 2016 and 2015. Included in the expenses in the profit and loss for the year is R0,1 million (2015: R0,5 million) relating to the current year share-based payment expense for this scheme.

Notes to the financial statements continued

for the year ended 30 June 2016

6. Share-based payments *(continued)*

Share Appreciation Rights Scheme

During the 2011 financial year, a share appreciation rights scheme was adopted by the Company, in accordance with which selected directors and employees of the Group are entitled to receive notional share awards based on the increase in share price from grant date price. These awards vest as follows: 25% after three years, and 75% after five years. The exercise price is determined in accordance with the rules of the scheme.

The plan has been classified as an equity-settled share-based payment scheme and has been fair valued on each grant date using a modified Black-Schöles model. The following assumptions and inputs were used in valuing the notional awards on grant dates:

Grant date	1 October 2010	1 September 2011	26 June 2012	15 August 2013	31 August 2014	31 August 2015
Notional share award	500 000	3 050 000	9 050 000	1 050 000	8 500 000	5 600 000
Grant price	R3,56	R4,21	R5,55	R6,30	R9,27	R11,43
Interest rate – zero yield curve*	6,57% – 7,11%	5,71% – 6,39%	5,72% – 6,34%	6,59% – 7,40%	6,84% – 7,23%	7,31% – 7,73%
Dividend yield	2,66%	2,66%	2,51%	2,37%	2,13%	1,92%

*Source: Standard Bank.

The movement in the number of awards during the year is as follows:

	Number of awards	
	2016	2015
At 1 July	17 087 500	12 675 000
Awarded during the year	6 100 000	8 500 000
Vested and exercised during the year	(500 000)	(2 762 500)
Forfeited during the year	—	(1 325 000)
At 30 June	22 687 500	17 087 500

The weighted average vesting period of awards outstanding at year end is 2,25 years (2015: 2,75 years).

The fair value of the awards granted over the year to 30 June 2016 was R20,7 million (2015: R24,6 million). Included in the expenses in the profit and loss for the year is R13,7 million (2015: R10,2 million) relating to the current year share-based payment expense for this scheme.

Staff Share Scheme

During the 2014 financial year, the Group implemented a share incentive scheme for all employees of the Group and its franchisees that had been in the employ of the Group and/or franchise network for a period of three uninterrupted years at each allotment date in August every year from the implementation date. As a result, 15,3 million of the Group's shares net of forfeitures were held by qualifying staff members at 30 June 2016 (2015: 14,5 million). Until vesting, the shares will continue to be accounted for as treasury shares and have an impact on the diluted weighted average number of shares.

The allotment is funded by the Group and the shares are restricted instruments which will vest with employees following a further three years of employment. Until vesting, the shares will continue to be accounted for as treasury shares.

The scheme is classified as an equity-settled share-based payment scheme and has been fair valued on each grant date using a modified Black-Schöles model. The following assumptions and inputs were used in valuing the awards:

Grant date	31 August 2013	31 August 2014	31 August 2015
Vesting date	31 August 2016	31 August 2017	31 August 2018
Share awards	14 970 000	3 638 025	3 139 500
Grant price per share	R4,57	R4,57	R4,57
Share price on grant date	R6,00	R9,30	R11,50
Interest rate – zero yield curve*	5,01% – 8,77%	6,06% – 8,44%	6,63% – 8,52%
Dividend yield	2,40%	2,31%	2,15%

*Source: Standard Bank.

6. Share-based payments *(continued)*

The movement in the number of awards during the year is as follows:

	Number of awards	
	2016	2015
At 1 July	14 452 725	12 600 000
Awarded during the year	3 139 500	3 638 025
Forfeited during the year	(2 242 800)	(1 785 300)
At 30 June	15 349 425	14 452 725

The weighted average vesting period of awards outstanding at year end is 0,22 years (2015: 1,18 years).

The fair value of the awards granted over the previous year to 30 June 2016 was R6,33 per award (2015: R4,43).

Included in the expenses in the profit and loss for the year is R13 million (2015: R12 million) relating to the current year share-based payment expense for this scheme. R9 million (2015: R7 million) is a once-off charge related to employees of the Group's franchisees.

Share schemes reserve – Company and Group

The composition of the Share schemes reserve is as follows:

	2016 Rm's	2015 Rm's
Black Economic Empowerment transaction	30	30
Long-Term Incentive Plan and Share Appreciation Rights Scheme	29	17
Staff Share Scheme	36	25
	95	72

Executive Retention Plan

The Executive Retention Plan is an additional mechanism, over and above the Long-Term Incentive Plan and Share Appreciation Rights Scheme, to retain and reward selected employees and directors. In terms of this scheme, retention payments are made to selected directors and employees to facilitate the purchase of Italtile Limited shares based on the share price at grant date. The payment of the retention award is subject to the director or employee remaining with the Group for a period of at least three years. The director or employee shall be the registered and beneficial holder of the shares acquired pursuant to the retention award from the date of transfer of such shares.

The movement in the number of retention awards to eligible participants is as follows:

	Number of awards	
	2016	2015
At 1 July	3 200 000	1 200 000
Awarded during the year	1 000 000	2 000 000
Vested and exercised during the year	(1 200 000)	—
Forfeited/cancelled during the year	—	—
At 30 June	3 000 000	3 200 000

The net cost to the Group (the cash cost of the award less the profit on disposal of shares by the Italtile Share Incentive Trust) of this plan is written off over the three-year retention period and amounted to R8,6 million in the current year (2015: R4,2 million).

Since the year-end date and the approval of the annual financial statements, no changes were made to the terms of the share schemes.

Notes to the financial statements continued

for the year ended 30 June 2016

Company			Group	
2016 Rm's	2015 Rm's		2016 Rm's	2015 Rm's
		7. Finance income		
	#	Bank interest received	16	9
283	228	Dividends received	9	8
10	12	Interest income from special purpose entities		
293	240	Total finance income	25	17
		8. Finance cost		
		Bank loans and overdraft	2	6
		Total finance cost	2	6
		9. Taxation		
		Current taxation through profit and loss		
#	1	– Normal tax (South Africa) – current year	299	243
		– Normal tax (Foreign) – current year	14	10
		– Normal tax (South Africa) – prior year adjustments	#	(8)
		– Deferred tax (South Africa) – current year	2	1
		– Deferred tax (Foreign) – current year	#	#
		– Deferred tax (South Africa) – prior year adjustments	#	1
		– Deferred tax (Foreign) – prior year adjustments	—	#
		– Dividend withholding tax	#	#
#	1		315	247
		Reconciliation of tax rate		
	%	Standard tax rate – South Africa	%	%
28,0	28,0		28,0	28,0
		Adjusted for:		
(28,1)	(27,9)	Exempt income*	(0,5)	(1,3)
		Tax effect from income from associates	(2,3)	(1,8)
		Other differences, including effect of foreign tax rates, prior period over/under provisions and dividend withholding tax paid by SPEs		
0,1	0,1		1,8	0,4
0,0	0,2	Effective tax rate	27,0	25,3
		*Exempt income comprises profit on sale of property, plant and equipment, and dividends received. In the prior year this also includes profit from sale of interest in subsidiary (note 37), and foreign subsidiary liquidation (note 23).		
		10. Earnings per share		
		Earnings per share and diluted earnings per share is based on the income attributable to ordinary shareholders of R813 million (2015: R700 million).		
		The earnings per share calculations are based on 925 486 101 (2015: 923 206 298) weighted average number of shares in issue during the period, excluding weighted average treasury shares.		
		Reconciliation of shares in issue:		
		– Total number of shares issued	1 033 332 822	1 033 332 822
		– Share held by Share Incentive Trust	(19 543 364)	(21 088 718)
		– BEE treasury shares	(88 000 000)	(88 000 000)
		Shares in issue to external parties	925 789 458	924 244 104

*Less than R1 million.

Company			Group	
2016 Rm's	2015 Rm's		2016 Rm's	2015 Rm's
		10. Earnings per share <i>(continued)</i>		
		The calculation of diluted earnings per share is based on:		
		Weighted average number of shares in issue for basic earnings per share	925 486 101	923 206 298
		Potentially dilutive ordinary shares resulting from outstanding share-based payment awards per note 6	15 067 477	11 121 682
		Weighted average number of shares for diluted earnings per share	940 553 578	934 327 980
		11. Headline earnings per share		
		The calculation of headline and diluted headline earnings per share is based on the income attributable to ordinary shareholders – as used in the calculation for basic earnings, adjusted in terms of Circular 2/2013, Headline Earnings.		
		Reconciliation of headline and diluted headline earnings		
		Basic earnings	813	700
		Profit on sale of property, plant and equipment	(9)	(6)
		Gross amount	(11)	(7)
		Taxation	2	1
		Fair value gain on SER-Export part disposal	–	(14)
		Reclassification of exchange differences to income	–	(19)
		Headline and diluted headline earnings	804	661
		No adjustment to earnings are required for diluted earnings per share calculations, as the share awards do not have an impact on diluted earnings.		
		Refer to note 10 for further details and calculations related to weighted average number of shares and diluted weighted average number of shares used for the headline and diluted headline earnings per share calculations.		
		12a. Dividends paid in the current year		
134	103	Final 2015 – No 98		
		Paid 2016: 13 cents per share (2015: 10 cents per share)	120	92
145	124	Interim 2016 – No 99		
		Paid 2016: 14 cents per share (2015: 12 cents per share)	132	112
279	227	Total – 27 cents per share (2015: 22 cents per share)	252	204

Notes to the financial statements continued

for the year ended 30 June 2016

Company			Group	
2016 Rm's	2015 Rm's		2016 Rm's	2015 Rm's
		12b. Dividends declared in relation to current year profit		
		Interim – No 99		
145	124	14 cents per share (2015: 12 cents per share)	132	112
		Final – No 100 (post-year end)		
155	134	15 cents per share (2015: 13 cents per share)	139	120
300	258	Total – 29 cents per share (2015: 25 cents per share)	271	232

	Land and buildings Rm's	Plant and machinery Rm's	Vehicles Rm's	Computer equipment Rm's	Furniture and fittings Rm's	Total Rm's
13. Property, plant and equipment						
2016						
Owned and leased						
Beginning of year						
– assets at cost	1 256	58	31	53	272	1 670
– accumulated depreciation	(75)	(43)	(16)	(43)	(197)	(374)
– net book value	1 181	15	15	10	75	1 296
Current year movements						
– additions	284	7	20	11	53	375
– disposals	(2)	#	(1)	(1)	#	(4)
– depreciation	(19)	(6)	(8)	(8)	(37)	(78)
– translation	6	(1)	#	#	#	5
Balance at end of year	1 450	15	26	12	91	1 594
Made up as follows:						
– assets at cost	1 539	62	45	62	302	2 010
– accumulated depreciation and impairments	(89)	(47)	(19)	(50)	(211)	(416)
Net book value	1 450	15	26	12	91	1 594

Less than R1 million.

A register of the Group's land and buildings is available for inspection at the Company's registered office.

	Land and buildings Rm's	Plant and machinery Rm's	Vehicles Rm's	Computer equipment Rm's	Furniture and fittings Rm's	Total Rm's
13. Property, plant and equipment <i>(continued)</i>						
2015						
Owned and leased						
Beginning of year						
– assets at cost	1 282	51	25	48	266	1 672
– accumulated depreciation	(96)	(38)	(12)	(36)	(194)	(376)
– net book value	1 186	13	13	12	72	1 296
Current year movements						
– additions	158	8	10	8	35	219
– disposals	(45)	#	(2)	(1)	#	(48)
– depreciation	(17)	(6)	(6)	(9)	(32)	(70)
– translation	(5)	#		#	#	(5)
– impairment reversal	1					1
– transfers to investment property	(97)					(97)
Balance at end of year	1 181	15	15	10	75	1 296
Made up as follows:						
– assets at cost	1 256	58	31	53	272	1 670
– accumulated depreciation and impairments	(75)	(43)	(16)	(43)	(197)	(374)
Net book value	1 181	15	15	10	75	1 296

#Less than R1 million.

An immaterial impairment reversal of R1 million was recorded on the property in Australia in the prior year.

As the Group's property in Australia is leased to third parties, it was reclassified from property, plant and equipment to investment property in the prior year. The carrying value of this property is determined using the cost model per IAS 40 – *Investment Property*, and was R97 million at 30 June 2015. During the prior reporting period, the Group realigned the useful lives and residual values of certain buildings with the resulting impact thereof being immaterial.

Company		Group	
2016 Rm's	2015 Rm's	2016 Rm's	2015 Rm's
	15. Investments <i>(continued)</i>		
	15.2 Investment in associates		
	Ezee Tile		
	During the 2011 financial year, the Group began accounting for an existing investment in Ezee Tile, a national manufacturer of adhesive, grout and related products, in accordance with the equity accounting requirements of IAS 28 – <i>Investments in Associates</i> . The Group holds an effective 46% stake in the Ezee Tile group.		
	Carrying value of investment in the Ezee Tile group:		
	Cost – closing balance	19	19
	Cost – opening balance	19	17
	Purchase of additional minority interest	—	2
	Share of profit and reserve movements post commencement of equity accounting (net of dividends)	30	20
	Share of profits	38	26
	Dividends received	(8)	(6)
		49	39
	Ceramic Industries (Pty) Ltd		
	During the 2013 financial year, the Group acquired a 20% stake in Ceramic Industries (Pty) Ltd, a national manufacturer of tiles and sanitaryware, at a cost of R529 million. This investment is accounted for as an associate in terms of IAS 28, as management is of the opinion that by virtue of the supply relationship, significant influence exists.		
	Carrying value of Investment in Ceramic Industries (Pty) Ltd:		
	Cost	529	529
	Share of profit and reserve movements post commencement of equity accounting (net of dividends)	76	4
	Share of profits	167	84
	Reserve movements	13	4
	Dividends received	(104)	(84)
		605	533
	SER-Export s.p.a.		
	During the 2015 financial year, the Group disposed of a 20% stake in SER-Export s.p.a. to its existing partner in this entity, reducing the Group's effective shareholding to 30% (refer to note 37).		
	Carrying value of investment in SER-Export s.p.a.:		
	Cost	19	19
	Share of profit and reserve movements post commencement of equity accounting (net of dividends)	1	—
	Share of profits	1	—
		20	19
	Total carrying amount of investments in associates	674	591

Notes to the financial statements continued

for the year ended 30 June 2016

Company		Group	
2016 Rm's	2015 Rm's	2016 Rm's	2015 Rm's
	15. Investments (continued)		
	15.2 Investment in associates (continued)		
	The following tables illustrate the summarised financial information of the Group's investment in the Ezee Tile group, Ceramic Industries (Pty) Ltd and SER-Export s.p.a.:		
	Statement of financial position:		
	Non-current assets	1 345	989
	Current assets	1 275	1 007
	Non-current liabilities	(72)	(57)
	Current liabilities	(517)	(393)
	Equity	2 031	1 546
	Statement of comprehensive income:		
	Turnover	3 492	2 891
	Profit for the year	454	299
	Profit attributable to ordinary shareholders of Italtile Limited	96	62
	Reserve movements attributable to ordinary shareholders of Italtile Limited	8	(3)
	Less: Dividends	(21)	(12)
	Share of associated companies' income	83	47
133	16. Long-term financial assets		
	Loan to Foundation Trust		
	Lease premiums	15	15
133		15	15
	In order to raise funds necessary to purchase BEE shares (refer to note 6), the Company has funded the Foundation Trust by way of a loan. The loan to the Foundation Trust is interest free and the fair value approximates the carrying value given the corporate social investment nature of the loan (these loans are commonly interest free). Loan is fully repayable by 2022.		
	In the prior year the remaining R25 million of impairment raised in 2010 on The Italtile Empowerment Trust Loan was reversed as a result of the appreciation of the Italtile Limited share price as the shares held by this Trust are pledged as security for the loan. Refer to note 6.		
	Lease premiums are paid in advance on land leases that have a duration of between 35 and 50 years and is subsequently amortised on a straight-line basis.		
	17. Goodwill		
	Made up as follows:		
	– cost	6	6
	Net book value	6	6
	There has been no movement in the balance in the current and previous financial year.		
	18. Deferred taxation		
	Deferred tax assets	20	18
	Deferred tax liabilities	(18)	(15)
		2	3

	Opening balance Rm's	Charged through profit and loss Rm's	Closing balance Rm's
18. Deferred taxation <i>(continued)</i>			
The deferred tax balance is made up as follows:			
Deferred tax asset:			
Accruals	21	3	24
Property, plant and equipment	#	1	1
Assessed loss	#	#	#
Deferred tax liability:			
Property, plant and equipment	(16)	(4)	(20)
Prepayments	(2)	(1)	(3)
Net deferred tax asset	3	(1)	2

Deferred tax assets and liabilities are only offset when the income tax relates to the same legal entity and fiscal authority.

The tax rate applied to South African entities is 28% (2015: 28%) for normal taxation.

#Less than R1 million.

Company	2016 Rm's	2015 Rm's	Group	2016 Rm's	2015 Rm's
			19. Inventories		
			Finished goods and merchandise	693	479
				693	479
			Inventory losses recognised as an expense totalled R14 million for the year (2015: R12 million). This expense is included in the operating expense line item on the face of the statement of comprehensive income.		
			20. Trade and other receivables		
			Trade receivables – net of impairment	133	123
			Prepayments	25	20
			Sundry debtors*	148	59
	591	580	Amounts owing by subsidiary		
	591	580		306	202

*Includes deposits and rebates receivable.

For terms and conditions relating to Group related-party receivables, refer to note 33.

Trade receivables are non-interest-bearing and are generally on 30-day terms.

The fair value approximates the carrying value due to the short-term nature of these balances.

The amounts owing by subsidiary represent amounts owing by Italtile Ceramics (Pty) Ltd. These amounts are unsecured, carry no interest and are payable on demand. Outstanding balances are settled from time to time based on the cash flow requirements of the various entities.

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20. Trade and other receivables *(continued)*

As at 30 June 2016, trade receivables at nominal value of R14 million (2015: R9 million) were impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

	Total Rm's
At 1 July 2014	9
Utilised during the year	(1)
Raised during the year	1
At 30 June 2015	9
Utilised during the year	#
Raised during the year	5
At 30 June 2016	14

#Less than R1 million.

As at 30 June 2016, the ageing analysis of trade receivables is as follows:

	Total Rm's	Current (not impaired) Rm's	Past due, not impaired 30 – 60 days Rm's	60 – 90 days Rm's	> 90 days Rm's	Past due, impaired
2016	147	125	#	3	5	14
2015	132	112	1	6	4	9

Company			Group	
2016 Rm's	2015 Rm's		2016 Rm's	2015 Rm's
2	#	21. Cash and cash equivalents		
		Cash at banks and on hand	203	249
		Cash equivalents	144	143
2	#		347	392
		Cash at banks earn interest at floating rates based on daily bank deposit rates. Cash equivalents are made for varying periods of between one day and three months, depending on immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.		
		The fair value approximates the carrying value due to the short-term nature of these balances.		

#Less than R1 million.

Company			Group	
2016 Rm's	2015 Rm's		2016 Rm's	2015 Rm's
		22. Stated capital		
		Authorised		
		3 300 000 000 ordinary shares of no par value		
		Issued		
818	818	1 033 332 822 (2015: 1 033 332 822) ordinary shares of no par value	818	818
		Aggregated treasury shares in issue	(454)	(461)
		<i>Number of shares in issue to external parties:</i>		
1 033 332 822	1 033 332 822	Total shares in issue	1 033 332 822	1 033 332 822
		Treasury shares: Share incentive trust and other	(19 543 364)	(21 088 718)
		BEE transaction	(88 000 000)	(88 000 000)
1 033 332 822	1 033 332 822	In issue to external parties	925 789 458	924 244 104
		All unissued shares are under the control of the directors until the next annual general meeting.		

		Foreign currency translation reserve Rm's	Total Rm's
23. Non-distributable reserve			
Balance as at 1 July 2014		102	102
Translation of foreign entities		18	18
Foreign subsidiary liquidation*		(19)	(19)
Sale of controlling interest in foreign subsidiary (note 37)		(12)	(12)
Balance as at 30 June 2015		89	89
Translation of foreign entities		33	33
Balance as at 30 June 2016		122	122

*Following the local establishment of a holding company regime for exchange control purposes and changes in local income tax legislation related to taxation of royalty flows, the Group decided to liquidate its operations in Mauritius in the prior period. Italtile Mauritius Limited housed the Group's non-South African trademarks and treasury function outside of South Africa.

In accordance with IAS 21 – The effects of Changes in Foreign Exchange Rates, certain accumulated exchange differences related to this entity (recorded as foreign translation reserve) was reclassified to income, which resulted in a once-off gain of R19 million. As the transaction was accounted for as a common control transaction, foreign currency translation reserves related to foreign investments distributed by the entity but retained by the Group are still recognised in foreign currency translation reserve.

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for the year ended 30 June 2016

Company		Group	
2016 Rm's	2015 Rm's	2016 Rm's	2015 Rm's
		24. Interest-bearing loans and borrowings	
		Loans	
		Australian Dollar	
		Loan secured by a first mortgage over property that has a carrying value of R47 million (2015: R47 million).	
		34	29
		The loan of R34 million bears interest at a fixed rate of 4,99% (2015: 4,99%) per annum, and matures on 4 October 2016.	
		34	29
		(34)	—
		Transfer to disposal group held for sale	
		—	29
		Non-current portion of interest-bearing debt	
		The fair value of the long-term borrowings approximates the carrying value, as the current market rates of interest do not differ materially from those specified in the loan agreements. At 30 June 2016, interest-bearing loans and borrowings were transferred to assets held in disposal group (as per note 36).	
		25. Trade and other payables	
		Trade payables	
		256	201
2	2	73	76
		Accruals/other payables	
2	2	329	277
		For terms and conditions relating to related parties, refer to note 33.	
		Trade payables are non-interest-bearing and are normally settled on 30-day terms.	
		Accruals/other payables are mostly non-interest-bearing and have an average term of three months.	
		The fair value of all trade and other payables approximates the carrying value, due to the short-term nature of these balances.	

	Leave pay Rm's	Incentive bonus Rm's	Total Rm's
26. Provisions			
Balance as at 1 July 2014	8	35	43
Provision utilised	(2)	(37)	(39)
Provision raised	6	33	39
Balance as at 30 June 2015	12	31	43
Provision utilised	(2)	(31)	(33)
Provision raised	1	42	43
Balance as at 30 June 2016	11	42	53

Leave pay is provided on accumulated leave balances at year end based on employees' cost to Company.

Provision for incentive bonus is expected to be realised when bonuses are paid in the 2017 financial year, and is based on terms as dictated in employment contracts (subject to the final approval from management).

Company			Group	
2016 Rm's	2015 Rm's		2016 Rm's	2015 Rm's
		27. Reconciliation of profit before taxation to cash generated from operations		
292	265	Profit before taxation	1 166	978
		Adjusted for:		
		Income from associates	(96)	(62)
		Depreciation	79	70
		Profit on sale of property, plant and equipment	(11)	(7)
(293)	(240)	Finance income	(25)	(17)
		Finance cost	2	6
		Share-based payment expense	27	14
—	(25)	Impairments reversal	—	(1)
		Profit on sale of controlling interest in subsidiary	—	(14)
		Gain on liquidation of foreign subsidiary	—	(19)
		Foreign currency translation difference	2	5
#	#	Other non-cash movements	#	#
		Working capital changes		
		Increase in inventories	(214)	(72)
		Increase in trade and other receivables	(101)	(57)
		Increase in trade and other payables, including provisions	63	40
(1)	#	Cash generated by operations	892	864
		28. Taxation paid		
#	#	Net amount prepaid at beginning of year	2	29
#	(1)	Charged per profit and loss	(315)	(247)
#	#	Net amount prepaid at end of year	(17)	(2)
#	(1)	Amounts paid	(330)	(220)
		29. Dividends paid		
(279)	(227)	Charged per statement of changes in equity	(252)	(204)
		Dividends paid to non-controlling interests	(27)	(8)
(279)	(227)	Amounts paid	(279)	(212)
		30. Commitments and contingencies		
		Capital commitments		
		Capital expenditure for land and buildings, computer equipment and other fixed assets:		
		Contracted	42	176
		Authorised but not contracted for	239	197
			281	373
		Capital expenditure will be financed from own resources.		

#Less than R1 million.

Operating lease commitments

Refer to note 5 for details of lease commitments.

Litigation

The Group is currently engaged in legal proceedings with its previous franchisee in Uganda. The disputes relate to amounts due to the Group by the franchisee (R15,5 million) and the ownership of land in Kampala (for which the Group has made a R4 million investment).

Notes to the financial statements continued

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31. Employee benefits

The Group participates in the Alexander Forbes Retirement Fund. This is an umbrella fund arrangement created for the provision of retirement benefits. The Fund is a defined-contribution plan and is governed by the Pension Funds Act, No 24 of 1956.

The financial position of the Alexander Forbes Retirement Fund (Provident Section): Italtile Limited is currently reviewed on a monthly basis. As at 30 June 2016, the Fund was found to be in a sound financial position.

At 30 June 2016, 1 500 (2015: 1 402) employees of the Group and Franchisees were members of the Fund, to which the Group and Franchisees contributed R28 million (2015: R25 million) and the employees Rnil (2015: Rnil).

The Fund is open to all permanent staff with their participation thereof being a condition of employment. Their dependants are eligible for death benefits accruing from the Fund in the event of the member's death. All permanent full-time employees of franchise stores are required to participate in the Fund.

32. Financial risk management objectives and policies

Group

The Group's principal financial liabilities, other than derivatives, comprise bank loans and trade payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets, such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The main risk arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of directors reviews and agrees policies for managing each of these risks, which are summarised below. The Group's primary objective of risk management is to reduce the uncertainty over future cash flows.

Company

The Company's principal financial assets, comprise loans given to subsidiary companies and the Foundation Trusts and cash and short-term deposits, which arise directly from its investments.

The main risk arising from the Company's financial instruments are cash flow interest rate risk, liquidity risk, and credit risk. The Board of directors reviews and agrees policies for managing each of these risks, which are summarised below.

The Company's primary objective of risk management is to reduce the uncertainty over future cash flows.

Fair values

The Company and Group's assessment of fair values in terms of IFRS 13 are reflected in each relevant note. The fair values of foreign exchange contracts have not been disclosed as it is deemed immaterial. Fair values are all based on Level 3 input, except cash which is Level 2.

Interest rate risk

The Company's and Group's exposure to the risk of changes in market interest rates relates primarily to the finance income generating ability of cash surpluses and preference shares held by the Company. To manage this risk, management constantly reviews cash placements, and contracts in financial expertise to ensure preferential interest rates are obtained for surplus funding.

As part of the process of managing the Group's interest rate risk, interest rate characteristics of new borrowings are positioned according to expected movements in interest rates.

32. Financial risk management objectives and policies *(continued)*

Interest rate risk *(continued)*

Group

The loan (refer to note 24 and note 36) attracts a fixed rate of interest, and due to the fact that it is measured at amortised cost, does not expose the Group to any fair value interest rate risk. The following table demonstrates the Group's profit before tax sensitivity to a change in interest rates with all other variables held constant (through the impact of floating rate borrowings):

Group	2016 Rm's	2015 Rm's
+1%	3	2
-1%	(3)	(2)

The impact on equity, originating from foreign operations, is less than R1 million.

Full details of interest rates relating to borrowings are detailed in note 24.

Company

The Company is not sensitive to fluctuations in interest rates.

Foreign currency risk

Group

As the Group operates in various countries and undertakes transactions denominated in foreign currencies, exposures to foreign currency fluctuations arise.

Approximately 13% (2015: 13%) of cost of sales are denominated in the currencies other than the Group's functional currency. The Group requires all of its operating units to use forward currency contracts to eliminate the currency exposures on any individual transaction for which payment is anticipated on terms after the Group has entered into a firm commitment for a purchase, for which no letter of credit has been issued. The forward currency contracts must be in the same currency as the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

It is the Group's policy not to apply hedge accounting, or to trade in derivatives for profit making purposes.

Forward exchange contracts outstanding at the reporting date all fall due within two months (2015: three months), have a settlement value of R17 million (2015: R15 million) and are denominated in Euro and US Dollar with average exchange rates of R14,88:US\$1 and R17,33:€1 (2015: R12,27: US\$1 and R13,69:€1).

Exchange rates utilised to convert financial information are as follows:

	2016		2015	
	Weighted average rate for the year	Closing rate	Weighted average rate for the year	Closing rate
ZAR: Australian Dollar	10,67:1	10,99:1	9,54:1	9,40:1
ZAR: Botswana Pula	1,34:1	1,33:1	1,19:1	1,21:1
ZAR: Euro	14,11:1	16,44:1	13,72:1	13,62:1
ZAR: Kenyan Shilling	0,14:1	0,14:1	0,12:1	0,12:1
ZAR: US\$	—	—	11,44:1	12,21:1

Notes to the financial statements continued

for the year ended 30 June 2016

32. Financial risk management objectives and policies *(continued)*

Foreign currency risk *(continued)*

The exposure and concentration of the Group's foreign currency risk is included in the table below.

	South African Rand Rm's	Australian Dollar Rm's	US Dollar Rm's	Other* Rm's	Total Rm's
2016					
Financial assets					
Trade and other receivables – before impairments	294	4	—	22	320
Cash and cash equivalents	260	—	—	87	347
Financial liabilities					
Interest-bearing loans and borrowings	#	—	—	—	#
Trade and other payables	248	—	—	81	329
2015					
Financial assets					
Trade and other receivables	173	4	28	6	211
Cash and cash equivalents	340	3	3	46	392
Financial liabilities					
Interest-bearing loans and borrowings	—	(29)	—	—	(29)
Trade and other payables	(248)	(1)	(3)	(25)	(277)

*Other includes the Botswana Pula, Kenyan Shilling, Namibian Dollar, Zambian Kwacha and the Lesotho Loti.

Less than R1 million.

The following table illustrates the Group's sensitivity to a change in exchange rates with all other variables held constant:

Group	2016 Rm's	2015 Rm's
Net profit before tax		
+10%	2	4
–10%	(2)	(4)
Foreign currency translation reserve		
+10%	(2)	1
–10%	2	(1)

Company

The Company has no exposure to foreign currency risk.

Credit risk

Credit risk arises from the risk that a counterparty may default or not meet its obligations timeously.

Group

The Group trades only with recognised, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, and, where appropriate, credit guarantee insurance is purchased. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is contained. The maximum exposure is the carrying amount as disclosed in note 20. There is no significant concentration of credit risk within the Group.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments, as disclosed in note 21. In terms of the Group's Treasury policy, surplus cash balances may only be invested in liquid money market instruments managed by predefined reputable counterparties.

32. Financial risk management objectives and policies *(continued)*

Credit risk *(continued)*

Company

With respect to credit risk arising from the cash and cash equivalents trade and other receivables, BEE loans and preference shares, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments, as disclosed in notes 6, 15.1, 16, 20 and 21. There is no provision for bad debts against this balance and no impairments recorded, other than those disclosed.

Liquidity risk

Group

The Group monitors its risk to a shortage of funds arising by using a recurring liquidity planning tool. This tool considers the maturity of both its financial liabilities and financial assets and projected cash flows from operations.

In terms of the Group's Treasury policy, surplus cash balances may only be invested in liquid money market instruments managed by predefined reputable counterparties.

Adequate cash reserves are invested in a dividend income fund in order to match the repayment profile of the secured Rand loan.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts.

In terms of the Memorandum of Incorporation, the Company's borrowing powers are unlimited.

The table below summarises the maturity profile of the Group's financial liabilities at year end based on contractual undiscounted payments.

	On demand Rm's	Less than 3 months Rm's	3 to 12 months Rm's	1 to 5 years Rm's	> 5 years Rm's	Total Rm's
Year ended 30 June 2016						
Interest-bearing loans and borrowings	—	—	—	#	—	#
Trade and other payables	—	329	—	—	—	329
	—	329	—	#	—	329
Year ended 30 June 2015						
Interest-bearing loans and borrowings	—	—	#	1	30	31
Trade and other payables	—	277	—	—	—	277
	—	277	#	1	30	308

Less than R1 million.

The Group has cash and cash equivalents of R347 million (2015: R392 million), and unutilised credit facilities of R80 million (2015: R80 million) in respect of which all conditions precedent had been met.

Company

The Company monitors its risk to a shortage of funds arising by using a recurring liquidity planning tool. This tool considers the maturity of both its financial liabilities and financial assets and projected cash flows from investments.

In terms of the Memorandum of Incorporation the Company's borrowing powers are unlimited.

The Company has cash and cash equivalents of R2 million (2015: R0,2 million), and no credit facilities. All liabilities are current.

Notes to the financial statements continued

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32. Financial risk management objectives and policies *(continued)*

Capital management

Group

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure (equity attributable to the equity holders) and makes adjustments to it, in light of changes in economic conditions.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes during the years ended 30 June 2016 and 2015.

The Group monitors capital using a gearing ratio which is defined as interest-bearing debt and borrowings as a percentage of equity attributable to the equity holders of the parent.

	2016 Rm's	2015 Rm's
Interest-bearing debt and borrowings	#	29
Equity attributable to the equity holders of the parent	3 292	2 672
Gearing ratio (%)	0,0	1,1

#Less than R1 million.

In addition, consideration is given to Black Economic Empowerment, or BEE. The Group finalised a BEE transaction to sell 10,7% of the Group's ordinary share capital to a BEE consortium which includes Italtile's black staff. All conditions precedent were met on 22 February 2008 and 88 000 000 ordinary shares were issued. The BEE transaction fulfils an important component of Italtile's BEE strategy which was initiated with enterprise development and the introduction of black-owned franchisees, following which the Group met all its employment equity targets. With the achievement of these key elements of broad-based BEE, the Group is now well positioned to access segments of the market from which it was previously precluded.

Refer to note 6 for disclosure relating to the modification of the BEE transaction.

Company

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure (equity attributable to the equity holders) and makes adjustments to it, in light of changes in economic conditions.

To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes during the years ended 30 June 2016 and 2015.

The Company monitors capital using liquidity ratio analysis:

	2016 Rm's	2015 Rm's
Current assets (excluding loans to subsidiaries)	2	#
Current liabilities (excluding loans from subsidiaries)	2	2
Current ratio (times)	1,0	0,1

#Less than R1 million.

In addition, consideration is given to Black Economic Empowerment, or BEE, as disclosed above.

33. Related-party transactions

Group

The Group is controlled by Rallen (Pty) Ltd which owns 55,96% (2015: 54,0%) of its issued share capital. The Group purchases product from its associates, Ceramic Industries (Pty) Ltd and the Ezee Tile group (see note 15.2).

Other related parties listed are related due to the sharing of key management personnel.

Outstanding balances at year end are unsecured, interest-free and settlement occurs in cash on 30-day terms. There have been no guarantees provided or received for any related-party receivables or payables. For the year ended 30 June 2016, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2015: Rnil) nor incurred any bad debt expense in the current year (2015: Rnil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Details of related-party transactions are as follows:

Related party	Nature of transactions	Aggregate value of transactions		Balances owing at year end	
		2016 Rm's	2015 Rm's	2016 Rm's	2015 Rm's
Ceramic Industries (Pty) Ltd	Inventory purchases	838	652	65	34
Ezee Tile group	Inventory purchases	240	205	19	17
Rallen (Pty) Ltd	Management fees	—	6	—	—

Key management personnel and prescribed officers comprise only the executive Board of directors. Remuneration paid to key management personnel of the Group is provided below. Nil balances were owing at year end (2015: nil).

	Beneficial direct	Beneficial indirect	Total	% held	Non-beneficial direct	Non-beneficial indirect	Total	% held
At 30 June 2016								
Director								
G A M Ravazzotti	3 637 088	345 980 215	349 617 303	33,83	—	—	—	—
S I Gama [#]	200 000	—	200 000	0,02	—	—	—	—
S du Toit	—	23 873	23 873	0,00	—	—	—	—
N Booth	1 000 000	—	1 000 000	0,10	—	—	—	—
J N Potgieter	1 000 000	—	1 000 000	0,10	—	—	—	—
B G Wood	500 000	—	500 000	0,05	—	—	—	—
At 30 June 2015								
Director								
G A M Ravazzotti	3 637 088	345 980 215	349 617 303	33,83	—	—	—	—
S I Gama [#]	200 000	—	200 000	0,02	—	—	—	—
S du Toit	—	23 873	23 873	0,00	—	—	—	—
A Zanonni	1 303 076	—	1 303 076	0,13	—	—	—	—
N Booth	1 000 000	—	1 000 000	0,10	—	—	—	—
J N Potgieter	1 000 000	—	1 000 000	0,10	—	—	—	—
B G Wood	32 669	—	32 669	0,00	—	—	—	—

[#]Beneficial indirect interest in BEE Special Purpose Entity.

Directors' participation in share incentive schemes

Directors' holdings under the Share Appreciation Rights Scheme are set out in the table below:

Director	Awards held at 1 July 2015	Awarded during the year	Vested and exercised during the year	Forfeited during the year	Awards held at 30 June 2016
N Booth	3 000 000	—	—	—	3 000 000
J N Potgieter	3 000 000	—	—	—	3 000 000
B G Wood	1 712 500	1 000 000	—	—	2 712 500

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33. Related-party transactions *(continued)*

Directors' holdings under the Executive Retention Plan are set out in the table below:

Director	Awards held at 1 July 2015	Awarded during the year	Forfeited/cancelled during the year	Awards held at 30 June 2016
N Booth	1 000 000	—	—	1 000 000
J N Potgieter	1 000 000	—	—	1 000 000
B G Wood	—	500 000	—	500 000

Refer to note 6 for further details pertaining to these schemes.

All figures in R000's	Salary	Bonus performance- related payments	Provident fund and medical contributions	Gain on share scheme awards	Other	Total 2016	Total 2015
Executive directors							
N Booth	2 410	140	395	—	255	3 200	18 074
J N Potgieter	2 316	134	381	—	260	3 091	19 143
B G Wood	1 936	98	314	11 133	163	13 644	2 769
2016	6 662	372	1 090	11 133	678	19 935	39 986
2015	5 743	572	949	30 706	2 016		

All figures in R000's	Board fees	Other	Total 2016	Total 2015
Non-executive directors				
G A M Ravazzotti	1 215	—	1 215	5 898*
S I Gama	145	—	145	153
S M du Toit	492	—	492	335
A Zannoni	110	—	110	125
S G Pretorius	316	—	316	261
P D Swatton	—	—	—	145
N Medupe	284	—	284	111
2016	2 562	—	2 562	
2015	2 130	4 898*		7 028
Aggregate emoluments of directors who served during the year			22 497	47 014

* Paid to Rallen (Pty) Ltd, the company that this director represents for his service as director of Italtile Limited in the prior year. Included in this amount is a performance related payment of R4,7 million for this director's tenure as Chief Executive Officer.

33. Related-party transactions *(continued)*

Company

The Company owns 100% of the issued share capital of Italtile Ceramics (Pty) Ltd and receives dividends and management fees from its subsidiary.

The Company receives preference share dividends from Four Arrow Investments 256 (Pty) Ltd. This is a special purpose entity set up as part of the BEE transaction. Previously, the Italtile Foundation Trust acquired the Italtile Limited shares which were held by Arrow Creek Investments 74 (Pty) Ltd – the transaction was funded by an interest free loan from Italtile Limited (refer to note 6 for further details).

The Company receives interest from the loan to the Italtile Empowerment Trust. This entity was set up by the Company's Board of directors as part of the BEE transaction.

All related-party transactions are concluded at arm's length with the exception of the Foundation Trust loan which is interest free. There have been no guarantees provided or received for any related-party receivables or payables. For the year ended 30 June 2016, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2015: Rnil) nor incurred any bad debt expense in the current year (2015: Rnil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Details of related-party transactions are as follows:

Related party	Nature of transactions	Aggregate value of transactions		Balance owing at year end	
		2016 Rm's	2015 Rm's	2016 Rm's	2015 Rm's
Four Arrows Investments 256 (Pty) Limited	Preference share dividends	10	12	125	125
Italtile Empowerment Trust	Interest	—	—	12	12
Italtile Ceramics (Pty) Ltd	Dividends and management fees	287	231	591	579
Italtile Foundation Trust	Interest free loan	—	—	121	121

Refer to notes 6, 15, 16 and 20 for further disclosure relating to terms of balances owing at year end.

Key management personnel and prescribed officers comprise only the executive Board of directors. Remuneration paid to key management personnel of the Company is provided above. No balances were owing at year end (2015: nil).

34. Segment report

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segments and to assess their performance. The chief operating decision-maker has been identified as the executive directors of the Group.

On this basis, the Group has six operating segments:

Segment	Nature of business
Retail	– Retailers of tiles, brassware, laminated flooring, bathroomware and accessories.
Franchising	– Bearer of South African and non-South African trademarks.
Properties	– Property investments.
Supply and Support Services	– Distributor of tiles, shower enclosures, brassware, laminated flooring, accessories, and tiling tools. – Group administration and management services. – Outsourced debtor solutions. – Procurement.
Franchise stores	– Franchisee retailers of tiles, brassware, laminated flooring, bathroomware and accessories.
Associates	– Strategic manufacturing investment.

All intersegmental transactions are concluded at arm's length.

Notes to the financial statements continued

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34. Segment report *(continued)*

The following measures, as included in the quarterly management report reviewed by the chief operating decision-makers, are used to assess performance:

(Rand millions unless otherwise stated)	Turnover			Gross margin			Net profit before tax		
	June 2016	June 2015	% change	June 2016	June 2015	% change	June 2016	June 2015	% change
Retail	5 441	4 650	17	1 072	904	19	285	232	23
– Group stores	3 025	2 541	19	1 072	904	19	285	232	23
– Franchise stores	2 416	2 109	15	—	—	—	—	—	—
Franchising							200	190	5
Properties							249	223	12
Supply and Support Services	1 934	1 638	18	183	143	28	358	276	30
Associates							96	62	55
Total	7 375	6 288	17	1 255	1 047	20	1 188	983	21
Franchise stores	(2 416)	(2 109)	15						
Consolidation entries	(1 420)	(1 064)	33	(22)	(5)	340	(22)	(5)	340
Total Group	3 539	3 115	14	1 233	1 042	18	1 166	978	19

Geographical analysis

(Rand millions unless otherwise stated)	South Africa	Rest of Africa	Other*	Inter-group entities	Group	Disposal group
Year ended 30 June 2016						
Turnover	4 562	397	—	(1 420)	3 539	
Non-current assets	2 775	115	—	(601)	2 289	112
Year ended 30 June 2015						
Turnover	3 863	246	70	(1 064)	3 115	—
Non-current assets	2 461	92	97	(645)	2 005	—

* Australia and Italy.

With Italtile Australia (Pty) Ltd being classified as a disposal group, the Australian properties are no longer presented in the "other" segment of the geographical analysis.

35. Transactions with non-controlling interests

TopT Ceramics (Pty) Ltd

The Group sold a 10% stake in TopT Ceramics (Pty) Ltd at the beginning of the period under review to a new business partner identified during the previous financial year. This stake was sold at a cost of R7 million, and reduces the Group's interest in this entity to 90%.

Cedar Point Trading 326 (Pty) Ltd

The Group acquired a 10% non-controlling stake held by one of the previous business partners of Cedar Point Trading 326 (Pty) Ltd at a cost of R12 million effective 30 November 2015, which increases the Group's interest in this entity to 90%. An additional business partner has since been identified.

International Tap Distributors (Pty) Ltd

The Group acquired a 4.76% portion of a non-controlling stake held by one of the current business partners of International Tap Distributors (Pty) Ltd at a cost of R13 million effective 29 February 2016, which increases the Group's interest in this entity to 79%.

36. Disposal group

At 30 June 2016, management elected to sell the operations of Italtile Australia (Pty) Ltd, a subsidiary of Italtile Limited. The business of Italtile Australia (Pty) Ltd represents the Group's Australian property portfolio. As a buyer was identified before year end, the assets of the operations were treated as a disposal group at 30 June 2016. The sale is expected to be concluded during the first half of the 2017 financial year.

	2017 Rm's
Assets	
Investment property	112
Trade and other receivables	4
Assets held in disposal group	116
Liabilities	
Interest-bearing loans and borrowings	34
Trade and other payables	1
Liabilities directly associated with assets held for sale	35

37. Loss of control in subsidiary

SER-Export s.p.a.

During the prior period the Group disposed of a 20% stake in SER-Export s.p.a. to its existing partner in this entity, reducing the Group's effective shareholding to 30%. The disposal took place for a total cash consideration of R13 million, and was accounted for as a change in control from a subsidiary to an associate resulting in a fair value gain of R14 million in accordance with IFRS 10 – *Consolidated Financial Statements*.

The carrying value of the identifiable assets and liabilities of SER-Export s.p.a. as at the date of disposal was:

	2016 Rm	2015 Rm
ASSETS		
Property, plant and equipment	—	7
Investments	—	8
Inventories	—	1
Trade and other receivables	—	24
Cash and cash equivalents	—	16
	—	56
LIABILITIES		
Trade and other payables	—	24
Total identifiable net assets	—	32
The gain on disposal is calculated as follows:		
Consideration received	—	13
Fair value of residual value of investment	—	19
Foreign currency translation reserve	—	14
Less: Net assets disposed	—	(32)
Total gain on disposal	—	14

In the prior year R12 million of the gain was realised on the disposal (R2 million remains unrealised).

Notes to the financial statements continued

for the year ended 30 June 2016

38. Group entities

	Issued share capital R	% held		Shares		Book value of interest		Amounts owing to 2015 Rm's
		2016	2015	2016	2015	2016	2015	
				Rm's	Rm's	Rm's	Rm's	
Held by Italtile Limited								
Retail								
Italtile Ceramics (Pty) Ltd	43 884 000	100	100	1	1	591		580

	Issued share capital		Effective % shareholding	
	2016 R	2015 R	2016	2015
Held by subsidiaries				
Franchising				
Italtile Franchising (Pty) Ltd	1 000	1 000	100	100
Italtile (Franchising) Pty Ltd ⁵	4	4	75	75
Italtile Mauritius (Pty) Ltd	—	1 589	—	100
Property Investment				
Allmuss Properties (Pty) Ltd	1 500	1 500	100	100
Allmuss (Botswana) (Pty) Ltd ¹	4 651	4 651	100	100
Allmuss Properties Namibia (Pty) Ltd ²	1 100	1 100	100	100
Allmuss Lesotho (Pty) Ltd ³	1 000	1 000	100	100
Allmuss Properties Kenya Ltd ⁴	22 624 044	22 624 044	100	100
Emerald Sky Trading 736 (Pty) Ltd	100	100	100	100
F. B. Ashman (Pty) Ltd	100	100	100	100
Penates Logistics (Pty) Ltd	100	100	100	100
Magnolia Ridge Properties 291 (Pty) Ltd	15 000 000	15 000 000	50	50
Italtile Australia Pty Ltd ⁵	30 733 105	30 733 105	72,2	72,2
Melkbos Pty Ltd ⁵	7 346 541	7 346 541	86	86
Norstrom Pty Ltd ⁵	9 149 000	9 149 000	75	75
Support Services				
International Tap Distributors (Pty) Ltd	210	210	79	71
Majuba Aviation (Pty) Ltd	1 000	1 000	100	100
Cedar Point Trading 326 (Pty) Ltd	1 000	1 000	90	80
Italtile Foreign Holdings (Pty) Ltd	1 310	1 310	100	100
Retail				
CTM Kenya Ltd ⁴	23 116 282	23 116 282	100	100
Italtile Floorings Pty Ltd ⁵	80 591	80 591	75	75
Italtile Retail (Pty) Ltd	1 000	1 000	55	55
Orban Investments 375 (Pty) Ltd ²	175	175	100	100
TopT Ceramics (Pty) Ltd	1 000	1 000	90	100
Braintree (Pty) Ltd ¹	1 000	1 000	100	100
Joxisec (Pty) Ltd	—	120	—	40
Special purpose entities				
Italtile Foundation Trust				
Italtile Share Incentive Trust				
Italtile Empowerment Trust				

¹ Incorporated in Botswana.

² Incorporated in Namibia.

⁵ Incorporated in Australia.

³ Incorporated in Lesotho.

⁴ Incorporated in Kenya.

Analysis of shareholders

Distribution of shareholders	Number of shareholders	Number of shares held	Shares held %
The Italtile Foundation Trust	1	26 400 000	2,55
The Italtile Empowerment Trust	1	26 400 000	2,55
The Italtile Share Incentive Trust	1	19 543 294	1,89
Empowerment company	1	35 200 000	3,41
Individuals	685	57 215 032	5,54
Nominee shareholders	22	20 071 222	1,94
Companies and other corporate bodies	228	201 139 615	19,47
Trusts	120	62 743 513	6,07
Directors	5	6 337 088	0,62
Associates to directors	2	578 283 058	55,96
Total	1 066	1 033 332 822	100,00

Concentration of holdings – number of shares	Number of shareholders	Number of shares held	Shares held %
1 – 5 000	304	100 337	0,01
5 001 – 20 000	340	1 537 464	0,15
20 001 – 100 000	236	8 178 321	0,79
100 001 – 1 000 000	126	50 441 768	4,88
1 000 001 shares and over	60	973 074 932	94,17
Total	1 066	1 033 332 822	100,00

Shareholders' spread

Category of shareholder	Number of shareholders	Number of shares held	Shares held %
Directors	5	6 337 088	0,62
Associates to directors	2	578 283 058	55,96
The Italtile Share Incentive Trust	1	19 543 294	1,89
The Italtile Empowerment Trust	1	26 400 000	2,55
Empowerment company	1	35 200 000	3,41
The Italtile Foundation Trust	1	26 400 000	2,55
Total non-public shareholders	11	692 163 440	66,98
Public shareholders	1 055	341 169 382	33,02
Total	1 066	1 033 332 822	100,00

Major shareholders	Number of shares held	% interest in the issued share capital
Rallen (Pty) Ltd	578 259 185	55,96
Old Mutual Group*	81 399 558	7,88
The Tommaso Altini Trust	42 258 733	4,09
Four Arrows Investments 256 (Pty) Ltd*	35 200 000	3,41

*Includes third party funds under management.

*BEE Special Purpose Entity.

Shareholders' diary

FINANCIAL YEAR END

June

ANNUAL GENERAL MEETING

November

REPORTS

Interim half-year to December	February
Preliminary profit announcement	August
Integrated Annual Report	September

DIVIDENDS

Interim dividend	Declared	February
	Paid	March
Final dividend	Declared	August
	Paid	September

Administration and offices

Italtile Limited

Incorporated in the Republic of South Africa

Listed on the JSE Limited

Registration number	1955/000558/06	Transfer secretaries	Computershare Investor Services (Pty) Limited 70 Marshall Street Johannesburg, 2001
JSE share	ITE	Sponsor	Merchantec Capital
ISIN	ZAE000099123	Legal advisers	Derek H Rabin & Associates (Pty) Limited Hogan Lovells Webber Wentzel
Company Secretary	E J Willis	Bankers	Nedbank Limited
Registered office	The Italtile Building Cnr William Nicol Drive and Peter Place Bryanston, 2021	Auditors	Ernst & Young Inc.
Postal address	PO Box 1689, Randburg, 2125	Website	http://www.Italtile.com
Telephone number	+27 (0) 11 510-9050		
Fax number	+27 (0) 11 510-9060		

Branch addresses



Italtile Group Owned Stores South Africa

Boksburg

Corner Jan Smuts and Loizides
Avenue, Bardene Boksburg
PO Box 1689, Randburg 2125
Tel: (011) 255-1060/61
Fax: (011) 255-1099

Bryanston

Corner William Nicol Drive
and Peter Place
Bryanston 2021
PO Box 1689, Randburg 2125
Tel: (011) 510-9000
Fax: (011) 510-9019

Menlyn, Pretoria

Adjacent to Menlyn Park
Shopping Centre
38 Palala Road
Ashlea Gardens
Pretoria
PO Box 35232
Menlo Park 0102
Tel: (012) 348-8700/1/2
Fax: (012) 348-3429
Fax: 086-518-7947

Montague Gardens

Italtile Building
Northgate Estate
Brooklyn
Cape Town
PO Box 713
Somerset West 7129
Tel: (021) 510-7766
Fax: (021) 510-7788

Nelspruit

Oewer Street – Corner R40 and
Eastern Boulevard
Nelspruit 1200
PO Box 13040, Nelspruit 1200
Tel: (013) 752-8333
Fax: (013) 753-3362

Northriding

Corner Malibongwe Drive and
Witkoppen Road
Northriding 1609
PO Box 1689, Northriding 2125
Tel: (011) 704-1104

Somerset West

Corner N2 and R44 next to
Somerset Mall
Somerset West
P/Bag X15, Postnet Suite 174
Somerset West 7129
Tel: (021) 851-2170
Fax: (021) 852-7790

The Glen

Glenvista, Skukuza Road
Gleneagle
Johannesburg South
PO Box 1689, Randburg 2125
Tel: (011) 027-7900

Umhlanga

7 Telford Crescent
Umhlanga Ridge
Umhlanga
PO Box 2474
Mount Edgecombe
Country Club 4301
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Waterfall

Waterfall Park
3544 Jukskei View
Extension 78
Waterfall
Midrand 1682
Tel: (011) 517-2509/10/11



CTM Group Owned Stores Southern Africa

Alberton

Dion Centre, St Austall Road
New Redruth Extension
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Birch Acres Ext
Tembisa
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Tel: (010) 242-1060/1
Fax: 086-508-1640

Boksburg

Corner Northrand and
Trichardt Streets
Boksburg 1459
PO Box 1689, Randburg 2125
Tel: (011) 918-5858
Fax: (011) 894-3782

Brakpan

Corner Nossop and
Ouhout Streets
Dalpark, Extension 13
Brakpan
PO Box 1689, Randburg 2125
Tel: (011) 915-1754
Fax: 086-508-1689

Burgersfort

281 Kastania Street
Burgersfort 1150
PO Box 1689, Randburg 2125
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Fax: (013) 231-7687

Centurion

Highway Business Park
Old Johannesburg Road
Rooihuiskraal
Centurion 0157
PO Box 1689, Randburg 2125
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Fax: 086-555-0550

Crossroads

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Spanner Crescent
Philippi, Mitchells Plain
PO Box 1689, Randburg 2125
Tel: (081) 537-4371
Fax: (021) 387-7200

Dobsonville

301 Roodepoort Road
Mmesi Park
Dobsonville 1863
PO Box 1689, Randburg 2125
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Fax: (011) 988-6726

East London

Corner Main and
Fitchett Streets
Amalinda
East London
PO Box 12836, Amalinda
East London 5252
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Fax: (043) 741-1369

Gaborone

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Ditsotswane Road
Gaborone
West Industrial
Botswana
PO Box 25033, Gaborone
Botswana
Tel: (00267) 393-3770
Fax: (00267) 393-3771

Hazyview

Stand No 5
1510 Main Street
Extension 9
Hazyview 1242
Tel: (013) 590-0698
Fax: (013) 590-0699

Hermanus

Corner Skulphoek and
Adam Roads, Sandbaai
Hermanus
PO Box 1622, Sandbaai
Hermanus 7200
Tel: (028) 313-1199
Fax: (028) 313-2928

Klerksdorp

Corner Bishop Desmond Tutu
and Jo Slovo
Klerksdorp 2571
PO Box 966, Klerksdorp 2570
Tel: (018) 464-1222/1999
Fax: 086-576-6105

Lonehill

152 Capricorn Road
Paulshof 2062
PO Box 1689, Randburg 2125
Tel: (011) 467-6357/8/9
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Menlyn

Adjacent to Menlyn Park
Shopping Centre
38 Palala Road
Ashlea Gardens
Pretoria
PO Box 1689, Randburg 2125
Tel: (012) 365-3070
Fax: (012) 365-3080

Mitchells Plain

Promenade Shopping Centre
A Z Berman Drive
Shop C6 and C6A
Mitchells Plain
Cape Town, 7785
Tel: (021) 376-8311

Montague Gardens

Marconi Centre, Koeberg Road
Montague Gardens 7945
PO Box 1179, Milnerton 7435
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Fax: (021) 552-3049

Montana

Corner Taaifontein and
Caliandra Roads
Montana Park
Pretoria
PO Box 1689, Randburg 2125
Tel: (012) 548-3555
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Nelspruit

Oewer Street – Corner R40 and
Eastern Boulevard
Nelspruit 1200
PO Box 3171, Nelspruit 1200
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Northgate

8 Gold Street
Northgate Business Park
Yster Plaat
PO Box 1179, Milnerton 7435
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Fax: (021) 510-6761

Northriding

Corner Malibongwe and
Witkoppen Roads
Northriding 1609
PO Box 1689, Randburg 2125
Tel: (011) 704-3019
Fax: (011) 704-2118

Oshikati

Main Road, Ongwediva
Oshikati, Namibia
PO Box 2958
Oshikati, Namibia
Tel: (00264) 652-31190
Fax: (00264) 652-31176

Paarl

Corner Textile and
Lady Grey Streets
Paarl 7646
PO Box 1689, Randburg 2125
Tel: (021) 871-1902/3/4
Fax: (021) 871-1907

Palapye

Plot 304, New Industrial Sites
Palapye
PO Box 11791, Pota, Palapye
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Port Shepstone

1 Oscar Nero Road, Marburg
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Port Shepstone 4240
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Potchefstroom

18 Poortmain Street
Potch Industria
PO Box 1660
Potchefstroom 2520
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Pretoria

Corner Michael Brink Street and
Hendrik Verwoerd Drive
Innesdale
Pretoria
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Queenstown

123 Cathcart Road
Queenstown 5320
PO Box 687
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Route 24 (Edenvale)

198 Herman Road
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Secunda

Erf 8512, Manie Maritz Street
PO Box 6985, Secunda 2302
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Somerset West

Somerset West Business Park
33 Delson Circle
Somerset West
PO Box 224
Somerset West 7129
Tel: (021) 851-7110
Fax: (021) 851-7117

Southgate

20 Rifle Range Road
Ridgeway
(Next to Southgate Mall)
Southgate
PO Box 1689, Randburg 2125
Tel: (011) 494-4496/7/8
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Springs

3 Lead Road, New Era
Springs
PO Box 9410, Elsburg 1407
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Strijdompark

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Tokai

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Leeuwenhoek Streets
Vereeniging 1930
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5 Waterfall Park
3544 Jukskei View
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Waterfall
Midrand 1682
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Constantia Roads
PO Box 98, Welkom 9460
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Westgate

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Ontdekkers Roads
Wilropark
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Ausspahnplatz
Windhoek
Namibia
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Fax: (00264) 612-35479

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Worcester 6850
PO Box 767, Worcester 6849
Tel: (023) 347-4869
Fax: (023) 342-4808

CTM Group Owned Stores

East Africa

KENYA

Mombasa

Malindi Road
Plot MN1/301/3102
Nyali
Mombasa
Kenya
PO Box 95787, Kenya
Tel: (00254) 2020-38528/9
Fax: (00254) 2020-38526

Nairobi

Ng'ong Road, opposite Ng'ong
Hills Hotel
PO Box 718 – 005202
Nairobi, Kenya
Tel: (00254) 20-2420775
Fax: (00254) 20-20240775

CTM Franchise Stores

Southern Africa

Bethlehem

Muller Street East 19
Hospital roads
Bethlehem 9701
PO Box 2638
Bethlehem 9700
Tel: (058) 303-0065/6
Fax: (058) 303-8517

Bloemfontein

Corner Curie and Pasteur
Avenue, Showgate
PO Box 34654, Faunasig
Bloemfontein 9325
Tel: (051) 430-4967
Fax: (051) 447-7532
Fax: 086-508-1638

Brackenfell

Paradys Street
Brackenfell 7560
PO Box 3974
Durbanville 7551
Tel: (021) 981-4576
Fax: (021) 981-6750

Brits

Hendrik Verwoerd Avenue
Brits 0250
Postnet Suite 160
Private Bag X0001
Ifafi 0260
Tel: (012) 250-3034/66
Fax: 086-508-1655

Durban

41B Intersite Avenue
Umgeni Business Park
Springfield
PO Box 203, Umgeni 4098
Tel: (031) 263-1470/2/3
Fax: (031) 263-1475

Branch addresses continued

Empangeni

Corner John Ross and
Tanner Road
Empangeni 3880
PO Box 8696, Empangeni
Station 3901
Tel: (035) 772-5250/1
Fax: (035) 772-5253

Francistown

Plot 31248
Somerset Industrial
Francistown
PO Box 1285, Francistown
Botswana
Tel: (00267) 241-5590
Fax: (00267) 244-0065

George

Corner Knysna Road and
Blue Mountain
George East 6529
PO Box 1223
Garden Route Mall
George 6546
Tel: (044) 877-0439
Fax: (044) 870-0425

Groblersdal

9 Eind Street Corner
Van Riebeeck and Canal
PO Box 1641
Groblersdal 0470
Tel: (013) 262-5416
Fax: (013) 262-3976

Kimberley

Pniel Road No 7
Kimberley 8301
PO Box 194, Kimberley 8301
Tel: (053) 831-4230
Fax: (053) 831-4232

Louis Trichardt

No. 1 Makhado Crossing
Corner Limpopo and
Commercial Road
Louis Trichardt
PO Box 4200
Louis Trichardt 0920
Tel: (015) 516-2779
Fax: (015) 516-2777

Mafikeng

Corner Nelson Mandela
Drive and 1st Avenue
Industrial Site
Mafikeng, 2745
PO Box 23274
Mafikeng, 2745
Tel: (018) 381-1073/0509
Fax: (018) 381-0504

Maun

Next to Adima Hire
Boseja Maun
Post Bag 114, Suite 92
Botswana
Tel: (00267) 686-4478
Fax: (00267) 686-4479

Maseru

Plot No 12282-077
Moshoeshoe Road
Industrial Area, Maseru
Lesotho
Private Bag A248, Maseru
Lesotho 0100
Tel: (00266) 22-327-457
Fax: (00266) 22-327-458

Matsapha

No. 3 King Maswati Third Avenue
Matsapha, Swaziland
PO Box 1095, Matsapha
Swaziland
Tel: (00268) 2518-4061
Fax: (00268) 2518-4048

Mbabane

Plot 940, Mshini Road
Sidwashini, Mbabane
PO Box 1095, Matsapha
Swaziland
Tel: (00268) 2422-1720
Fax: (00268) 2518-4048

Middelburg (Mpumalanga)

33 November Street
Middelburg
PO Box 830, Middelburg 1050
Tel: (013) 244-1720/24
Fax: (013) 244-1725

Mokopane (Potgietersrus)

43 Thabo Mbeki Street
Potgietersrus
Mokopane
PO Box 4749
Mokopane 0600
Tel: (015) 491-1368
Fax: (015) 491-3912

Mossel Bay

Gouriqua Laan
Voorbaai, Mossel Bay
PO Box 2058
Mossel Bay 6500
Tel: (044) 695-1141
Fax: (044) 695-0284

Mthatha (Umtata)

73 Nelson Mandela Drive
Umtata
PO Box 52550, Umtata 5099
Tel: (047) 532-6850
Fax: 086-622-7652

Newcastle

10 Allen Street
Newcastle
PO Box 20543
Newcastle 2940
Tel: (034) 315-5145
Fax: (034) 315-5147

Phuthaditjhaba

Factory 115, Mohale Street
Phuthaditjhaba Area 3
Tel: (058) 713-6183
Fax: (058) 713-6178

Pietermaritzburg

116 Victoria Road
Pietermaritzburg 3201
Tel: (033) 342-9701
Fax: (033) 342-7330

Pinetown

56 Old Main Road
Pinetown
PO Box 1924, Westville 3630
Tel: (031) 702-3701
Fax: (031) 702-3706

Polokwane (Pietersburg)

64 Hoof Street, Superbia
Polokwane
PO Box 31281, Superbia 0759
Tel: (015) 292-0001/5
Fax: (015) 292-1529

Port Elizabeth

1 Archie Close
Corner Chase Drive and Keeton
Street
Young Park, Port Elizabeth
PO Box 3788, Northend
Port Elizabeth 6056
Tel: (041) 456-4691
Fax: (041) 456-4683

Prospecton

2 B Prospecton Road
Prospecton, Durban
PO Box 26311
Isipingo Beach 4115
Tel: (031) 902-9230
Fax: (031) 902-9234

Rustenburg

8 Korokoro Street
Waterfall East
Postnet Suite 4529
Private Bag X82323
Rustenburg 0300
Tel: (014) 592-1205/6/7
Fax: (014) 592-1203
Fax: 086-508-1648

Swakopmund

Moses-Garob Street
Swakopmund
PO Box 2196, Swakopmund
Namibia 9000
Tel: (00264) 644-64148
Fax: (00264) 644-64124

Thohoyandou

102 Main Street
Thohoyandou 0950
PO Box 1700, Sibasa 0970
Tel: (015) 962-5401
Fax: (015) 962-5462

Tzaneen

Corner Sapekoe Avenue and
Claude Wheadly Drive
Tzaneen
PO Box 1297, Tzaneen 0850
Tel: (015) 307-4039/44
Fax: (015) 307-4049

Vhembe

R524 Punda Maria Road
Vhembe
Thohoyandou 0950
PO Box 1700, Sibasa 0970
Tel: (015) 590-4781

Vredenburg

16 Sterling Street
Marais Industry
Vredenburg
PO Box 1318
Vredenburg 7380
Tel: (022) 715-1180/1/2
Fax: (022) 715-1105

Vryburg

Corner Stella and
Moffat Streets
Vryburg
PO Box 1093, Vryburg 8600
Tel: (053) 927-6875/3591
Fax: (053) 927-6876

Witbank

Stand 16
Mandela Road
President Park
Witbank
PO Box 13150
Leraatsfontein 1035
Tel: (013) 692-7429
Fax: (013) 692-7431

CTM Franchise Stores

East Africa

TANZANIA

Arusha – CTM (EA) Limited

Shop 6A – TFA Arusha Shopping
Complex
PO Box 10802, Arusha
Tanzania
Tel: (00255) 27-254-8015
Fax: (00255) 27-254-8145

Dar-es-Salaam Airport (Main)

Store – CTM (EA) Limited

Plot 115, Nyerere Road
PO Box 79085
Dar-es-Salaam
Tanzania
Tel: (00255) 22-286-3916
Fax: (00255) 22-286-5692

Dar-es-Salaam

(Kawe Store) – CTM (EA)

Limited

Plot 562/563/564
Mwai Kibaki Road
PO Box 79085
Dar-es-Salaam
Tanzania
Tel: (00255) 22-278-0155
Fax: (00255) 22-286-5692



TopT Group Owned Stores

Alberton

Corner Loe and Voortrekker
Streets, Libertas Building
Red Ruth, Alberton
PO Box 1689, Alberton 2125
Tel: (011) 869-1503
Fax: 086-530-5591

Bellville

Corner Voortrekker Road and
Robert Sebukwe Street
Bellville 7530
Tel: (021) 949-8876

Benoni

36 Tom Jones Avenue, Benoni
PO Box 1689, Randburg, 2125
Tel: (011) 421-0213
Fax: 086-508-1701

Bloemfontein

Shop No 1
74 Harvey Road
Bloemfontein 9301
Tel: (051) 430-0949

Botshabelo

23 Blue Street
Industrial Area
Botshabelo 9781
Tel: (051) 534-0083

Bronkhorstspuit

41 Lanham Street
Bronkhorstspuit 1020
Tel: (013) 935-1306

Ficksburg

55 Erwee Street Ficksburg
Ficksburg
9370
Tel: (051) 933-2135
Fax: (086) 503-4576

Germiston

284 Corner Meyer and
Oosthuizen Streets
Germiston 1401
Tel: (011) 825-4175
Fax: (086) 530-4767

Ladybrand

27B Piet Retief Street
Ladybrand 9745
Tel: (051) 924-0117
Fax: (086) 503-4607

Lenasia/Lawley

Main Lawley Road, Lenasia
PO Box 1689, Randburg, 2125
Tel: (011) 857-1232/1249
Fax: (011) 857-1556

Mitchells Plain

Corner Katdoring and 4th Avenue
Mitchells Plain 7785
Tel: (010) 592-2911

Nyanga

Shop 56D, Nyanga Junction
Duinefontein Road
Manenburg
Nyanga 7767
Tel: (021) 202-3585

Pretoria West

135 Church Street
Pretoria West
PO Box 1689, Randburg, 2125
Tel: (012) 327-4108
Fax: (012) 327-4767

Randfontein

8 Main Reef Road
Randfontein 2029
Tel: (011) 692-1607
Fax: (011) 692-1082

Roodepoort

Corner Anvil and
Granville Streets
Robertville
PO Box 1689, Randburg 2125
Tel: (011) 674-2134
Fax: (011) 674-3306

Somerset West

Erf 5722 N2 next to
Hyundai Motors
Somerset West
7129
Tel: (010) 592-2897

Tembisa

54 Axel Drive Clayville
Ext 22, Unit 3, Joston Park
PO Box 1689, Randburg 2125
Tel: (011) 316-0107
Fax: (011) 316-0087

Vanderbijlpark

Rabie Street, CE6
Vanderbijlpark
PO Box 1689, Randburg 2125
Tel: (016) 933-1951/2
Fax: (016) 933-1955

TopT Franchise Stores

Burgersfort

Stand # 265, Mashifane Park
Burgersfort
PO Box 3171, Nelspruit 1200
Tel: (072) 328-7152
Fax: (086) 768-4770

Bushbuckridge

Stand 292, Old Standard Bank
Building, Maviljan, Bushbuckridge
Mpumalanga
PO Box 3171, Nelspruit 1200
Tel: (073) 349-4650
Fax: (086) 768-4770

East London

22 St Pauls Road
East London 5201
Tel: (043) 722-0311
Fax: (043) 722-0606

Elukwatini

Shop 8 and 9
Thwala Umkhonto Centre
Centre Stand 999
Nhlazatshe Trust Cross No 9
Elukwatini
Tel: (073) 452-3017
Fax: (013) 752-3017

Empangeni

14 Ngwelezane Road
Kuleka, Empangeni
KwaZulu-Natal
PO Box 104, Izinga Ridge
KwaZulu-Natal 4021
Tel: (035) 787-0097
Fax: (035) 787-0099

Ermelo

4 Oosthuizen Street Stand 4271
PO Box 3171
Nelspruit 1200
Tel: (076) 405-4623
Fax: (086) 768-4770

Giyani

Main Road, Horizon Mall
Giyani
Postnet Suite 4675
Private Bag X82323
Rustenburg 0300
Tel: (015) 812-1326
Fax: 086-530-2432

Jane Furse

105 Mamone Road
Jane Furse, 1085
Postnet Suite 4675
Private Bag X82323
Rustenburg 0300
Tel: (013) 265-1971
Fax: 086-530-2432

Kimberley

99D/99E, Transvaal Road
Kimberley
PO Box 972, Kimberley
Northern Cape 8301
Tel: (053) 831-5780
Fax: 086-403-2136

King William's Town

74 Cathcart Street
King William's Town
Eastern Cape
PO Box 3788
Port Elizabeth 6056
Tel: (043) 642-1652
Fax: (043) 642-1653

Branch addresses continued

Klerksdorp

26 Archbishop Desmond
Tutu Street
Klerksdorp
Postnet Suite 4529
Private Bag X82323
Klerksdorp 3000
Tel: (018) 462-0842
Fax: (018) 642-0843

Kuruman

3466 Livingstone Road
Kuruman
PO Box 972, Kimberley
8301
Tel: (053) 712-2561
Fax: (053) 712-1636

Ladysmith

81 Murchison Street
Ladysmith 3370
PO Box 25, Iduli Close
Izinga Ridge 4021
Tel: (036) 631-0056
Fax: (036) 631-1619

Lichtenburg

Corner Nelson Mandela
and Buchanan Streets
Ebenlou Building
Lichtenburg
PO Box 1689, Randburg 2125
Tel: (018) 632-0604
Fax: (018) 632-0605

Louis Trichardt

Shop 1 Block A Eltivillas
Louis Trichardt 0920
Tel: (072) 115-8042
Fax: (086) 530-4596

Mafikeng

27 Warren Street
Mafikeng 2745
Postnet Suite 4529
Private Bag X82323
Mafikeng 2745
Tel: (018) 381-0975
Fax: (018) 381-0854

Matoks

Stand # 2759, N1 Freeway
Limpopo
Postnet Suite 4675
Private Bag X82323
Rustenburg 0300
Tel: (076) 902-2278

Middelburg

25 Meyer Street
Middelburg 1055
Tel: (073) 738-4073
Fax: (086) 768-4770

Mogwase

Stand 949 Unit 3, Mogwase
Postnet Suite 4529
Private Bag X82323
Rustenburg, Northwest 0300
Tel: (014) 555-5404
Fax: (014) 555-5403

Mokopane

80 Nelson Mandela Drive
Mokopane 0601
Tel: (076) 956-8583
Fax: (086) 457-0727

Motherwell

Erf 17679
Ngonyama Street
Motherwell 6211
Tel: (073) 140-7876

Mthatha (Umtata)

61 Madeira Street, Mthatha
PO Box 3788
Port Elizabeth 6056
Tel: (047) 531-0766
Fax: 086 530-3333

Mtubatuba

Shop 2 Van Noordwyk Centre
Hisbiscus Lane, Mtubatuba 3370
PO Box 25, Iduli Close
Izinga Ridge 4021
Tel: (035) 550-0251
Fax: (035) 550-0261

Musina

Stand 2075
Corner N1 Highway and
Pat Harrison Street
Musina
Postnet Suite 4675
Private Bag X82323
Rustenburg 0300
Tel: (015) 534-1115
Fax: 086-269-1560

Nelspruit

10 Cameron Street, Nelspruit
PO Box 1689, Randburg 2125
Tel: (013) 752-7036
Fax: (086) 768-4770

Newcastle

18 Kirkland Street
Shop 7 Kirkland Park
Newcastle 2940
PO Box 20543
Newcastle 2940
Tel: (034) 312-3175
Fax: (034) 312-3338

Nkomazi

Block A Tonga
Opposite Dd Mabuza School
Nkomazi 1379
Tel: (076) 361-1720
Fax: (086) 768-4770

Northam

Stand 719 Corner Ruby and
Botha Streets, Northam 0360
Postnet Suite 4529
Private Bag X82323
Northam 3060
Tel: (014) 784-0053
Fax: (014) 784-0054

Pietermaritzburg

293 Moses Mabhida
(Edendale) Road
Pietermaritzburg 3201
PO Box 104, Izinga Ridge
Pietermaritzburg 4024
Tel: (033) 342-2448
Fax: (033) 342-2739

Polokwane (Pietersburg)

79 Hoof Street
Superbia
Postnet Suite 4675
Private Bag X82323
Rustenburg 0300
Tel: (015) 292-3841
Fax: 086-530-2433

Queenstown

123 Cathcart Road
Queenstown 5320
PO Box 3788
Port Elizabeth 6056
Tel: (045) 838-2023/29
Fax: (045) 838-2029

Rustenburg

115 Leyds Street
Postnet Suite 4529
Private Bag X82323
Rustenburg 0030
Tel: (014) 597-2810
Fax: (014) 597-3056

Seshego

Madiba Park Complex
Corner Nelson Mandela and
Madiba Park Crossing
Seshego
Tel: (079) 340-2881
Fax: (086) 530-6854

Taung

Shop Number 32/33 Taung
Forum, Station Road
Taung 8302
PO Box 972, Kimberley
Northern Cape 8301
Tel: (053) 994-1034

Thohoyandou

On the main road R524
Muledane next to
TJ Superquick Tyres
Thohoyandou
Postnet Suite 4675
Private Bag X82323
Rustenburg 0300
Tel: (083) 392-8095
Fax: (086) 530-2435

Vryheid

111 East Street, Vryheid
KwaZulu-Natal
PO Box 104, Izinga Ridge
KwaZulu-Natal 4021
Tel: (034) 980-2233
Fax: (034) 980-2203

Witbank

Erf 4779, Diederick Street
Warehouse No. 7
PO Box 1689, Randburg 2125
Tel: (013) 656-5810
Fax: (013) 656-9133

Zeerust

Shop 59 Church Street Zeerust,
North West
Postnet Suite 4529
P/Bag X82323
Tel: (018) 642-1164
Fax: (018) 642-1128

Notice of the Annual General Meeting



Italtile Limited
(Incorporated in the Republic of South Africa)
(Registration No 1955/000558/06)
("the Company" or "Italtile")
JSE code: ITE
ISIN: ZAE000099123

This document is important and requires your immediate attention.

If you are in any doubt as to the action you should take in respect of the following resolutions, please consult your Central Securities Depository Participant ("CSDP"), broker, banker, legal adviser, accountant or other professional adviser immediately.

Notice is hereby given in terms of section 62(1) of the Companies Act, 71 of 2008, as amended ("the Companies Act") that the 27th annual general meeting ("AGM") of shareholders of Italtile will be held at the registered office of Italtile, The Italtile Building, Corner William Nicol Drive and Peter Place, Bryanston, 2021, on Friday, 25 November 2016 at 08:00 to consider and, if deemed fit, to pass with or without modification, the ordinary and special resolutions set out below in the manner required by the Companies Act and the Listings Requirements of the JSE ("Listings Requirements").

The Board of directors of the Company ("the Board") has determined that, in terms of section 62(3)(a), as read with section 59 of the Companies Act, the record date for the purposes of determining which Italtile shareholders are entitled to receive notice of the AGM is Friday, 23 September 2016.

The record date for determining which Italtile shareholders are entitled to participate in and vote at the AGM is Friday, 18 November 2016. Accordingly, the last day to trade in Italtile shares in order to be recorded in the securities register of the Company in order to be entitled to attend, participate in and vote at the AGM is Tuesday, 15 November 2016.

In terms of section 63(1) of the Companies Act, before any person may attend or participate in the AGM, that person must present reasonably satisfactory identification and the person presiding at the AGM must be reasonably satisfied that the right of the person to participate in and vote at the AGM, either as a shareholder of Italtile, or as a proxy for a shareholder of Italtile, has been reasonably verified. Forms of identification that will be accepted include an original and valid identity document, driver's licence or a valid passport.

Ordinary business

To receive the annual financial statements for the year ended 30 June 2016 of the Company and the Group, together with the reports of the directors and auditors.

Ordinary Resolution No 1 (comprising Ordinary Resolutions Nos 1.1 to 1.5, all inclusive) – Re-election of directors

RESOLVED THAT by way of separate ordinary resolutions, each of:

- 1.1 Mr G A M Ravazzotti, who is retiring by rotation in terms of the Company's Memorandum of Incorporation ("MOI") and who, being eligible, offers himself for re-election, be and is hereby re-elected as a director of the Company.

- 1.2 Mr S I Gama, who is retiring by rotation in terms of the MOI and who, being eligible, offers himself for re-election, be and is hereby re-elected as a director of the Company.
- 1.3 Ms S M du Toit, who is retiring by rotation in terms of the MOI and who, being eligible, offers herself for re-election, be and is hereby re-elected as a director of the Company.
- 1.4 Ms N Medupe, who is retiring by rotation in terms of the MOI and who, being eligible, offers herself for re-election, be and is hereby re-elected as a director of the Company.
- 1.5 Ms A Zannoni, who is retiring by rotation in terms of the MOI and who, being eligible, offers herself for re-election, be and is hereby re-elected as a director of the Company.

Explanatory note

In terms of clause 7.2(1) as read with clause 7.2(2) of the MOI, one-third of the non-executive directors of the Company are required to retire from office at each annual general meeting. The non-executive directors of the Company to retire in every year shall be those who have been longest in office since their last election, but as between persons who became or were last elected as non-executive directors of the Company on the same day, those to retire shall, unless otherwise agreed among themselves, be determined by lot. In terms of clause 7.2(3) of the MOI, any director who has been in office for longer than nine years shall retire annually at each annual general meeting. A retiring director shall be eligible for re-election.

Mr G A M Ravazzotti, Mr S I Gama, Ms S M du Toit, Ms N Medupe and Ms A Zannoni all retire in accordance with clause 7.2 of the MOI and, being eligible offer themselves for re-election.

The reason for the proposed Ordinary Resolutions Nos 1.1 to 1.5 (all inclusive) is to elect, in accordance with the MOI and by way of a series of votes, each of which is on the candidacy of a single individual to fill a single vacancy, as required by section 68(1) of the Companies Act, Mr G A M Ravazzotti, Mr S I Gama, Ms S M du Toit, Ms N Medupe and Ms A Zannoni as directors of the Company. The effect of Ordinary Resolutions Nos 1.1 to 1.5 (all inclusive) is that Mr G A M Ravazzotti, Mr S I Gama, Ms S M du Toit, Ms N Medupe and Ms A Zannoni will be elected as directors of the Company.

A brief *curriculum vitae* ("CV") in respect of each of these directors is contained on page 65 of this Integrated Annual Report of which this notice of annual general meeting forms part.

Ordinary Resolution No 2 – Re-appointment of external auditors

RESOLVED THAT Ernst & Young Inc. be and is hereby re-appointed as the independent external auditors of the Company for the period terminating at the conclusion of the next AGM of the Company, and Penelope Wittstock, being a director of Ernst & Young Inc., be and is hereby appointed as the individual registered auditor who will undertake the audit of the Company for the financial year ending 30 June 2017.

Explanatory note

In accordance with section 90(1) of the Companies Act, Ernst & Young Inc. is proposed to be re-appointed as the external auditors of the Company, as nominated by the Company's Audit Committee, until the conclusion of the Company's next AGM.

Ordinary Resolution No 3 – Election of Audit and Risk Committee

RESOLVED THAT, by way of separate ordinary resolutions, each of:

- 3.1 Ms S M du Toit, who is an independent non-executive director of the Company, be and is hereby re-elected as a member and the chairperson of the Company's Audit and Risk Committee;
- 3.2 Mr S I Gama, who is an independent non-executive director of the Company, be and is hereby re-elected as a member of the Company's Audit and Risk Committee; and
- 3.3 Ms N Medupe, who is an independent non-executive director of the Company, be and is hereby re-elected as a member of the Company's Audit and Risk Committee; and
- 3.4 Mr S G Pretorius, who is an independent non-executive director of the Company, be and is hereby re-elected as a member of the Company's Audit and Risk Committee.

subject to Mr S I Gama, Ms S M du Toit and Ms N Medupe being re-elected as directors of the Company in terms of Ordinary Resolution Nos 1.2, 1.3 and 1.4 above.

Explanatory note

In terms of section 94(2) of the Companies Act, the Audit Committee is a committee elected by shareholders at each AGM. A brief CV of each of the independent non-executive directors mentioned above appear on page 65 of this Integrated Annual Report of which this notice of annual general meeting forms part. In terms of the regulations promulgated under and in terms of the Companies Act ("Companies Act Regulations"), at least one-third of the members of the Company's Audit Committee must have academic qualifications, or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management. The Board is satisfied that the Company's Audit and Risk Committee members are suitably skilled and experienced as contemplated in Regulation 42 of the Companies Act Regulations and collectively they have the sufficient qualifications and experience to fulfil their duties as contemplated in section 94(7) of the Companies Act.

Ordinary Resolution No 4 – Non-binding advisory vote on the Company's remuneration policy

RESOLVED THAT the Company's remuneration policy, as detailed on pages 58 and 59 of the Integrated Annual Report, be and is hereby approved and adopted by way of a non-binding advisory note, as recommended in the King Report on Governance for South Africa 2009, commonly referred to as King III.

Explanatory note

The reason for proposing this resolution is to request shareholders to signify their approval of the Company's remuneration policy by way of a non-binding advisory resolution as recommended by King III.

Ordinary Resolution No 5 – Unissued shares to be placed under the control of the directors

RESOLVED THAT the authorised but unissued ordinary shares in the capital of the Company be and are hereby placed under the control and authority of the directors of the Company and that the directors be and are hereby authorised and empowered to allot and issue and

grant options over all or any of such ordinary shares to such person or persons on such terms and conditions and at such times as the directors of the Company may from time to time in their discretion deem fit, subject to the proviso that the aggregate number of ordinary shares to be allotted and issued in terms of this resolution shall be limited to 15% (fifteen percent) of the authorised share capital of the Company and subject to the provisions of the Companies Act and the Listings Requirements. Such authority shall be valid until the date of the next AGM or for 15 (fifteen) months from the date on which Ordinary Resolution No. 5 is adopted, whichever period is shorter.

Explanatory note

The reason for Ordinary Resolution No 5 is that in terms of the MOI and subject to the provisions of the Companies Act, as may be amended from time to time and the Listings Requirements, the shareholders of the Company may authorise the directors to allot and issue and grant options over, such shares, as the directors in their discretion deem fit. The effect of Ordinary Resolution No 5 is to ensure that the directors have the necessary flexibility to allot and issue shares as they deem fit. It is noted that an issue as contemplated in sections 41(1) and (3) of the Companies Act must first be approved by way of special resolution in terms of section 41 of the Companies Act and is not authorised in terms of this resolution.

Ordinary Resolution No 6 – General authority to issue shares, and to sell treasury shares, for cash

RESOLVED THAT, subject to Ordinary Resolution No 5 being passed, the directors of the Company and/or any of its subsidiaries from time to time be and are hereby authorised, by way of a general authority to allot and issue shares or options in respect of any of the authorised but unissued ordinary shares in the capital of the Company; and/or to sell or otherwise dispose of or transfer, or issue any options in respect of, ordinary shares in the capital of the Company purchased by subsidiaries of the Company, for cash, to such person(s) on such terms and subject to such conditions and at such times as the directors in their discretion deem fit, subject to the provisions of the Companies Act, the MOI, the Listings Requirements and subject to the following limitations:

- ◆ The equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
- ◆ Any such issue may only be made to public shareholders as defined in the Listings Requirements and not to related parties;
- ◆ In respect of securities which are the subject of the general issue of shares for cash, such issue may not exceed 154 999 923, representing 15% (fifteen percent) of the number of listed equity securities in issue as at the date of this notice, provided that:
 - the number of ordinary shares which may be issued will be deducted from the aforementioned 154 999 923 securities;
 - in the event of a sub-division or consolidation of issued equity securities during the period contemplated below, the existing authority must be adjusted accordingly to represent the same allocation ratio;
 - the calculation of the listed equity securities is a factual assessment of the listed equity securities as at the date of the notice of the AGM, excluding treasury shares;
- ◆ This general authority is valid until the earlier of the Company's next AGM or the expiry of a period of 15 (fifteen) months from the date on which this Ordinary Resolution No 6 is adopted;

Notice of the Annual General Meeting continued

- ◆ A SENS announcement giving full details of the issue, will be published at the time of any issue representing, on a cumulative basis within the period of this authority, 5% (five percent) or more of the number of ordinary shares in issue prior to the issue concerned;
- ◆ In determining the price at which an issue of ordinary shares may be made in terms of this authority, the maximum discount permitted will be 10% (ten percent) of the weighted average traded price on the JSE of the ordinary shares over the 30 (thirty) business days prior to the date that the price of the issue is agreed between the Company and the party subscribing for the ordinary shares. The JSE should be consulted for a ruling if the Company's ordinary shares have not traded in such 30 (thirty) business day period; and
- ◆ Whenever the Company wishes to use ordinary shares, held as treasury stock by a subsidiary of the Company, such use must comply with the Listings Requirements as if such use was a fresh issue of ordinary shares.

In terms of the Listings Requirements a 75% (seventy-five percent) majority of the votes cast by shareholders present or represented by proxy and entitled to vote at the AGM must be cast in favour of Ordinary Resolution No 6 for it to be approved.

Explanatory note

In accordance with the MOI, as well as the Listings Requirements, the shareholders of the Company have to approve a general issue of shares for cash. The existing authorities granted by the shareholders of the Company at the previous AGM held on 27 November 2015 expire at the AGM to be held on 25 November 2016, unless renewed. This authority will be subject to the MOI, the Companies Act and the Listings Requirements. The directors of the Company consider it advantageous to renew this authority to enable the Company to take advantage of any business opportunity that may arise in the future.

The effect of Ordinary Resolution No 6 is that the directors will be able to issue the authorised but unissued ordinary shares in the share capital of the Company for cash, as and when suitable business opportunities arise, subject to the Listings Requirements, the restrictions/conditions set out in the authority and the MOI.

Special Resolution No 1 – Acquisition of own securities

RESOLVED THAT the mandate be given to the Company (or any of its wholly owned subsidiaries) providing authorisation, by way of a general authority, to acquire the Company's own securities, upon such terms and conditions and in such amounts as the directors may from time to time decide, but subject to the MOI, the provisions of the Companies Act and the Listings Requirements provided that:

- ◆ any repurchase of securities must be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counterparty (reported trades are prohibited);
- ◆ at any point in time, the Company may only appoint one agent to effect any repurchase(s) on the Company's behalf;
- ◆ this general authority shall be valid until the Company's next AGM, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this Special Resolution No 1 (whichever period is shorter);
- ◆ a press announcement will be published giving such details as may be required in terms of the Listings Requirements as soon as the Company has cumulatively repurchased 3% (three percent) of the initial number (the number of that class of share in issue at the time that the general authority from shareholders is granted) of the

relevant class of securities, and for each 3% (three percent) in aggregate of the initial number of that class acquired thereafter, containing full details of such repurchases;

- ◆ repurchases by the Company, and/or its subsidiaries, in aggregate in any one financial year may not exceed 20% (twenty percent) of the Company's issued share capital as at the date of passing this Special Resolution No 1 or 10% (ten percent) of the Company's issued share capital in the case of an acquisition of shares in the Company by a subsidiary of the Company;
- ◆ the Board pass a resolution that they have authorised the repurchase, that the Company and its subsidiaries have passed the solvency and liquidity test and that, since the test was performed there have been no material changes to the financial position of the Group;
- ◆ repurchases may not be made at a price greater than 10% (ten percent) above the weighted average of the market value of the securities for the 5 (five) business days immediately preceding the date on which the transaction is effected; and
- ◆ the Company or its subsidiary may not repurchase securities during a prohibited period, as defined in the Listings Requirements, unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and has been submitted to the JSE in writing prior to the commencement of the prohibited period. The Company must instruct an independent third party, which makes its investment decisions in relation to the Company's securities independently of, and uninfluenced by, the Company, prior to the commencement of the prohibited period to execute the repurchase programme submitted to the JSE.

Statement by the Board of directors of the Company pursuant to and in terms of the Listings Requirements of the JSE:

The directors of the Company hereby state that:

- (a) the intention of the directors of the Company is to utilise the authority if, at some future date, the cash resources of the Company are in excess of its requirements. In this regard the directors will take account of, *inter alia*, an appropriate capitalisation structure for the Company, the long-term cash needs of the Company and will ensure that any such utilisation is in the interests of the shareholders; and
- (b) the method by which the Company intends to repurchase its securities and the date on which such repurchase will take place, has not yet been determined.

At the time that the contemplated repurchase is to take place, the directors of the Company will ensure that:

- ◆ the Company and its subsidiaries will be able to pay their debts as they become due in the ordinary course of business for a period of 12 (twelve) months after the date on which the repurchase is contemplated
- ◆ the assets of the Company and its subsidiaries, fairly valued in accordance with International Financial Reporting Standards, will be in excess of the liabilities of the Company and its subsidiaries for a period of 12 (twelve) months after the date on which the repurchase is contemplated;
- ◆ the share capital and reserves of the Company and its subsidiaries will be adequate for the purpose of the business of the Company and its subsidiaries for a period of 12 (twelve) months after the date on which the repurchase is contemplated; and

- ◆ the working capital available to the Company and its subsidiaries will be adequate for the Group's ordinary business purposes for a period of 12 (twelve) months after the date on which the repurchase is contemplated.

The Company will ensure that its sponsor has confirmed the adequacy of the Company's working capital in writing to the JSE in terms of the Listings Requirements, prior to entering the market to proceed with a repurchase.

Explanatory note

The reason for and effect of this Special Resolution No 1 is to grant the Board a general authority in terms of the Listings Requirements, to approve the acquisition by the Company or any of its subsidiaries of securities issued by the Company, which authority shall be valid until the earlier of the next AGM, or the variation or revocation of such general authority by special resolution by any subsequent general meeting of the Company; provided that the general authority shall not extend beyond 15 (fifteen) months from the date that this Special Resolution No 1 is passed.

The following information, which is required by the Listings Requirements with regard to the special resolution granting a general authority to the Company to repurchase securities, appears on the pages of the financial statements to which this notice of annual general meeting is annexed, is indicated below:

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There are no legal or arbitration proceedings, either pending or threatened against the Company or its subsidiaries, of which the Company is aware, which may have, or have had in the last 12 (twelve) months, a material effect on the financial position of the Company or its subsidiaries.

Special Resolution No 2 – Financial assistance to related and inter-related entities

RESOLVED THAT the Board may, subject to compliance with the requirements of the MOI and the Companies Act, authorise the provision by the Company, at any time and from time to time during the period of two (2) years commencing on the date of adoption of this special resolution, of direct or indirect financial assistance, by way of a loan, guarantee of a loan or other obligation or the securing of a debt or other obligation to any one or more related or inter-related companies or corporations of the Company and/or to any one or more members of any such related or inter-related corporation or to a person related to any such company, corporation or member as outlined in section 2 of the Companies Act, on such terms and conditions as the Board may deem fit.

Explanatory note

The reason for the passing of this Special Resolution No 2 is that, on a proper interpretation of section 45 of the Companies Act, the Company may not provide the financial assistance contemplated in such section to related or inter-related companies and corporations, including *inter alia* its subsidiaries without a special resolution. The reason for Special Resolution No 2 is to obtain approval from the shareholders to enable

the Board to have the authority to authorise the Company to provide direct or indirect financial assistance, by way of a loan, guaranteeing of a loan or other obligation or securing of a debt or other obligation, to the recipients contemplated in Special Resolution No 2. The effect of Special Resolution No 2 is that the Company will have the necessary authority to authorise and provide the financial assistance as and when required.

It is difficult to foresee the exact details of financial assistance that the Company may be required to provide over the next two years. It is essential, however, that the Company is able to organise effectively its internal financial administration. For these reasons and because it would be impractical and difficult to obtain shareholder approval every time the Company wishes to provide financial assistance as contemplated above, it is necessary to obtain the approval of shareholders, as set out in Special Resolution No 2.

It should be noted that this Special Resolution No 2 does not authorise financial assistance to a director or a prescribed officer of the Company or of a related or inter-related company.

Special Resolution No 3 – Approval of non-executive directors' remuneration

RESOLVED THAT, in terms of section 66(9) of the Companies Act, payment of the remuneration for the non-executive directors of the Company for their services as directors of the Company for the financial year of the Company ending 30 June 2017 be approved as follows:

- A basic annual fee of R50 000 (fifty thousand Rand).
 - ◆ R22 300 (twenty-two thousand three hundred Rand) per Board meeting attended.
 - ◆ R24 300 (twenty-four thousand three hundred Rand) per strategy session.
 - ◆ R19 000 (nineteen thousand Rand) per committee meeting attended, with the Chairman of such meeting being paid R23 000 (twenty three thousand Rand).
- The Chairman to receive an annual fee of R1 113 000 per annum for the 2017 financial year.
- Ms S M du Toit to receive a monthly fee of R20 000 to undertake an oversight role of the work done by The Italtile Foundation Trust.
- Non-executive directors who undertake *ad hoc* work for the Company at the request of the Board may be paid an hourly rate of R3 020 for such work.
- The fees payable to directors as detailed in (i) above shall, but only until the expiry of a period of 12 months from the date of the passing this Special Resolution No 3 (or until amended by a special resolution of shareholders prior to the expiry of such period), escalate as determined by the Remuneration Committee of the Company, up to a maximum of 15% per annum per amount as set out above."

Explanatory note

In terms of section 66(8) and 66(9) of the Companies Act, remuneration may only be paid to directors for their services as directors in accordance with a special resolution approved by the shareholders of the Company within the previous two years and if not prohibited in terms of the MOI. Therefore, the reason for and the effect of Special Resolution No 3 is to approve the payment of and the remuneration payable by the Company to its non-executive directors for their services as directors of the Company in terms of section 66 of the Companies Act. The fees payable to the non-executive

Notice of the Annual General Meeting continued

directors are detailed above. The remuneration policy forms part of the remuneration report included in the Integrated Annual Report on pages 57 to 59.

Ordinary Resolution No 7 – Authority to sign documentation

THAT any director of the Company or the Company Secretary be and is hereby authorised to do all such things, take all actions necessary and sign all documents required to give effect to, or as may be necessary for or incidental to the implementation of, the abovementioned Ordinary and Special Resolutions to be proposed at the AGM.

Explanatory note

The reason for Ordinary Resolution No 7 is to authorise any director or the Company Secretary of the Company to attend to the necessary to implement the special and ordinary resolutions passed at the AGM and to sign all documentation required to record the special and ordinary resolutions. The effect of Ordinary Resolution No 6 is that any director or the Company Secretary of the Company will be authorised to attend to the implementation of the special and ordinary resolutions on behalf of the Company.

Litigation statement

The directors of the Company, whose names are given on page 65 of this Integrated Annual Report, are not aware of any legal or arbitration proceedings, pending or threatened against the Company, which may have or have had, in the 12 months preceding the date of this notice of Annual General Meeting, a material effect on the Company's financial position.

Directors' responsibility statement

The directors, whose names are given on page 65 of this Integrated Annual Report, collectively and individually, accept full responsibility for the accuracy of the information given and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the Integrated Annual Report contains all the information required by law and the Listings Requirements.

Material change

Other than the facts and developments reported in this Integrated Annual Report, there have been no material changes in the affairs, financial or trading position of the Company since the signature date of this Integrated Annual Report and the posting date thereof. Shares held by the Company as treasury shares and the Italtile Share Incentive Trust will be excluded from the quorum and voting on the resolutions commissioned at the AGM.

Approvals required for resolutions

Ordinary Resolutions Nos 1 to 5 and 7 contained in this notice of AGM require the approval by more than 50% of the votes exercised on the resolutions by shareholders present or represented by proxy at the AGM, and further subject to the provisions of the Companies Act, the MOI and the Listings Requirements.

Special Resolutions Nos 1 to 3 contained in this notice of AGM require the approval by at least 75% of the votes exercised on the resolutions by shareholders present or represented by proxy at the AGM, and further subject to the provisions of the Companies Act, the MOI and the Listings Requirements.

Voting and proxies

A shareholder entitled to attend and vote at the AGM is entitled to appoint a proxy or proxies to attend, speak and vote in his or her stead. A proxy need not be a shareholder of the Company. For the convenience of registered shareholders of the Company, a form of proxy is enclosed herewith.

The attached form of proxy is only to be completed by those shareholders who are:

- ◆ holding Italtile ordinary shares in certificated form; or
- ◆ recorded on the electronic sub-register in "own name" dematerialised form.

Shareholders who have dematerialised their shares through a CSDP or broker and wish to attend the AGM, must instruct their CSDP or broker to provide them with a letter of representation, or they must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement/mandate entered into between them and their CSDP or broker.

Forms of proxy must be lodged with the transfer secretaries of the Company at the address given below, by no later than 08:00 on Wednesday, 23 November 2016. Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to attend and vote in person at the AGM. Any form of proxy not delivered by this time may be handed to the Chairperson of the AGM immediately before the appointed proxy exercises any of the shareholder's votes at the AGM.

Holders of dematerialised Italtile shares wishing to attend the AGM must inform their CSDP or broker of such intention and request their CSDP or broker to issue them with the relevant authorisation to attend.

Electronic participation

Shareholders or their proxies may participate in (but not vote at) the AGM by way of a teleconference call and, if they wish to do so:

- ◆ must contact the Company Secretary (by e-mail at the address: lizw@rootginger.co.za), by no later than 08:00 on Wednesday, 23 November 2016, in order to obtain a pin number and dial-in details for that conference call;
- ◆ will be required to provide reasonably satisfactory identification; and
- ◆ will be billed separately by their own telephone service providers for their telephone call to participate in the AGM,

provided that shareholders and their proxies will not be able to vote telephonically at the AGM and will still need to appoint a proxy to vote on their behalf at the AGM.

By order of the Board



E J Willis

Company Secretary

Johannesburg
22 September 2016

Form of proxy



Italtile Limited
(Incorporated in the Republic of South Africa)
(Registration No 1955/000558/06)
("the Company" or "Italtile")
JSE code: ITE
ISIN: ZAE000099123

For use only by:

- holders of certificated ordinary shares in the Company; or
- holders of dematerialised ordinary shares in the Company ("Dematerialised Shareholders") held through a Central Securities Depository Participant ("CSDP") or broker and who have selected "own-name" registration,

at the annual general meeting of shareholders of the Company to be held at 08:00 on Friday, 25 November 2016 at the registered office of Italtile, The Italtile Building, Corner William Nicol Drive and Peter Place, Bryanston, 2021 ("annual general meeting").

Dematerialised shareholders holding shares in the Company other than with "own-name" registration, who wish to attend the annual general meeting must inform their CSDP or broker of their intention to attend the general meeting and request their CSDP or broker to issue them with the relevant letter of representation to attend the general meeting in person or by proxy and vote. If they do not wish to attend the general meeting in person or by proxy, they must provide their CSDP or broker with their voting instructions in terms of the relevant Custody Agreement entered into between them and the CSDP or broker. **These shareholders must not use this form of proxy.**

Each shareholder is entitled to appoint one or more proxies (who need not be a shareholder of the Company) to attend, speak and vote in place of that shareholder at the general meeting. A proxy need not be a shareholder of the Company.

I/We _____ (full name(s) in block letters)

of (address) _____

Telephone work () Telephone home ()

Cellphone number E-mail address _____

1. being the holder/custodian of ordinary shares in the Company, hereby appoint (see note): or, failing him/her

2. or, failing him/her

3. the Chairperson of the annual general meeting,

as my/our proxy to attend and act for me/us on my/our behalf at the annual general meeting convened for the purpose of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at each adjournment or postponement thereof, and to vote for and/or against such resolutions, and/or to abstain from voting for and/or against the resolutions, in respect of the shares in the issued share capital of the Company registered in my/our name in accordance with the following instructions:

		For	Against	Abstain
Ordinary Resolution No 1.1	Re-election of Mr G A M Ravazzotti			
Ordinary Resolution No 1.2	Re-election of Mr S I Gama			
Ordinary Resolution No 1.3	Re-election of Ms S M du Toit			
Ordinary Resolution No 1.4	Re-election of Ms N Medupe			
Ordinary Resolution No 1.5	Re-election of Ms A Zannoni			
Ordinary Resolution No 2	Re-appointment of external auditors			
Ordinary Resolution No 3	Election of Audit and Risk Committee			
Ordinary Resolution No 4	Non-binding advisory vote on the Company's remuneration policy			
Ordinary Resolution No 5	Unissued shares to be placed under the control of the directors			
Ordinary Resolution No 6	General authority to issue shares, and to sell treasury shares, for cash			
Special Resolution No 1	Acquisition of own securities			
Special Resolution No 2	Financial assistance to related and inter-related entities			
Special Resolution No 3	Approval of non-executive directors' remuneration			
Ordinary Resolution No 7	Authority to sign documentation			

Insert an "X" in the relevant spaces above according to how you wish your votes to be cast. If no directions are given, the holder of the proxy will be entitled to vote or abstain from voting as that proxy deems fit.

This proxy shall be valid only for the annual general meeting of shareholders of the Company to be held on Friday, 25 November 2016 and any adjournment or postponement thereof.

Signed at _____ on _____ 2016

Signature _____ Assisted by (where applicable) _____

Please read the notes on the reverse side hereof.

Notes to the form of proxy

- Summary of rights contained in section 58 of the Companies Act, 2008 (Act 71 of 2008), as amended ("Companies Act")

In terms of section 58 of the Companies Act:

- ◆ A shareholder may, at any time and in accordance with the provisions of section 58 of the Companies Act, appoint any individual (including an individual who is not a shareholder) as a proxy to participate in, and speak and vote at, a shareholders' meeting on behalf of such shareholder;
 - ◆ A proxy appointment must be in writing, dated and signed by the shareholder;
 - ◆ Except to the extent that the Memorandum of Incorporation of a company provides otherwise, a shareholder of that company may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to the different securities held by the shareholder;
 - ◆ Except to the extent that the Memorandum of Incorporation of the company provides otherwise, a proxy may delegate her or his authority to act on behalf of a shareholder to another person, subject to any restriction set out in the instrument appointing such proxy;
 - ◆ Except to the extent that the Memorandum of Incorporation of the company provides otherwise, a copy of the instrument appointing a proxy must be delivered to the company, or to any other person on behalf of the company, before the proxy exercises any rights of the shareholder at a shareholders' meeting;
 - ◆ Irrespective of the form of instrument used to appoint a proxy, the appointment of a proxy is suspended at any time and to the extent that the relevant shareholder chooses to act directly and in person in the exercise of any of such shareholder's rights as a shareholder;
 - ◆ Irrespective of the form of instrument used to appoint a proxy, any appointment by a shareholder of a proxy is revocable, unless the form of instrument used to appoint such proxy states otherwise;
 - ◆ If an appointment of a proxy is revocable, a shareholder may revoke the proxy appointment by: (i) cancelling it in writing, or making a later inconsistent appointment of a proxy and (ii) delivering a copy of the revocation instrument to the proxy and to the company;
 - ◆ The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of the date (i) stated in a revocation instrument, if any; or (ii) upon which the revocation instrument is delivered to the proxy and the relevant company as required in section 58(4)(c)(ii) of the Companies Act;
 - ◆ If the instrument appointing a proxy or proxies has been delivered to the relevant company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the relevant company's Memorandum of Incorporation to be delivered by such company to the shareholder must be delivered by such company to the shareholder or the proxy or proxies, if the shareholder has in writing directed the relevant company to do so and has paid any reasonable fee charged by the company for doing so;
 - ◆ A proxy appointed by a shareholder is entitled to exercise, or abstain from exercising, any voting right of such shareholder without direction, except to the extent that the relevant company's Memorandum of Incorporation, or the instrument appointing the proxy, provides otherwise (see note 5).
 - ◆ If a company issues an invitation to shareholders to one or more persons named by such company as a proxy, or supplies a form of instrument for appointing a proxy:
 - Such invitation must be sent to every shareholder who is entitled to receive notice of the meeting at which the proxy is intended to be exercised;
 - The invitation or form of proxy must bear a reasonably prominent summary of the rights established by section 58 of the Companies Act, contain adequate space to enable a shareholder to write in the name, and if so desired an alternative name, of a proxy chosen by the shareholder and provide adequate space for the shareholder to indicate whether the appointed proxy is to vote in favour of or against any resolution or resolutions to be put at the meeting, or abstain from voting;
 - The company must not require that the proxy appointment be made irrevocable; and
 - The proxy appointment remains valid only until the end of the relevant meeting at which it was intended to be used, unless revoked as contemplated in section 58(5) of the Companies Act.
- The form of proxy must only be used by shareholders who hold shares in certificated form or who are recorded on the sub-register in electronic form in "own name".
 - All other beneficial owners who hold dematerialised shares through a CSDP or broker and wish to attend the annual general meeting must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker.

- A shareholder entitled to attend and vote at the annual general meeting may insert the name of a proxy or the names of two alternate proxies of the shareholder's choice in the space provided, with or without deleting "the Chairperson of the annual general meeting". The person whose name stands first on the form of proxy and who is present at the Annual General Meeting will be entitled to act as proxy to the exclusion of such proxy(ies) whose names follow.
- A shareholder is entitled to one vote on a show of hands and, on a poll, one vote in respect of each ordinary share held. A shareholder's instructions to the proxy must be indicated by the insertion of an "X" in the appropriate space provided. If an "X" has been inserted in one of the blocks to a particular resolution, it will indicate the voting of all the shares held by the shareholder concerned. Failure to comply with this will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholder or by the proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or the proxy.
- A vote given in terms of an instrument of proxy shall be valid in relation to the annual general meeting, notwithstanding the death, insanity or other legal disability of the person granting it, or the revocation of the proxy, or the transfer of the shares in respect of which the proxy is given, unless notice as to any of the aforementioned matters shall have been received by the Company's Transfer Secretaries, Computershare Investor Services (Pty) Ltd ("Transfer Secretaries"), not less than 48 (forty-eight) hours before the commencement of the annual general meeting.
- If a shareholder does not indicate on this form of proxy that his/her proxy is to vote in favour of or against any resolution or to abstain from voting, or gives contradictory instructions, or should any further resolution(s) or any amendment(s) which may properly be put before the annual general meeting be proposed, such proxy shall be entitled to vote as he/she thinks fit.
- A shareholder's authorisation to the proxy including the Chairperson of the annual general meeting, to vote on such shareholder's behalf, shall be deemed to include the authority to vote on procedural matters at the annual general meeting.
- The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
- Documentary evidence establishing the authority of a person signing the form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the Transfer Secretaries or is waived by the Chairperson of the annual general meeting.
- A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the Transfer Secretaries.
- Where there are joint holders of shares:
 - ◆ Any one holder may sign the form of proxy;
 - ◆ The vote(s) of the senior shareholders (for that purpose seniority will be determined by the order in which the names of shareholders appear in the Company's register of ordinary shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).
- Forms of proxy should be lodged with or mailed to the transfer secretaries:

Hand deliveries to: Computershare Investor Services (Pty) Ltd Ground Floor 70 Marshall Street Johannesburg, 2001	Postal deliveries to: Computershare Investor Services (Pty) Ltd PO Box 61051 Marshalltown 2107
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to be received by no later than 08:00 on Wednesday, 23 November 2016 (or 48 (forty-eight) hours before any adjournment of the annual general meeting which date, if necessary, will be notified on the Stock Exchange News Service of JSE Limited) or may be handed to the Chairperson of the annual general meeting immediately before the appointed proxy exercises any of the shareholder's votes at the annual general meeting.
- A deletion of any printed matter and the completion of any blank space need not be signed or initialled. Any alteration or correction must be signed and not merely initialled.
- The proxy appointment remains valid only for the annual general meeting at which it is intended to be used and any adjournment or postponement thereof, subject to paragraph 1 above.



Physical and registered address

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Bryanston 2021
Gauteng, South Africa

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