



ITALTILE Limited

The style. The passion.

Integrated Annual Report 2014

The style. The passion.

2014



System-wide turnover^{#o}

R4,46 billion

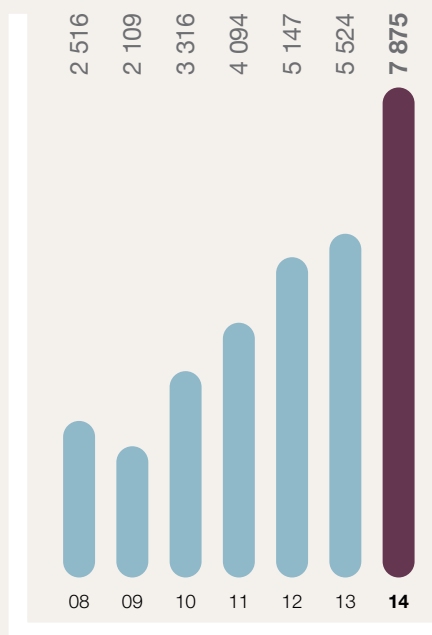
Earnings per share[#]

57,4 cents

Trading profit[#]

R751 million

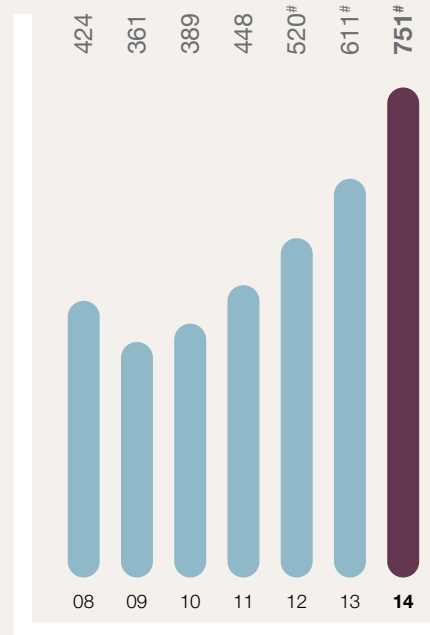
Market capitalisation*
(Rm)



*Excluding treasury shares

^oAggregated turnover of the Group-owned stores and entities, and franchised stores

Trading profit
(Rm)



[#]From continuing operations



Total ordinary dividend declared

19,0 cents per share

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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.



Launched in 1983, **CTM** is a household name in South Africa, enjoying strong brand affinity based on its reputation for a high quality year-round value offering. Represented by 83 stores in South and East Africa, CTM is the largest specialist tile and bathroom retailer in the country.



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 24 stores in six provinces, situated in under-serviced rural areas and outlying markets in close proximity to urban townships.



Simple. Effective. Capturing the African landscape in a tile couldn't be more incisive. From the anonymity of a commodity, to one of South Africa's most sought after tile brands from CTM, **Kilimanjaro** tiles really have captured the homemakers' imagination.



laufen | laufen | laufen | laufen

Laufen Bathrooms established in 1892, is a traditional Swiss brand reflecting a symbiosis of Design, Quality and Functionality. What makes Laufen products unique is that their Swiss design unites two major design trends: emotion and romance, with precision and clarity. Laufen products including washbasins, bath tubs, toilets and bidets are exclusive to Italtile in South Africa.



Emerging in 1979 as an exporter of mosaics; today **Cotto** is one of the largest manufacturers of sanitaryware globally. Cotto operates with the motto "The Right Solution" whereby a variety of consumer needs can be met with one right solution. This motto is clearly evident in their practical ranges of washbasins, toilets and bidets available only from Italtile.





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

TIVOLI TAPS

Life's more beautiful with Italian design

Tivoli is a South African registered brand bringing the latest and the best of what Italy has to offer. With a 10 year guarantee these products are quality driven. Tivoli is the largest Italian brand of taps in South Africa.



ceramica **SANT'AGOSTINO**

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



Organic Earth

The original terracotta

When it comes to originality and integrity, there are tiles – and then there is **Organic Earth**. South Africans love and appreciate terracotta – the same way Italians do!

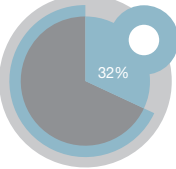

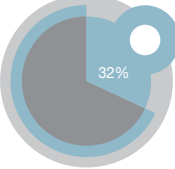

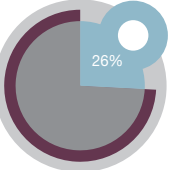

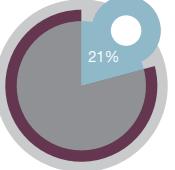

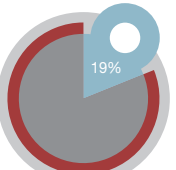

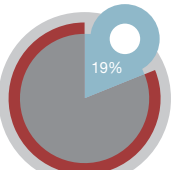

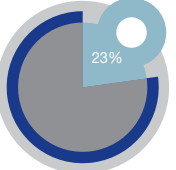

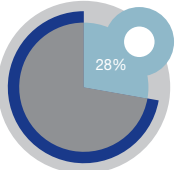




ProGrip has been supplying top quality products to the building industry for over 10 years and has grown into one of the biggest tile adhesive manufacturers in the country.



More than a trusted brand, **Elf** is a special range of laminate floors, carefully selected from leading German and European factories. Elf offers a class-leading guarantee, backed by CTM, nationwide. Nothing beats the authentic look of natural wood for that warm, homely feeling!

GROUP AT A GLANCE

Contribution to Group trading profit	Region	Company
 <p>2014</p>	SOUTH AFRICA 	<ul style="list-style-type: none"> International Tap Distributors (Pty) Ltd Cladding Finance (Pty) Ltd Cedar Point Trading 326 (Pty) Ltd
 <p>2013</p>	ITALY 	<ul style="list-style-type: none"> Ser Export s.p.a.
 <p>2014</p>	SOUTH AFRICA 	<ul style="list-style-type: none"> Italtile Ceramics (Pty) Ltd Italtile Retail (Pty) Ltd TopT Ceramics (Pty) Ltd
 <p>2013</p>	AFRICA 	<ul style="list-style-type: none"> CTM Kenya Ltd Orban Investments 375 (Pty) Ltd Braintree (Pty) Ltd
 <p>2014</p>	SOUTH AFRICA 	<ul style="list-style-type: none"> Italtile Franchising (Pty) Ltd
 <p>2013</p>	MAURITIUS 	<ul style="list-style-type: none"> Italtile Mauritius Ltd
 <p>2014</p>	SOUTH AFRICA 	<ul style="list-style-type: none"> F.B. Ashman (Pty) Ltd Allmuss Properties (Pty) Ltd Emerald Sky Trading 736 (Pty) Ltd Magnolia Ridge Properties 291 (Pty) Ltd Penates Logistics (Pty) Ltd
 <p>2013</p>	AUSTRALIA  AFRICA 	<ul style="list-style-type: none"> Norstorm Pty Ltd Melkbos Pty Ltd Allmuss Botswana (Pty) Ltd Allmuss Properties Namibia (Pty) Ltd Allmuss Lesotho (Pty) Ltd Allmuss Properties Kenya Ltd Allmuss Properties (Uganda) Ltd

Nature of business

- Distributor of brassware and accessories
- Outsourced debtors solutions
- Distributor of tiling tools, laminated boards, cabinets, decor and accessories

- Procurement specialist

Supply and support services



- Retailers of tiles, laminated boards, brassware, sanitaryware and accessories
- Retailers of tiles, brassware, sanitaryware and accessories
- Retailers of tiles, laminated boards, brassware, sanitaryware, hardware, accessories and other home-finishing products

Retail



- Retailers of tiles, brassware, sanitaryware and accessories
- Retailers of tiles, laminated boards, brassware, sanitaryware and accessories
- Retailers of tiles, laminated boards, brassware, sanitaryware and accessories

Franchising

- Bearer of South African trademarks



- Bearer of non-South African trademarks

Property investment

- Property investments – Italtile Property Holdings
- Property investments – CTM Property Holdings
- Property investments – TopT Property Holdings
- Property investments
- Property investments

- Property investments
- Property investments

- Property investments
- Property investments
- Property investments
- Property investments
- Property investments





As the Group celebrates its 45th anniversary, management is satisfied that the combination of its best practice benchmark programmes and improved use of strategic business science will continue to unlock value and growth opportunities in the decades ahead.





CHAIRMAN'S STATEMENT



Management is mindful that the Group's legacy of almost five decades has been achieved through continuous and consistent improvement across its operations. The challenge in the forthcoming decades is to build on those foundations and elevate the business to new levels.

Overview

This year marks the 45th anniversary of the founding of the Group in 1969, and the 26th anniversary of its listing on the Johannesburg Stock Exchange in 1988.

Over this period I have witnessed numerous changes in the industry – and as many in this business – both in response to the evolving environment and in anticipation of what the future in merchandise fashion and design would hold.

In the highly competitive industry we operate in, retailers are constantly under pressure to deliver an innovative, reinvigorated and better ‘value’ offering, in terms of price, fashion, quality and service to an increasingly discerning customer base. This imperative to continuously improve the comprehensive offering is at the core of a sustainable business, and one which we recognise will ensure our continued existence in the long term.

In this vein, Italtile Retail, first launched 45 years ago, has remained a consistently sought-after brand in the premium-end market, while recent market research confirmed that our CTM brand, established in 1983, is still regarded as an iconic household name in South Africa, 31 years later. The sustained and growing brand equity and affinity CTM enjoys in its market is a reflection of our consistent efforts to meet our customers’ expectations through our goal to deliver an unparalleled shopping experience. We look forward to the challenge of building a similarly broad-based reputation for our TopT brand and will strive to attain market leadership in this segment as our private label brands, Kilimanjaro, ProGrip and Elf have accomplished in the tile, adhesive and grout and laminated flooring categories respectively.

Underpinning our mission to be a sustainable, ascendant organisation are the key disciplines which centre on best practice benchmarks and controls across the business. In this regard, good progress was achieved in the areas of inventory and range management, cost containment, innovation in product and technology and leadership and team development.

In this milestone year, it is particularly fitting to pay tribute to the people of this business who have played an indispensable role in its accomplishments. Their commitment and effective teamwork is an asset to the Group. It is rewarding to see a strengthening sense of responsibility amongst our future leaders, and a keen desire for empowerment and growth.

Trading conditions

Whilst slow but steady growth was evident in the renovations and professional projects segments of the market, the new build segment remained sluggish, a trend which is likely to continue for the foreseeable future. In the context of continued general economic uncertainty, consumers remained highly price-sensitive, fuelling aggressive price competition in the industry. The weakening of the currency during the year exacerbated margin pressure and led to further instability in the market.

Results

The Group delivered sound growth during the period, across the brands and the integrated supply chain. Intensified focus on our policy of ensuring the ‘right product at the right time, place and price’ led to improvements in the range and the supply and sale of products across the merchandise categories, which had a positive impact on results. Notably, CTM, which under-achieved my expectations in the prior year, reported a much improved performance, particularly in the tile category.

In the context of Rand weakness during the period, strategic advantage was afforded by the integrated supply chain which supported competitive pricing in the stores and ensured consistent availability of affordable products.

System-wide turnover from continuing operations increased 17% to R4,46 billion (2013: R3,82 billion), predominantly derived from organic growth, as a net increase of only six stores took place during the year.

Trading profit from continuing operations grew 23% to R751 million (2013: R611 million).

The Group's continuing operations' basic earnings per share (EPS) rose 19% to 57,4 cents (2013: 48,2 cents) while the continuing operations' headline earnings per share (HEPS) increased 24% to 58,7 cents (2013: 47,3 cents). It is important to note that HEPS have been adjusted for the post-taxation impact of an impairment of R20 million (2013: R5 million) recorded for property held in Australia. Furthermore, both the EPS and HEPS calculations include a R17 million IFRS 2 charge, of which R11 million is a once-off charge, related to an equity-settled staff share incentive scheme implemented during the year, which I discuss on page 11 of this report.

Ordinary dividend

The Board has approved a final ordinary dividend of 10,0 cents per ordinary share (2013: 8,0 cents per share), which together with the interim ordinary dividend of 9,0 cents per share (2013: 8,0 cents per share) produces a total ordinary dividend declared for the year of 19,0 cents per share (2013: 16,0 cents per share), an increase of 19%. The Group's dividend cover remains unchanged at three times.

Corporate governance and sustainability

A detailed analysis of the progress achieved in compliance-related matters is contained in the Material Issues and Corporate Governance reports on pages 13 and 52 respectively. In this, our fourth Integrated Annual Report, we are able to report on improved application in the business of the principles of the King Report on Governance for South Africa, 2009 and further demonstrate Italtile's continued commitment to a sustainable business and an ethical corporate culture.

Human capital development

The sustainability of most organisations is determined by the calibre of its people. In acknowledging this, one of the Group's primary focus areas is the development of skills and competencies of its personnel and the mentorship and empowerment of potential leadership talent across the business.

I am pleased to report that during the year improved training initiatives produced good results in growing our pool of high-performing individuals.

Management believes that the spirit of entrepreneurship is a vital asset in enabling this business to reach its full potential. This culture is fostered through a deliberately flat management structure, remuneration and reward structures which compare well with the industry average and are designed to narrow the gap between the highest and lowest income earners in the Group, and opportunities for employees to partner with the business through joint venture and co-ownership arrangements in the Group's operations.

Directorate

In line with the Group's strategy to enhance management depth and succession planning across the company, two key executive directors have been appointed to the Board. Nick Booth, formerly Chief Executive Officer (CEO) of Ceramic Industries for 13 years, assumed the position of CEO from 1 July 2014. As former CEO of our largest supplier, he has extensive knowledge of Italtile and the industry.

Jan Potgieter has been appointed as Chief Operating Officer with effect from 1 August 2014. Jan is a chartered accountant and has considerable senior level experience in the retail and supply chain sectors, having most recently served as divisional CEO and formerly divisional financial director at his previous company, a major national South African retailer.

It is my pleasure to welcome Nick and Jan to the Board. I am confident that they will add valuable depth to the management structure.

With effect from 20 August 2014, Ms Ndumi Medupe was appointed to the Board as a non-executive director. Ms Medupe, CA(SA) is a founder and director of Indyebo Consulting (Pty) Limited. The Board welcomes Ms Medupe and looks forward to her contribution.

Pending Nick's appointment, I served as interim CEO of the Group, while my fellow Board member, Brand Pretorius, assumed the role of interim Chairman. I would like to extend my sincere thanks to Brand for the contribution he made in that role.

Staff share scheme

During the reporting period we implemented an equity-settled staff share scheme, consistent with the Group's ethos of promoting partnership with our employees and incentivising them to participate in the growth and profitability of the business. On 31 August 2013, 15 million shares were allocated to 499 qualifying South African staff members, including those of franchised stores, translating into 30 000 shares per individual. The shares have a three year vesting period, and the net shareholding at the end of the period is dependent on the appreciation of the Group's share price. A second allocation of shares will be made during the 2015 financial year to qualifying foreign staff and other staff members who achieved three years of service on 31 August 2014.

Prospects

In the absence of a strong economic recovery in the short term, consumers will remain cost-conscious, with higher expectations of value-for-money offerings. In addition to price, there will be growing demand for good service, quality and style.

In this environment, the Group's key differentiator, its unique business model, will stand it in good stead. Our high-profile brands have appeal across the income and fashion spectrum, whilst the established supply chain supports our year-round value offering.

Management is mindful that the Group's legacy of almost five decades has been achieved through continuous and consistent improvement across its operations. The challenge in the forthcoming decades will be to build on those foundations and elevate the business to new levels.

A range of opportunities has been identified which will advance our ambitious growth plans. Amongst those is to grow market share in existing and new markets, including developing new store formats to provide expansion flexibility. Intensified implementation of our best practice benchmarks and controls across all major disciplines of the business and supply chain should also deliver an enhanced performance.

Finally, the appointment of Nick Booth and Jan Potgieter will complement the skills and experience of the existing management team and ensure we are positioned to achieve our vision for the business for the future.

Appreciation

I have referred earlier in this report to the invaluable contribution which the people of Italtile Limited make to the success of this business. They are to be applauded, and I look forward to their continued commitment as we reach for our next set of goals.

I would like to thank my fellow Board members for their input. As always, I value their considered guidance.

Our suppliers, advisers and business partners play an important role in supporting us, for which I thank them.

The continued investment by our long-standing shareholders is rewarding endorsement of our unwavering efforts to grow this business and improve returns to all stakeholders. We remain committed to exceeding their expectations.

In closing, I would like to thank our customers, who are at the heart of our business. Their loyalty is the inspiration which drives us to continuously enhance their shopping experience in our stores, and they can be assured of our dedication to delivering an ever-better offering.



FINANCIAL HIGHLIGHTS



	% change from 2013	2014	2013
GROUP AND FRANCHISE RESULTS*			
Turnover (Rm's)			
– by Group-owned stores and entities	33	2 714	2 047
– by franchised-owned stores (unaudited)	(2)	1 747	1 776
System-wide turnover (Rm's)	17	4 461	3 823
Number of stores		115	116
GROUP RESULTS*			
Turnover (Rm's)	33	2 714	2 047
Trading profit (Rm's)	23	751	611
Total assets (Rm's)	3	2 713	2 627
Cash and cash equivalents (Rm's)	(18)	249	303
Number of shares in issue (000's)	–	1 033 332	1 033 332
Headline earnings per share (cents)	24	58,7	47,3
Ordinary dividends declared per share (cents)	19	19,0	16,0
Net asset value per share (cents)	(2)	242	248
Number of employees	21	922	765

*From continuing operations



Enterprise and economic

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

Strategic focus	2014	2015 focus and targets
<p>Enterprise Risk Management</p>	<p>The Group's Enterprise Risk Management (ERM) programme serves to:</p> <ul style="list-style-type: none"> - specify the sources of assurance over the Group's risks; - link risk management and assurance activities, which facilitate review of risk management effectiveness; and - provide a basis for identifying assurance gaps. <p>These activities are designed to ensure that the Group's risks are adequately addressed.</p> <p>The ERM structure is based on a combined assurance model comprising three elements:</p> <ul style="list-style-type: none"> - management (divisional and executive directors); - external auditors (EY); and - Support Centre oversight (including the internal audit function). <ul style="list-style-type: none"> ● 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 in-store 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' hotline introduced in the prior year is a useful mechanism to enable staff to report perceived fraud or any other improper workplace practices. 	<ul style="list-style-type: none"> ● 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 which ensure consistent business practices in-store. The internal audit function will continue to grow with the business and will play an increasingly important role.



Enterprise and economic (continued)

Strategic focus	2014	2015 focus and targets
<p>Market risk and financial viability</p>	<ul style="list-style-type: none"> ● The Group grew system-wide turnover by 17% and trading profit by 23% from continuing operations despite the testing economic environment. ● Market share was retained across the brand offering and merchandise categories. The strength of the Group's well-established business model, underpinned by its integrated supply chain and cash reserves were critical to its continued growth in the challenging trading conditions. In addition, the strategy of ensuring the right stock at the right time, place and price, together with an uncompromising focus on quality, afforded a key competitive advantage in a volatile marketplace. 	<ul style="list-style-type: none"> ● Implementation of further improvements across the business and supply chain and capitalising on opportunities in the industry should enable continued growth and market share gain.
<p>Reliance on key suppliers</p>	<ul style="list-style-type: none"> ● The Group's requirements were consistently met by its supply chain throughout the year. ● The Group holds strategic stakes in both of its major local suppliers, namely 20% in Ceramic Industries and an effective 46% in Ezeetile. These suppliers are key to the Group attaining its growth targets and the strategic investment strengthens its relationships with these businesses. 	<ul style="list-style-type: none"> ● The Group will continue to pro-actively manage its supplier relationships to ensure supply requirements are consistently executed throughout the year. Core activities will include projection planning, monitoring, and ensuring suppliers' capacity to increase production if required. ● In the unlikely event of insufficient supply from Ceramic and Ezeetile, the Group could source alternative supply from other local suppliers (adhesive and grout) or importers (tiles and sanitaryware).
<p>Supply chain management</p>	<ul style="list-style-type: none"> ● In the context of currency and market volatility, the supply chain provided invaluable support to the retail operations through competitive pricing and consistent availability of fashionable merchandise. ● Despite increased inventory levels, stock turn continued to improve, and further enhancements were made in automated ordering processes and model stock matrixes across the Group. ● During the period, the Group's new Distribution Centre which opened in Cape Town made progress in achieving its strategic objectives to streamline distribution and logistics of imported product and improve performance in the region. 	<ul style="list-style-type: none"> ● Well-established, cooperative relationships with local and international suppliers will remain crucial to ensuring uninterrupted product supply and mitigating the impact of currency volatility. ● Improved supply chain functionality, focused on procurement and stock management, will be a core focus area in the forthcoming year.
<p>Supply chain disruption (Distribution Centres)</p>	<ul style="list-style-type: none"> ● The Group's disaster management plan is structured to withstand interruption of operations due to supplier, shipping or warehouse storage difficulties. 	<ul style="list-style-type: none"> ● The Group will continue to ensure optimal inventory levels thereby negating any short-term disruption to supply.

Strategic focus	2014	2015 focus and targets
Remaining fashionable	<ul style="list-style-type: none"> The Group enjoys a strong reputation for its high quality, fashionable offering in a marketplace which is largely informed by international vogue, and is continuously evolving as new styles and fashions emerge. Management is constantly mindful that the Group's industry leadership position is upheld by remaining on-trend. In order to prioritise fashion and flair in the product range across merchandise categories, intense research is conducted on an ongoing basis into new products and markets. Consumption related trading information is continuously analysed to ensure the Group's offering aligns with customer expectations and desires. 	<ul style="list-style-type: none"> The Group will continue to invest in research-driven innovation in order to entrench its position as a style icon. This will be accomplished through attending trade shows and accessing industry thought-leadership resources to gain insight into global trends and product offerings, and by capitalising on procurement opportunities in international markets. Internally, experienced brand managers and continuous communication within the Group at regional and national level will ensure improved understanding of local fashion desires. Optimal range/pricing structures will also remain a priority.
International competitiveness	<ul style="list-style-type: none"> Consumers in the local market continued to aspire to international fashion trends and increasingly demanded innovation in products and technology. Mindful of this, and the opportunity it provides to gain competitive advantage, the Group remained focused on delivering a contemporary and aspirational offering through significant enhancements in its range, its use of technology, access to new channels (e-commerce and social media) and in cost/pricing. 	<ul style="list-style-type: none"> The Group's stated goal is to be a world-class, low-cost retailer through alignment of customer satisfaction and profitability. Consistent focus on providing an unrivalled shopping experience and implementation of best practice business principles, will promote achievement of this objective.
Foreign currency	<ul style="list-style-type: none"> The Group imports a range of products and was therefore subject 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. 	<ul style="list-style-type: none"> Company policy dictates that foreign currency fluctuations will continue to be closely managed and all foreign liabilities will be matched with forward exchange contracts on confirmation of order.
Computer-based business processes	<ul style="list-style-type: none"> Management is cognisant that the IT environment affords significant opportunities for the Group to accomplish its growth objectives and improve customer satisfaction. In pursuit of these goals, a range of projects was completed, within budget and on schedule, including improvements in functionality of the Group's online and in-store technology, and enhancement of SAP systems in the retail operations and supply chain. The Group's comprehensive disaster recovery plan was further enhanced and the business maintained its minimal downtime track record. 	<ul style="list-style-type: none"> Seamless operation of the Group's IT infrastructure is vital to the business; accordingly management of potential downtime and system failure risk will remain a key priority. SAP functionality will continue to be enhanced to unlock efficiencies, thereby promoting growth. Roll out of technology, including improved web-shopping capability for both CTM and Italtile Retail, will remain a focus area.



Enterprise and economic (continued)

Strategic focus	2014	2015 focus and targets
<p>Liquidity, cash reserves and treasury risk</p>	<ul style="list-style-type: none"> ● Capital management and cost containment were core focus areas during the period. This, together with the Group's strong cash generating ability ensured that cash reserves continued to exceed operational requirements. ● The Group's treasury policy is structured to anticipate and mitigate the major treasury risks which exist, namely: <ul style="list-style-type: none"> – sub-standard investment returns; – inadequate liquidity of investments to meet commitments; and – institutional/commercial risk relating to funds into which investments are made. 	<ul style="list-style-type: none"> ● Cost containment and rigorous management of cash flow and overheads will remain key priorities in the year ahead. ● The Group's treasury policy has proved well-constituted and effective, and will continue to attenuate risks linked to investments.
<p>Credit risk</p>	<ul style="list-style-type: none"> ● The Group's consumer credit offering is outsourced through RCS, an independent financial services business specialising in credit products. Italtile and CTM also offer a trade credit facility which is managed and insured by an outsourced specialist debtors' solutions company, Cladding Finance. During the reporting period, credit applications and credit management continued to be intensively monitored and well administered. 	<ul style="list-style-type: none"> ● The Group's business model is centred on cash transactions in the retail operations thereby limiting exposure to consumer credit risk. ● In the current economic climate, credit applications and management thereof will remain a priority focus area.
<p>Brand reputation</p>	<ul style="list-style-type: none"> ● The Group's Italtile Retail and CTM brands are respectively 45 and 31 years old, and are pivotal to the business model and the Company's profitability. Accordingly, reputation management of these and all other Group brands is a core priority, conducted through continuous review and brand-enhancing activities. ● Potential areas of reputational risk include: poor customer service; poor product quality and unrealistic pricing; poor staff management; negative environmental impact and non-compliance with legislation and standards. Each of these risk areas was monitored closely and mitigated through the following mechanisms: <ul style="list-style-type: none"> – brand managers who attend regular regional meetings to gain insight into markets and product offering; – ongoing training for staff on service and products; and – implementation of an employment equity policy, environmental sustainability programme, whistle-blowing facility, and involvement of the services of a Health and Safety expert. 	<ul style="list-style-type: none"> ● Customised strategies have been developed specifically for each of the three individual retail brands. These strategies will focus on growth opportunities for the respective brands and maintaining the good reputation they enjoy in the market.

Strategic focus	2014	2015 focus and targets
Property investment portfolio	<ul style="list-style-type: none"> ● Significant strategic advantage is afforded to the retail operations by this portfolio, which is centred on providing an optimal shopping experience for customers, achieved through branded stores that are situated on highly visible, accessible sites offering an aesthetically pleasing, well maintained shopping environment. It has an estimated market value of R1,9 billion and strong cash reserves; returns are in line with the retail operations. During the reporting period R96 million was added to the value of this investment portfolio net of property sales and refurbishment capital expenditure. 	<ul style="list-style-type: none"> ● Continuous review of the portfolio and marketplace ensures that risk is minimised and potential investment opportunities capitalised on. This division's main objective is to constantly improve the value and quality of its investment properties to support the retail operations in delivering the required rate of return.
Preservation of the organisational philosophy and structure	<ul style="list-style-type: none"> ● 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. 	<ul style="list-style-type: none"> ● 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	<ul style="list-style-type: none"> ● During the period the Group appointed a new CEO and COO, thereby enhancing the Board's endeavours to comply with relevant King legislation. These key appointments will have a significant impact on increasing the depth of management in the Group. 	<ul style="list-style-type: none"> ● Elsewhere in the business, the goal is to build succession cover for each major management position to ensure that there are successors for each key individual, both in the short- and long-term. ● Attracting, developing and retaining human capital will remain a key focus, with mentorship and leadership programmes prioritised.
Chairman's mentorship programme	<ul style="list-style-type: none"> ● A management mentorship programme is conducted under the auspices of the Chairman, through which the values and ethics of the business are instilled across the organisation. ● Leadership development is also facilitated through CTM's in-house Operator Training Programme, in conjunction with Stellenbosch University, which aims to produce graduates with the necessary skills and qualifications to manage Group stores. 	<ul style="list-style-type: none"> ● The Group will continue to commit significant resources to initiatives centred on developing a pool of leaders with extensive experience and expertise to facilitate achievement of the Group's growth targets.



Social

Stakeholders: franchisees, employees, customers and the community

Strategic focus	2014	2015 focus and targets
Recruitment and retention	<ul style="list-style-type: none"> Number of employees including franchised stores: 1 588 (2013: 1 518) Experienced, skilled personnel are in short supply in the broader retail industry and the Group is cognisant of the need to be an employer of choice in this competitive environment. Accordingly, opportunities for empowerment and entrepreneurship are promoted through ownership models (including franchise and joint venture partnerships) and profit and share schemes. A new staff share scheme was implemented in August 2013 aimed at promoting partnership in the business. Participants in the scheme benefit directly from the growth in the Group's sales and profitability, thereby incentivising staff to contribute to the success of the business. At 30 June 2014, 13 million shares were held by qualifying staff members. 	<ul style="list-style-type: none"> Enhanced training will improve motivation and empowerment of employees, which will have a positive impact on retention. Improved processes will be introduced to attract and recruit new talent in the drive to build the resources required to achieve the Group's expansion goals. Leadership development will remain a priority focus. The Group's culture of empowerment and entrepreneurship is important to retaining its employees. This culture will continue to be facilitated through amongst other mechanisms, ownership opportunities. Staff will continue to be incentivised via profit share and share schemes. In terms of the staff share incentive scheme, a second allocation of shares will be made to qualifying foreign staff and other staff members who achieved three years of service on 31 August 2014.
Training	<ul style="list-style-type: none"> The total number of training interventions undertaken increased to 1 311 (2013: 1 031). A total of 178 courses (2013: 86) were conducted. 193 (2013: 142) candidates completed the Academy's Practical Tiling, Plumbing and Laminate course. CTM's Operator Training Programme (OTP), in conjunction with Stellenbosch University's Business School, produced 11 graduates for store management positions. 	<ul style="list-style-type: none"> The goal for the year ahead is to enhance analysis and measurement of performance and closer align training interventions with specific requirements within the individual brand businesses. The OTP is an important mechanism to grow leadership talent in the Group. Nine candidates are currently enrolled in the programme.
Transformation	<ul style="list-style-type: none"> Employment equity targets were once again met, in line with the Group's consistent record over several years. 	<ul style="list-style-type: none"> Continued achievement of employment equity targets will remain a priority.
BEE ratings	<ul style="list-style-type: none"> The Group achieved an improved BBBEE contributor status Level 6 (2013: Level 8). 	<ul style="list-style-type: none"> The BBBEE contributor status target for the year ahead is Level 6. The Group will put in place measures and initiatives to ensure continued compliance when the updated BBBEE codes come into effect.



Environmental

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

Strategic focus	2014	2015 focus and targets
Water consumption	<ul style="list-style-type: none"> The Group achieved its annual goal of 5% reduction in water consumption for the year. Both Italtile Retail and CTM increased their ranges of water-saving products. Information and education regarding water-saving products and behaviour continued to be promoted in-store. 	<ul style="list-style-type: none"> The Group will continue to target an annual water saving of 5%. A unique policy has been formalised for each of the three retail brands related to water consumption and reduction, which will be managed within the Group-wide sustainability agenda.
Energy consumption	<ul style="list-style-type: none"> A five year energy management plan is in place aimed at reducing consumption by 50% by the end of FY2017. An improved energy saving of 9,75% was achieved across the business (between FY2011 and FY2013 a saving of 3,63% was achieved) through installation of photovoltaic (PV) solar panels in seven stores and retro-fitting new efficient lighting in some of the Group's older stores. Independent metering equipment was installed at stores experiencing inaccurate billing, improving management of energy consumption. 	<ul style="list-style-type: none"> PV systems, which produce 40% of each store's energy requirements, will be fitted in six additional stores in the forthcoming year. Energy efficient technologies/lighting will be implemented in all new, upgraded and relocated stores, and rolled out to the Group's older stores lacking this technology in due course. A customised policy has been formalised for each of the three retail brands related to energy consumption and reduction, which will be managed within the Group-wide sustainability agenda.
Waste minimisation	<ul style="list-style-type: none"> A five year plan was introduced targeting a reduction in waste for recycling and waste to landfill by all stores by 10% by FY2015. The Group is on target to achieve this goal. 	<ul style="list-style-type: none"> Depending on the success of achieving the FY2015 target, the long-term goal is to reduce waste to landfill to a maximum of 5% of all waste by FY2017.
Carbon footprint	<ul style="list-style-type: none"> The Group's fourth carbon footprint study confirmed a decrease of 30% (FY2013: 16% decrease) in direct CO₂ emissions per Rand value of turnover. 	<ul style="list-style-type: none"> The Group's fifth carbon footprint study (FY2015) has been commissioned, and based on the downward trend to date and 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	2014	2015 focus and targets
Compliance with legislation	<ul style="list-style-type: none"> The Group strives to implement good corporate governance practices across its operations aimed at promoting sustainability of the business. Accordingly it endeavours to ensure compliance 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. A high-level Group Health and Safety Committee was introduced which will drive compliance of the business units with the relevant Health and Safety legislation. 	<ul style="list-style-type: none"> Appropriate professionals and advisers will continue to be consulted to ensure compliance with legislation. Relevant seminars and training related to legislative and other updates will be attended by management who will continue to be supported by the external audit function in ensuring compliance.

ITALTILE
Limited





The Group's high profile brands have appeal across the income and fashion spectrum, whilst our well-established supply chain supports our year-round value offering.

REVIEW OF OPERATIONS



An array of improvements were made in the core areas of the business, serving to achieve increased customer satisfaction and deliver pleasing double digit growth.



Overview

At the end of the prior financial year, management's stated goal was to intensify the best practice programmes implemented in the business to continue to capitalise on growth opportunities. A range of key focus areas were identified, including investment in people and processes, innovation in products and technology, and enhancement of efficiencies and cost containment, to ensure that the Group improved profitability and gained and retained market share.

In this regard, management believes that good progress has been achieved, although it has set challenging new goals to attain even higher benchmarks in the forthcoming year.

Through interventions such as CTM's 9 Key Disciplines and Italtile Retail's The Italtile Way, the Group entrenched its focus on fundamental retail principles, aimed at standardising and promoting performance consistency of the offering – across the brands, in all stores, across the regions – to ensure in-store satisfaction for customers.

An array of improvements were made in the core areas of the business, including range management (fashion and pricing); merchandising, display and marketing (focused on promoting complete product solutions depicted through design lifestyles, which improved the average basket size); stock management (centred on procurement processes, improved warehousing and cooperation between stores); cost containment (in logistics, administration and stock control); training; and technology (further development of the CTM webstore, and point-of-sale and handheld scanner technology in store).

As a result of these enhancements and the unwavering commitment to improvement by the people who are integral to the success of the Group, pleasing double

digit growth was reported, including in previously under-performing regions.

Financial review

Trading conditions

During the review period, the ratio of household debt to disposable income continued to rise, serving to constrain consumer discretionary spend further in an economy which has recorded deteriorating growth over several years. In the construction sector the renovations market was slightly more buoyant than the new-build market, which remained subdued in the context of negative sentiment and restrained public and private sector investment.

Whilst the middle income market appeared less resilient than the top and bottom-end earners, consumers across the spectrum were price sensitive and acutely conscious of value-for-money offerings.

The devaluation of the currency over the period had a significant impact on industry participants and trading behaviour. The weak exchange rate served to squeeze retailers' working capital reserves and margins, and independent opportunistic traders with unsustainable business models were particularly hard hit. Whilst further rationalisation occurred, these trading conditions also served to restrict access to the industry to new entrants.

Other consequences of this currency volatility and aggressive price competition were stock shortages, and range gaps both in price and fashion, as operators attempted to cut costs further.

The strength of the Group's well-established business model, underpinned by its integrated supply chain and strong cash reserves were critical to its continued growth in this testing environment. The stated policy of ensuring the right stock at the right time, place and

price, together with an uncompromising focus on quality, ensured that Italtile entrenched its position as a leading retailer in the sector.

Results

Continuing operations

Following the disposal of non-core businesses (disclosed in detail on page 115 of this report), the results of these entities have been recorded as discontinued operations for the period. Accordingly, the financial information presented below refers to continuing operations only.

System-wide turnover for the period rose 17% to R4,46 billion (2013: R3,82 billion), with turnover growing at a higher rate year-on-year in the second six months than the first six months. Operating margins were also firmer in the latter half of the period attributable to intensified cost containment and increased average selling prices. Trading profit grew 23% to R751 million (2013: R611 million) as a result of improved store profitability including the contribution of nine franchised stores converted to Group-owned stores.

Earnings per share and headline earnings per share which grew 19% and 24% respectively were impacted by a R17 million IFRS 2 charge, of which R11 million is a once-off charge, related to an equity-settled staff share incentive scheme implemented in the prior comparative period. In addition, an impairment of R20 million (2013: R5 million) was recorded for the Group's property portfolio in Australia, a reflection of continued adverse economic conditions in that country. This has been excluded from headline earnings.

Due to its deliberate strategy to capture costs in the supply chain in order to support competitive pricing in

the stores, the Group succeeded in containing average selling price increases in line with inflation.

Inventory levels increased to R408 million (2013: R335 million), primarily due to stockholdings of new stores which were added to the network. One of the Group's key competitive advantages is the consistent availability of an extensive range of fashionable merchandise. Stock control is therefore a priority challenge for management to ensure that stock turn continuously improves to enhance product life cycles and provides for the addition of new ranges. Inventory management has been identified as a key focus area in the forthcoming period and unrelenting attention will be paid to improving on this discipline across the business.

Capital expenditure of R166 million (2013: R168 million) was incurred primarily to enhance the Group's property investment portfolio through the acquisition of four new properties and an ongoing store upgrade programme across the network. This investment, together with the net special dividend of R467 million paid during the period, resulted in net cash reserves of R249 million at the end of the period.

The Group's net asset value was 242 cents (2013: 251 cents).

Investment in associates

Ceramic Industries Limited (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 and Italtile's stated goal to promote an 'always in stock' policy for customer convenience, this relationship with Ceramic served to enable consistent supply of local high quality, affordable products.

During the period, increased production volumes were achieved across Ceramic's tile and sanitaryware factories. Improved sales and profitability were also attained, attributable to the decision to produce narrower ranges which ensured continuous availability of higher volumes of in-demand product; the currency devaluation which favoured local producers; and an increase in average selling prices.

Ceramic's Australian manufacturing operation also delivered improved results, trading profitably in the last quarter of the review period.

This all-round improved performance across the business resulted in a 70% growth in profitability and an increase in contribution to Group profit of R24 million for the full year (2013: R9 million).

Ezeetile

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, and whilst improved efficiencies have resulted, the restructuring remains to be completely bedded down before the full benefits of the programme will be realised. Whilst increased imported raw material costs and higher fuel charges also had a negative impact on results, the business reported growth for the period, contributing R5 million (2013: R3 million) to Group profits.

Italtile Australia

The Group's seven store CTM retail operation was disposed of via a facilitated management buyout in October 2013. Italtile has retained and continues to manage the five Group-owned properties out of which the stores traded. This business has contributed to income from July 2014, although the sum is immaterial. Management's longer-term strategy is to dispose of these properties once the market recovers.





Italtile Retail's status as a style icon demands that management continuously and consistently drives research-led innovation in merchandise selection and display to ensure an optimal in-store experience for customers.



Italtile Retail

Overview and performance matrix

Nature of business	Leading fashion retailer of exclusive ranges of tiles, bathware and related products.	
Target market	LSM 7 – 10 Discerning consumers in the upper middle and premium-end segment and professional projects market.	
Number of stores	8	
Key performance indicators	Trends 2014	Trends 2013
Sales	↑	↑
Average price inflation	↑	↓
Margins	↓	↓
Net profit	↑	↑
Stock turn	↑	↑
Key differentiators	Trend-setter 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.	

Acknowledged as a style-leader in the premium home improvement market, Italtile Retail continued to benefit from its unique positioning as a comprehensive one-stop offering in a market segment characterised by product-specific specialist retailers.

This division improved sales and profitability and accomplished good progress in a range of key focus areas. Whilst growth was achieved across the merchandise categories, particularly strong sales were reported in the Bath Shop. Intensive cost containment ensured that margins did not deteriorate significantly in the context of currency devaluation and the deliberate decision to broaden the brand's range to appeal to the middle-income market – the gain in market share in this segment endorses this strategy.

The pleasing performance reported by the business is attributable to the following:

- The unwavering goal to deliver an enhanced shopping experience for customers which was attained through continuous improvements in showroom layouts (including client-friendly offerings such as 'chill-out' areas), improved merchandising, and increased accessibility of educational product information;
- The ongoing introduction of cutting-edge fashion ranges on-trend with international vogue. The brand's position as product leader in the environmentally sensitive sector was also enhanced with additional consumption-efficient brassware and sanitaryware ranges, which are increasingly demanded by the professional and projects market;
- Partnership promotions which were conducted with internationally acclaimed companies such as Laufen and Cotto, raising the profile of those offerings in the market and driving sales in the Bath Shop;
- The brand undertook a marketing metamorphosis, best depicted by the introduction of the Italtile Style Book, an advertising feature comprising six consecutive pages published monthly in five leading local home design magazines. The Style Book, which includes a Trend Radar page has been welcomed by clients and cements Italtile Retail's position as a fashion-leader in the market;
- Webstore enhancements were implemented, including a showroom walk-through and enhanced product display and selection functionality, making

the site more customer-friendly. Response time to customer enquiries was also significantly improved. Management plans to invest further to upgrade its e-commerce platform to world-class standards in 2015;

- The Commercial Projects division, under the dedicated management of a joint-venture partner, reported strong growth of the brand's non-residential business in Gauteng. Amongst the prestigious projects completed were several designer apartment blocks, a bespoke shopping centre and a number of premium-end office buildings for the financial services and hospitality industries; and
- The Italtile Way, the brand's best practice benchmark programme centred on continuous improvement in customer service, was extended from the in-store component of the business to the Commercial Projects division and all warehouse facilities, with rewarding results.

Illustrating its commitment to the local market and its valued clients, Italtile Retail served as a lead sponsor of the 25th World Congress of the International Union of Architects held in Durban in August 2014. The Congress brought together architects from around the world to debate their common concerns and interests – with a specific focus on African knowledge, challenges and opportunities. Deemed a resounding success, Italtile Retail's existing and prospective clients were delighted with the access to international thought-leaders which this Congress sponsorship afforded.

Priorities and prospects

Italtile Retail's position as a style icon demands that management continuously and consistently drives research-led innovation in merchandise selection and display. In the period ahead, intensive focus on range matrixes and product life cycles will ensure optimal stock management, thereby improving the in-store experience for customers.

In a sophisticated and competitive market place, premium service remains one of the key differentiators of this business. Management's commitment to benchmark customer service will continue to be reinforced through best practice recruitment, development and retention of personnel.

The positive inroads made by the Commercial Projects division in Gauteng endorses management's goal to extend this offering nationally, and augmentation of capacity to achieve that ambition is currently underway.

Italtile's store in Nelspruit will be relocated to new premises in the second quarter of the 2015 financial year, and pending council approval, Italtile's store in Somerset West will also be revamped during the year. Both stores will be subject to the brand's new retail design formula aimed at optimising the shopping experience. New stores are planned for opening in the second half of the 2015 financial year, in Northriding, Gauteng, and in the 2016 financial year in Polokwane, Limpopo.



CTM

Overview and performance matrix

Nature of business	Leading specialist retailer of tiles, laminate boards, taps, sanitaryware, bathroom furniture and accessories.	
Target market	LSM 5 – 8 Middle income DIY customers and small builders.	
Number of stores	83 (in South and East Africa).	
Key performance indicators	Trends 2014	Trends 2013
Sales	↑	↑
Average price inflation	↑	↑
Margins	↔	↔
Net profit	↑	↑
Stock turn	↑	↔
Key differentiators	Unrivalled local and international buying power. Year-round value offering. Integrated supply chain ensuring consistent availability of stock.	
Strategic positioning	Big savings. More style.	

CTM performed markedly better in the second six months of the year than the first six months, and most of the brand's regions recorded double digit growth for the full review period. Particularly notable was the improvement reported by the coastal markets, which have lagged growth in the inland regions for several years. In general, Group-owned stores outperformed franchised stores.

In the context of Rand weakness, the brand benefited from the strength of its supply chain which ensured uninterrupted supply of well-priced imported product across the merchandise categories, and also guaranteed consistent availability of good quality local tile products, supporting CTM's 'always in-stock' policy.

During the period the brand retained its market share across the merchandise categories and made substantial progress in improving tile sales volumes, which had underperformed management's expectations in the prior year. The average product basket size improved, as did sales of complete product solutions and higher value items, which underpinned margin maintenance.

The brand's middle income market (the bulk of its customers) continued to display price sensitivity, reflected in lower volume growth in categories which implemented the largest increase in average selling prices (ASP). CTM's overall ASP increased 1% ahead of inflation: the brand was able to contain price increases due to the strategic decision to sacrifice margins in the integrated supply chain to support the Group's customers.

Rest of Africa

Despite trading difficulties experienced in East Africa due to logistics constraints, political instability, intense competition and the ongoing challenge to source suitable store operators, the region delivered positive results. In particular, the two-store Kenyan operation delivered good results, benefiting from improved stock availability and range, increased staff competencies, intensified marketing and enhanced exposure to the projects market.

One new franchised store was opened in Tanzania. Pending availability of suitable properties, the plan is to acquire an additional site in Nairobi and develop a new store.

Significant developments

To provide an unparalleled shopping experience for customers is CTM's raison d'être. All operating activities undertaken in store were focused on enhancing the brand's competitive value proposition, which comprises quality, style, service and price. Accordingly, a range of improvements were made across the products, processes and people in the business:

- A turnaround in the brand's largest merchandise category, tileware, was achieved, largely based on enhanced analytical review of trading information which provided better understanding of the core range matrix. In addition, improved collaboration between the supply chain and the retail operation afforded growth opportunities.

- The brand's value-quality positioning 'Big Savings. More Style' is an important differentiator from competitor offerings. Extensive research, including focus group feedback, reveals that consumers report being favourably impressed with CTM's high quality fashionable offering at affordable prices. This perception is endorsed by the in-store experience where lifestyle displays showcase cross-range merchandising and demonstrate the brand's unique value-fashion proposition. Additionally, research confirms that brand status is top of mind for consumers, particularly in one of the Group's strongest target markets – the black middle class. Consequently high-profile aspirational brands such as Kilimanjaro, Tivoli and ProGrip enjoy strong affinity from shoppers.
- Improvements in technology and systems were implemented which afforded more efficient sales processing and stock management.
- Webstore activity increased substantially: whilst consumers are still using this vehicle primarily to narrow down their choice of retailers to visit and select their preferred products to view in-store, CTM grew its number of unique users to 734 298 (2013: 483 257) and exceeded management's forecasts for direct sales and the conversion of online quotes to sales.
- Promotional campaigns including 'Get it all this summer' and 'Hot style, cool savings' implemented during the year yielded good results. Whilst promotional items enticed consumers into the stores, upselling of a broad basket of items ensured that margins remained firm.

- CTM benefited from extensive in-house procurement expertise, and customer demand for international vogue trends was satisfied with highly fashionable tiles (natural-finish wood-, cement- and stone-look ranges) and modern, minimalist square-line design sanitaryware, brassware and cabinets.

Priorities and prospects

The market in which CTM trades will remain highly competitive and in the context of a deteriorating economy, management is mindful that the brand's imperative is to retain its top-of-mind leadership position. Accordingly, a range of opportunities have been identified which will be pursued vigorously in the forthcoming period including:

- Better analysis of retail science and market- and in-store information to gain competitive advantage and deliver improved customer service;
- Standardisation of best practice across the store network through improved measurement and quantification of benchmarks and goals;
- To win the war for talent by ensuring the brand is an employer of choice and has the right people with the right skills sets. This will be achieved through improved recruitment, analysis, training and management of core competencies and entrenchment of key disciplines;
- Growth of the brand's Bathroom Boulevard market share by continuing to build on the bathware offering. The recent 'Big Big Bathroom Surprise' promotion held at the end of the period proved the potential to gain traction in this segment;
- A concerted increase in marketing and advertising will be undertaken to support CTM's goal of growing market share across its merchandise categories;
- Whilst still in its infancy, the webstore tool is already playing an important role as a research portal in advance of physical store visits; provides enhanced market reach and is a valuable in-store enabler. Management is optimistic that ongoing development will ensure this offering continues to add value and increases its contribution to sales growth; and
- As part of CTM's expansion programme, the goal is to grow the store network to put the brand within easy access of greater numbers of customers. In this regard, blueprints for smaller format stores have been developed to optimally align store size and offering with trading densities. This strategy holds exciting potential to spread the brand's footprint, while ensuring that existing stores are not affected by increased competition.



TopT made solid progress in building on its growing reputation as a one-stop home-finishing supplier, and fine-tuned its pay-off line to 'Every price a LOW price', reinforcing the brand's positioning as the low-cost industry leader.



TopT

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 3 – (lower) 7 Entry-level value offering strategically situated in under-serviced rural areas and outlying markets in close proximity to urban townships.	
Number of stores	24	
Key performance indicators	Trends 2014	Trends 2013
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.	
Strategic positioning	Every price a LOW price.	

TopT continued to gain traction in its markets, reporting strong sales for the year. The brand made solid progress in building on its growing reputation as a one-stop home-finishing supplier, and its ability to ensure consistent availability of good quality, affordable merchandise gave it a competitive edge in a market characterised by less formalised, independent traders.

The store operators' in-depth understanding of their local communities and continuous engagement on the sales floor to educate and inform consumers continued to promote TopT's brand equity and word of mouth referral business is increasingly becoming the norm.

During the period the brand fine-tuned its pay-off line to 'Every price a LOW price', reinforcing TopT's positioning as the low-cost leader in the industry.

New product categories continued to be added to the mix, including curtain rails, door handles and PVC ceiling panels, in response to consumer demand. Promotion of favourably priced 'combos' (including comprehensive bathroom solutions), were also well received. This flexibility and responsiveness to potential growth opportunities continued to boost the brand's average basket size and value.

During the year, TopT introduced a private label paint range, Tuff PVA, which enjoyed strong support; given the positive consumer response to this initiative, the intention is to expand the in-house product range.

Five new stores were opened during the reporting period, in Empangeni and Vryheid in KwaZulu-Natal, Kuruman in the Northern Cape Province, and Burgersfort and Matoks in Limpopo Province. The brand is now represented in six provinces.

Priorities and prospects

TopT's goal is to open between five and ten new stores per year, pending availability of suitable sites, franchise partners and store operators. The brand's expansion strategy is based on extending its presence in its current markets and cautiously exploring opportunities to enter new markets, such as the Eastern Cape.

In order to achieve this ambitious roll-out plan and cement the brand's status as the leading destination for low-cost home-finishing products in the entry-level market, the business model has undergone rigorous evaluation. This research-driven process has revealed a range of opportunities in the business to improve existing systems and processes (including logistics and stock management) and supplier relationships.

In the period ahead management will intensify focus on establishing optimum store sizes, locations, and formats aligned with trading densities.

Increased attention will also be paid to improving product range matrixes and identifying new categories to meet proven consumer demand (this will include the introduction of further private label products which will reinforce TopT's value proposition and build brand- and store affinity).

In a low-cost operating model, training is critical to ensure that the limited number of personnel employed in-store are multi-skilled. Accordingly, human capital development will be prioritised to ensure higher levels of customer service.

Central to TopT's structure and expansion programme is an empowerment component which requires that each store franchisee must partner with a local black equity partner. This strategy is in line with the Group's commitment to developing entrepreneurship in the business, and in return, affords good insight into local communities where personalised service drives new referral business. Management is cognisant that sourcing and retaining suitable franchisees and equity partners will be critical to the success of this brand's planned five-year roll-out programme.

International Tap Distributors (ITD)

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 2014	Trends 2013	
	Sales	↑	↑
	Average price inflation	↑	↑
	Margins	↓	↓
	Net profit	↓	↔
Stock turn	↑	↑	
Key differentiators	<p>Integral component of the Group's supply chain.</p> <p>Long-standing relationships with international suppliers and extensive import experience.</p> <p>State-of-the art robotic warehouse facility.</p>		

ITD reported record turnover for the period reflecting increased sales through the Group's retail brands, and market share was gained in both existing and new markets.

Whilst average price increases rose sharply across the industry in the context of Rand weakness, this business implemented a deliberate strategy to support the Group's competitive value offering by absorbing higher input costs, thereby sacrificing margins.

Range and stock management

ITD's improved sales volumes and enhanced market share are a reflection of the following initiatives and developments:

- Good progress was achieved in rationalising and refreshing the product range;
- Record brassware sales were reported through the CTM stores. Promotional campaigns including 'Hot style, cool savings' and 'Get it all this summer', contributed to this performance, and reinforced the positive perception of the brand's year-round value offering;
- Tivoli, the Group's private-label brand, continued to build customer affinity and is now a serious challenger for leadership in its market niche. Given the robust response from consumers, additional products were added to the range, including Tivoli concealed cisterns. This exclusive, complete-solution offering was favourably received by customers and endorses management's strategy to enter this new market segment;
- A gain in market share in the Commercial Projects segment via increased sales of amongst others, the custom-designed Idral range, through Italtile Retail;
- Introduction of the Eco range of basin mixers and shower heads which feature reduced flow-rates, and cater to growing environmental awareness amongst consumers;

- Enhanced service to the Group's stores through improvements in the agent network;
- A reduction in overheads through improved efficiencies, and despite retaining a constant staff complement; and
- Refinements made in the supply chain which led to ITD improving its pricing and offering to its retail customers.

Warehouse

During the period the second phase of the R4 million robotic warehouse upgrade was completed. This investment in cutting-edge technology resulted in improved efficiency in the business by increasing output and accuracy of stock management.

Priorities and prospects

Whilst stock holding has been reduced compared to the prior year, current levels remain high. Management's primary strategy will be to enhance analysis of trading information aimed at improving product life-cycle management and supporting the Group's policy of 'right product at the right time, place and price' in alignment with customer demands.

One of ITD's significant differentiators is its exclusive (versus open-market) offering to its customers. The business will continue to build on this strategic advantage by developing a private-label brand range for TopT in the forthcoming period.

Cedar Point

Overview and performance matrix

Nature of business	Importer and distributor of tiling tools, laminated floor boards, cabinets, accessories and décor.	
Target market	CTM and TopT store network.	
Key performance indicators	Trends 2014	Trends 2013
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.	

Cedar Point delivered increased turnover for the period and net profit in line with management forecasts, given margin squeeze experienced as a result of the weaker exchange rate and the strategic decision to support competitive pricing in the stores.

This division's improved performance is a reflection of:

- Good growth achieved in the laminate flooring segment, where Cedar Point holds a market leadership position in a fiercely competitive environment. High quality product, good value pricing and a wide range of in-demand larger size boards made an important contribution to sales;
- Strong sales of mosaics and décor, primarily attributable to new, highly fashionable product lines;
- Improved ranges across the other merchandise categories including cabinets;
- Better control of automated ordering in the stores; and

- Increased productivity achieved through efficiency enhancements in the warehouse.

Cedar Point has recently sourced new ranges of trend-setting mosaics, décor and wall-hung cabinets and will be launching those shortly. Management is enthusiastic about the competitive advantage which this highly fashionable merchandise will afford the business.

Priorities and prospects

Under new management, appointed at the start of the reporting period, the business was subject to a comprehensive operational review during the year, culminating in clearly defined goals and strategies.

The focus areas outlined by management for the year ahead centre on growing the business through improvements in customer service, inventory management and cost containment. This will be achieved through:

- Ensuring consistent availability of the right stock in the stores;
- Improved use of in-house computer programmes and systems to enhance understanding of product life cycles and stock management;
- Development of the skills and competencies of employees in the business and recruitment of fit-for-purpose personnel to complement existing resources;
- Enhanced analysis of trading information to enable standardisation of merchandise ranges, per store size and type, aligned to customer demands;
- Optimising efficiencies in the supply chain from source to customer; and
- Development of unique strategies designed to service the specific needs of each of the Group's three retail brands.

Distribution Centre

Overview and performance matrix

Nature of business	Procures stock for the Group's retail brands, Cedar Point and ITD and is the single largest importer of polished and glazed porcelain tiles in South Africa. Provides warehousing, distribution, logistics and foreign exchange services to the Group.	
Target market	The Group's retail store network and integrated suppliers.	
Key performance indicators	Trends 2014	Trends 2013
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.	

In the context of further devaluation of the currency and increased freight costs, the major challenges for this business were to continue to source aspirational, affordable imported products and contain overheads to support the retail operations through consistent supply of high quality, well-priced merchandise.

Good management of the purchasing function and transport costs enabled the division to report increased sales and trading profit, and a gain in market share was also recorded.

Towards the end of the prior year, a new Distribution Centre was established in Cape Town with the intention of streamlining distribution and stockholding of imported product and containing shipping costs. This initiative has delivered the desired results and also improved the offering to stores in the region.

In the tile category, polished porcelain, which is a core range, remained popular among local consumers, while demand for glazed porcelain also grew. International fashion trends continued to find favour in the South African market, specifically natural-finish wood and stone-look tiles. The business was successful in sourcing stylish economical product which was well received in the market and is expected to continue to gain traction in future.

In the other product categories additional select ranges of mosaics, décor and cabinets were supplied to Cedar Point to supplement the division's offering and advance its market presence.

Priorities and prospects

Management anticipates continued Rand weakness in the forthcoming months. To negate this impact consistent attention will be paid to identifying opportunities to improve purchasing practices and contain overheads, amongst them shipping costs.

In the year ahead, Distribution Centre's primary role will remain to underpin the retail brands' respected reputation for its value and quality offering for customers.

Information Technology

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 supply chain and retail stores by ensuring simplicity for the end-user, maintenance of data integrity, and minimising downtime and risk.
Target market	The Group's retail operations and 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, with record low downtime reported. Roll-out of technology. Improved interactivity of retail websites.

The IT environment provides extensive scope to enhance the Group's offering to its customers and unlock strategic opportunities through improved utilisation of existing systems and trading information to achieve its growth objectives.

During the year, four major projects were completed on schedule and within budget. Capital expenditure of R9 million (2013: R5,2 million) was incurred.

Significant developments

- *Full functionality of CTM's online shopping facility*

Following conclusion of the final phase of this project during the year, CTM's webstore is now a fully operational online trading store which is integrated into the Group's SAP systems and all CTM stores nationwide. During the period the site experienced significant activity amongst existing and unique users, reflected by online quotes generated of R362 million and a further R12 million in direct online sales.

- *Roll-out of online credit card solution*

This solution which is integrated into the retail stores' desktop ('Point of Sale') POS and mobile POS is designed to reduce check-out time and operator errors, while improving and automating the reconciliation process. The roll-out of this program across the store network was completed in early 2014 and has achieved its objectives.

- *Completion of SAP implementation at Ezeetile*

During the year, SAP was rolled out to a further two of Ezeetile's six branches, in Durban and Cape Town. The implementation of SAP in this supply chain business is designed to streamline Ezeetile's operations and improve inventory management through closer alignment with the Group's systems.

- *Completion of Phase 1 of SAP stock replenishment optimisation project*

Two other supply chain businesses, Cedar Point and ITD, benefited from the introduction of a SAP program developed to optimise stock replenishment. The objective of this initiative is to better utilise SAP functionality to deliver improved stock replenishment planning, thereby reducing stock-outs and enhancing inventory life-cycles.

Priorities and prospects

A range of IT projects will be implemented over the next year to enable the Group to unlock efficiencies and capitalise on growth opportunities in the business.

Amongst them will be continued development of in-store technology to improve the customer shopping experience and enhancement of the SAP system across the business to enable users to access trading information in a more meaningful, user-friendly manner.

Following completion of Phase 1 in the supply chain, Phase 2 of the SAP stock replenishment optimisation project will be rolled out to the retail operations which will contribute to improved inventory management.

A fully functional online webstore facility will be developed and implemented for the Italtile Retail brand, which will benefit from the experience gained from the CTM project and provide this brand with another valuable distribution channel.

Property Investment

Overview and performance matrix

Nature of business	Underpins the Group's retail operations by ensuring that stores are optimally located on high profile destination sites or within easy access of previously under-serviced rural and outlying areas.	
Target market	Italtile Retail, CTM and TopT store network.	
Key statistics	2014	2013
Portfolio market value	R1,9 billion	+R1,6 billion
Total number of stores	115	116
Capex incurred (new and refurbishments)	R96 million	+R100 million
Portfolio changes		
● Properties acquired	4	2
● Properties sold	4	4
New stores opened		
● Italtile	1	—
● CTM	—	2
● TopT	5	4
Stores renovated	11	16

Significant strategic advantage is afforded to the retail operations by the Group's property investment portfolio. This division's mandate is centred on providing an optimal shopping experience for customers, which it achieves through ensuring that branded stores are situated on highly visible, accessible sites and by continuously evaluating and enhancing the quality of its properties to ensure an aesthetically pleasing, well-maintained shopping environment.

The following developments were recorded in the retail divisions in the review period:

Italtile Retail

In September 2013 Italtile The Glen, was opened in the Southern suburbs of Gauteng. The building epitomises the brand's blueprint for all new stores, featuring state-of-the-art design and implementation of the latest Green technology to facilitate substantial energy consumption savings.

CTM

A comprehensive infrastructure maintenance and enhancement programme of existing stores continued to be rolled out across the CTM network. In this regard, extensions and alterations were undertaken at 11 stores nationwide, while five large-scale revamps were undertaken, in Tokai, Brackenfell and Paarl in the Western Cape, Port Shepstone in KwaZulu-Natal and Potchefstroom in North West Province.

TopT

During the period, five new stores were opened, in Empangeni and Vryheid in KwaZulu-Natal, Kuruman in the Northern Cape Province, and Burgersfort and Matoks in Limpopo Province.

To date, TopT has traded primarily out of rental properties and in order to keep pace with the brand's planned robust roll-out programme will continue to do so. However, where feasibility studies prove that a market is sufficiently buoyant to warrant owning a site, and pending availability, the Group may elect to acquire suitable retail properties.

Australian investment

The Group owns and manages five retail properties in Australia. The long-term intention is to dispose of these once the property market improves in that country.

Environmental sustainability

A key component of this division's strategy is to consistently improve the environmental sustainability of its portfolio thereby reducing the Group's carbon footprint. Management's goal is to ensure that wherever possible, new and existing stores within the portfolio employ cost-effective, energy efficient practices, including solar technology and optimisation of natural resources.

In this regard, over the past five to eight years this division has installed energy efficient lighting in all new developments and has been retro-fitting the older stores on an ongoing basis. In addition, five sites per year will be retro-fitted with photovoltaic (PV) solar panels, which will contribute up to 40% of each store's total energy requirements. Over the next five years, where feasible, PV panels will be installed in all high consumption stores in the network.

Priorities and prospects

Bureaucratic delays experienced in processing of building planning submissions continue to prove challenging. Management is cognisant of this constraint and ensures employment of experienced resources and scenario planning to counteract this impact on network expansion programmes.

Environmental sustainability of the portfolio will continue to be achieved through ongoing research of local and international best practice trends and implementation of cutting-edge technology and building materials.

In terms of the retail network footprint, a further two new Italtile Retail stores, situated in North Riding in the Northern suburbs of Gauteng and Polokwane in Limpopo Province will be opened in the latter part of the 2015 and 2016 financial years respectively.

Pending market conditions and the availability of suitable sites, the intention is to open a number of CTM stores over the next 36 months. In-depth research has endorsed the demand for stores in previously under-served markets or in areas where the Group currently has no presence. In this regard, where good growth potential is evident, smaller format stores – designed to optimally match market size – will be developed.

TopT's expansion programme centres on opening at least five to ten stores per year. The brand's strategy is to increase its presence in existing markets in Limpopo, Mpumalanga, KwaZulu-Natal and Northern Cape Provinces, and assess opportunities to penetrate the Eastern Cape Province in the forthcoming period. Availability of suitable sites in target areas will be a key factor in determining the progress of this programme.

Environment and Sustainability

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 and audience	The Group's retail operations and support services businesses.
Key performance indicators	
Energy	9,75% saving in consumption achieved (FY2011 to FY2013 = 3,63%).
Water	Goal of 5% reduction in water consumption per year achieved.
Waste/recycling	Progress made towards target of 10% reduction in waste by end of 2015.
Carbon footprint	Fourth carbon footprint study: decrease of 30% in direct CO ₂ emissions per Rand value of turnover (previous study: decrease of 16%).

The Group's Environment and Sustainability agenda is to reduce consumption, increase recycling, promote sustainability of environmentally friendly products and procurement, and develop meaningful social investment programmes. Initiatives undertaken in this regard are detailed below.

Energy management plan

The Group's goal is to reduce energy consumption by 50% by the end of 2017 through utilising efficient technologies, renewable resources and changing behaviour. During the period, seven stores were fitted with photovoltaic (PV) solar panels, which contributed to an energy saving of 9,75% across the business, an important achievement in attaining the 2017 target. These PV systems, which produce 40% of each store's energy requirements, will be fitted in a further six stores in the year ahead. Additional energy savings were achieved by retro-fitting new efficient lighting in

some of the Group's older stores; this project will be rolled out to the remaining stores lacking this technology.

Independent metering equipment has also been installed at stores experiencing inaccurate billing, and has made an improvement in management of energy consumption.

Five-year waste minimisation plan

The Group is on track to achieve its target of reducing waste for recycling and waste to landfill by all stores by 10% by the end of the 2015 financial year.

Water management plan

The Group achieved a 5% reduction in water consumption for the year through improved leak detection assessments and solutions in all stores receiving inaccurate or excessive utility accounts.

Products

During the period, CTM increased its range of water-saving products with the introduction of Eco basin mixers and shower heads which offer the option of a reduced water flow-rate. SABS-compliant water-saving mechanisms were also introduced into all toilet cisterns sold and various dual-flush mechanisms were promoted as an alternative to most single flush cisterns. The brand also improved its in-store educational information for customers and staff. As part of an ongoing water-consumption awareness programme, water saving 'Pula' aerators and literature on water saving are available free of charge in the stores.

Italtile Retail, widely recognised as the leading supplier of environmentally sensitive merchandise, introduced additional cutting-edge water- and energy efficient products in its brassware and sanitaryware categories, catering to sustained strong demand from the Professional projects market.

Policies

During the period, this department developed and formalised environmental policies specific to each of the three retail brands, defining benchmarks and targets related to energy and water consumption and reduction. These brand policies are integral to the Group-wide Environmental and Sustainability agenda.

Social investment

Italtile has established a community investment programme to develop and maintain sports grounds in areas lacking sports facilities. This initiative, which reflects the philosophy that physical education and sport can have a positive impact on children, is based on an existing venture, the Soweto sports ground, of which the Group is a sponsor. The current sports field under development is in Thohoyandou, and will be completed in January 2015.

The Corporate Social Responsibility narrative on page 66 of the Corporate Governance report outlines in detail all additional corporate and brand sponsorships and donations made during the year.

Priorities and prospects

All store buildings without water-efficient appliances will be retro-fitted with low consumption taps and shower accessories.

All new stores are and will be constructed with solar water heaters, while all existing electric geysers will be converted to this technology on an ongoing basis. In new stores, water-wise gardens are being planted and each new store design will incorporate a recycling area in the grounds.

The Group's fifth carbon footprint study has been commissioned and based on the four-year trend to date and current initiatives in place, it is anticipated that the results will reveal a further reduction in the Group's CO₂ emissions.

Human Resources and Training

Overview and performance matrix

Nature of business	Adding value by recruiting and retaining fit-for-purpose personnel, and developing and empowering this human capital through relevant training and support. Providing an efficient payroll and administration function.	
Target audience	Support Centre, franchisees and employees.	
Key performance indicators	Trends 2014	Trends 2013
Skills training and competencies	↑	↑
Quality of training	↑	↑
Staff attraction and retention	↔	↑
Compliance with employment equity targets	↔	↑

Key to its sustainable business success is the Group's continuous drive to provide a superior shopping experience to its customers in the retail operations. Central to achieving this goal is to ensure that fit-for-purpose personnel are recruited, developed and retained.

Accordingly, during the review period, ongoing focus was paid to priority areas such as:

- Enhanced analysis, measurement and management of performance;
- Identification and quantification of skills gaps and development of interventions to bridge competency shortcomings;
- Closer alignment of training with requirements in the individual retail brand operations;
- Improved engagement with employees to ensure the relevance of training and desired outcomes are achieved; and

- Leadership development through in-house mentorship programmes and external training in association with accredited service providers.

A range of new and upgraded training initiatives were also introduced during the year:

- The Group's Operator Training Programme, in partnership with Stellenbosch University's Business School, has to date produced 11 graduates who presently hold store management positions in the Company. The course, which is structured to develop depth of operational management across the Group, was further refined during the period to include additional modules focusing on business improvement. Nine candidates are currently undertaking the programme.
- Significant value continues to be derived from the tiling, plumbing and laminate flooring courses offered at the Group's Training Academy, aimed at growing product knowledge to improve customer service. During the period 193 candidates (2013: 142) completed the Practical course.

The following courses were introduced at the Academy:

- A weekend DIY course for consumers and customers, focused on the basic principles of tiling, plumbing and laminate flooring.
- A tiling display course for the Group's internal tilers aimed at enhancing the standard of product lifestyle displays in the stores.

- An Adult Training and Education programme which affords basic foundational learning tools, knowledge and skills, providing participants with nationally recognised skills and qualifications.

- Introduction of a high-level Group Health and Safety Committee which drives compliance of the business units with the relevant Health and Safety legislation.

Total spend on training and development programmes increased to R4,3 million (2013: R3,4 million). The total number of training interventions undertaken increased to 1 311 (2013: 1 031), while a total of 178 courses were conducted (2013: 86).

Priorities and prospects

The Group has a high performance culture and ambitious growth targets. Accordingly, intensive focus on human capital development will remain a priority in growing and empowering existing resources within the organisation. This division's strategy to enhance analysis and measurement of performance and closer align training interventions with requirements within the individual brand businesses should afford significant benefits.

Improved processes will also be introduced to attract and recruit new talent in the continuous drive to build the resource pool of high calibre individuals best suited to achieving the Group's expansion objectives.

Outlook

Management anticipates that current trading conditions will persist for the foreseeable future, with industry research indicating that even a limited upturn cannot be anticipated before the second quarter of 2016. Whilst very early signs of improvement in the new-build segment are signified by the increase in building plans passed and mortgages granted, the sustainability of this recovery will only be fully tested when the impact of higher interest rates filters through the system.

Despite this environment, the Group remains optimistic that there are sufficient opportunities to leverage in the business and the industry to enable it to continue to deliver a satisfactory performance for all stakeholders. The overarching focus in the forthcoming period will therefore be to ensure the Group is optimally structured to capitalise on those opportunities to grow the business and its market share.

The immediate goal is to intensify use of business science in the operation to best identify and interrogate the possibilities for growth. Management is confident that this process will provide greater insight into and understanding of the systems, processes and people in the organisation and the prospects for expansion.

- In this regard, a clear strategy is in place for growing each of the three retail brands. These distinct programmes encapsulate opportunities internally, within the individual businesses, as well as externally, exploring opportunities to extend the brands' footprints through new formats in their respective markets.

- Improvements in the supply chain related to procurement and stock management will drive efficiencies and cost containment, thereby providing favourable pricing for customers, improving profitability of the business, and enhancing the return on investment for stakeholders. Intensified focus on this discipline will also foster the Group's goal to be at the forefront of leading-edge fashion trends.
- Enhanced recruitment and training will be another key focus area, with the objective to ensure that the Group has the right people with the relevant skills and competencies to position it for sustainable growth.
- Italtile's reputation for innovation in the industry will be pursued through continuous research into new markets, cutting edge merchandise, and systems and equipment to improve the customer shopping experience.

As the Group celebrates its 45th anniversary, management is satisfied that the combination of its best practice benchmark programmes and improved use of strategic business science will unlock further value and position Italtile for growth in the decades ahead.

Appreciation

Displaying their characteristic team spirit, the management and staff of Italtile once again proved themselves able to meet the challenges presented by the current subdued economic climate. Faced with ambitious growth targets, they embraced opportunities to improve their individual contributions and the performance of the business.

This extraordinary dedication and enthusiasm is reflected in the Group's improved results for the period and provides good cause for optimism in achieving the goals set for the year ahead.

GROUP REVIEW*

for the year ended 30 June 2014

(All amounts in Rm's)	Seven-year compound growth %	2014	2013	2012	2011	2010	2009	2008
OPERATIONS								
Turnover	9	2 745	2 141	1 845	1 521	1 354	1 303	1 635
Trading profit	9	740	612	523	448	389	361	424 [#]
Profit before taxation	9	760	632	550	469	404	369	405
Profit attributable to equity holders of the parent	9	509	444	378	321	273	257	275
Headline earnings	10	530	436	377	319	274	258	275
Ordinary dividends paid	7	157	141	119	101	88	107	84
FINANCIAL POSITION								
Non-current assets		1 856	1 858	1 223	1 070	991	939	890
Current assets		857	793	1 400	1 226	1 075	994	680
Equity attributable to equity holders of the parent		2 179	2 247	1 931	1 637	1 422	1 306	1 158
Non-current liabilities		12	53	323	327	344	343	101
Current liabilities		471	293	292	262	239	244	286
CASH FLOW								
Cash flows (utilised by)/from operating activities		(127)	376	226	254	(283)	228	107
Cash flows utilised in investing activities		(50)	(694)	(148)	(107)	(72)	(71)	(138)
Cash flows from/(utilised by) financing activities		123	(296)	—	(19)	399	229	54
Cash and cash equivalents at end of year		249	303	917	839	711	667	281

[#]Trading profit excluding BEE share option expense of R25 million in 2008.

*Including discontinued operations.

		Seven-year compound growth %	2014	2013	2012	2011	2010	2009	2008
FINANCIAL RATIOS									
Returns									
			27,0	28,6	28,3	29,5	28,7	27,7	25,9
			23,0	21,2	21,2	21,0	20,0	20,9	26,2
			6,0	5,5	5,5	5,0	4,2	6,9	12,2
	7		55,3	48,3	41,1	34,9	33,0	32,3	34,6
	8		57,6	47,4	41,0	34,7	33,1	32,4	34,4
	8		19,0	16,0	14,0	12,0	11,0	11,0	12,0
			—	50,0	—	—	60,0	—	—
Productivity									
	3		2 977	2 799	2 701	2 498	2 375	2 310	2 809
	4		2 943	3 465	3 840	3 770	3 625	3 427	2 698
	3		803	800	766	736	682	640	729
			28,2	16,0	21,3	12,3	3,9	(20,3)	10,7
			922	765	683	609	570	564	582
			115	116	112	108	104	101	98
			55	54	50	47	47	43	44
			60	62	62	61	57	58	54

⁽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.

	2014	2013	2012	2011	2010	2009	2008
FINANCIAL RATIOS (continued)							
Solvency and liquidity							
Interest cover (times) ⁽¹⁾	37,0	36,0	21,8	18,7	14,4	9,0	28,5
Dividend cover (times) ⁽²⁾	3	3	3	3	3	3	3
Gearing ratio (%) ⁽³⁾	7,6	2,0	17,7	20,2	24,1	26,1	8,5
Current ratio (times) ⁽⁴⁾	1,8	2,7	4,8	4,7	4,5	4,1	2,4
Acid test ratio (times) ⁽⁵⁾	1,0	1,6	3,6	3,8	3,6	3,3	1,5

⁽¹⁾ Interest cover: Trading profit divided by finance cost.

⁽²⁾ Dividend cover: Headline earnings per share divided by dividends declared per share (excluding special dividends).

⁽³⁾ Gearing ratio: Interest-bearing loans and borrowings as a percentage of equity attributable to equity holders of the parent.

⁽⁴⁾ Current ratio: Current assets divided by current liabilities.

⁽⁵⁾ Acid test ratio: Current assets, less inventory, divided by current liabilities.

		Seven-year compound growth %						
		2014	2013	2012	2011	2010	2009	2008
FINANCIAL RATIOS								
<i>(continued)</i>								
Stock exchange performance								
Market capitalisation* (Rm's)	6	7 875	5 514	5 147	4 094	3 316	2 109	2 516
Closing share price at year end (cents)	4	855	600	560	445	360	265	317
Market value per share								
– High (cents)		860	665	570	465	465	330	727
– Low (cents)		590	550	410	340	260	220	250
Closing share price to net asset value per share		3,53	2,40	2,57	2,39	2,88	1,57	2,13
Price-earnings ratio (times)		15,46	12,42	13,63	12,75	10,90	8,20	9,16
Dividend yield (%)		2,2	2,7	2,5	2,7	3,0	4,2	3,8
Earnings yield (%)		6,5	8,1	7,3	7,8	9,2	12,2	10,9
Number of shares in issue (millions) (excluding treasury shares)		921	921	919	920	921	796	794
Volume of shares traded (millions)		20	50	25	34	32	38	58
Value of shares traded (R000's)		147 964	304 481	115 085	128 853	111 034	103 082	227 713
Volume of shares traded as a % of total issued shares		2,2	5,4	2,4	3,2	3,4	4,8	7,3

*Excluding treasury shares.



CORPORATE GOVERNANCE



Underpinning the Group's mission to be a sustainable, ascendant organisation are our key disciplines which centre on best practice benchmarks and controls across the business and our belief in fairness, integrity and transparency in all business dealings.

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.

During the year, the Group continued to advance its progress made in respect of applying the King III Code and the principles of integrated reporting. Ongoing measurement and reviews were conducted comparing the Group's governance practices with those recommended in King III, in order to ensure continued improvements were made related to complying with the implications of King III.

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.

During 2013, the Group subscribed 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.

Principle	Principle description	Applied/ Partially applied/ Not applied	IoDSA GAI score	Evidence	Explanation/ Compensating practices
Principle 2.1	The Board acts as the focal point for and custodian of corporate governance	Applied	AAA	Board Charter	
Principle 2.2	The Board appreciates that the strategy, risk, performance and sustainability are inseparable	Applied	AAA		Managed as part of the mandate to the Audit and Risk Committee
Principle 2.3	The Board provides effective leadership based on ethical foundation	Applied	AAA		Managed as part of the mandate to the Social and Ethics Committee
Principle 2.4	The Board ensures that the company is and is seen to be a responsible corporate citizen	Applied	AAA		Managed as part of the mandate to the Social and Ethics Committee
Principle 2.5	The Board ensures that the company ethics are managed effectively	Applied	AAA		Managed as part of the mandate to the Social and Ethics Committee
Principle 2.6	Chapter 3: Audit Committees	Applied	AAA		Please refer to the Audit and Risk Committee report
Principle 2.7	Chapter 4: The governance of risk	Applied	AAA		Please refer to the Audit and Risk Committee report
Principle 2.8	Chapter 5: The governance of information technology	Applied	AAA		Please refer to the Audit and Risk Committee report
Principle 2.9	Chapter 6: Compliance with laws, rules, codes and standards	Applied	AAA		Please refer to the Audit and Risk Committee report
Principle 2.10	Chapter 7: Internal audit	Applied	AAA		Please refer to the Audit and Risk Committee report
Principle 2.11	Chapter 8: Governing stakeholder relationships	Applied	AAA	Board Charter	
Principle 2.12	Chapter 9: Integrated reporting and disclosure	Applied	AAA		Reporting is in line with the JSE Listings Requirements
Principle 2.13	Chapter 7 and 9: The Board reports on the effectiveness of the Company's internal controls	Applied	AAA		Please refer to the Audit and Risk Committee report
Principle 2.14	The Board and its directors act in the best interests of the Company	Applied	AAA		
Principle 2.15	The Board will/has consider/ed business rescue proceedings or other turnaround mechanisms as soon as the Company has been/may be financially distressed as defined in the Companies Act, 71 of 2008	Applied	AAA		

Principle	Principle description	Applied/ Partially applied/ Not applied	IoDSA GAI score	Evidence	Explanation/ Compensating practices
Principle 2.16	The Board has elected a chairman of the board who is an independent non-executive director. The CEO of the Company does not also fulfil the role of chairman of the Board	Applied	AAA		Mr Ravazzotti has returned to the position of Chairman of the Company with effect from 1 July 2014. The Company has a lead independent director in place, and Brand Pretorius, who acted as Chairman for the 2014 financial year, remains on the Board as an independent non-executive director
Principle 2.17	The Board has appointed the Chief Executive Officer and has established a framework for the delegation of authority	Applied	AAA		Mr Booth joined the Company as Chief Executive Officer on 1 July 2014
Principle 2.18	The Board comprises a balance of power, with a majority of non-executive directors. The majority of non-executive directors are independent	Applied	AAA		
Principle 2.19	Directors are appointed through a formal process	Applied	AAA		
Principle 2.20	The induction of and ongoing training, as well as the development of directors are conducted through a formal process	Applied	AAA		
Principle 2.21	The Board is assisted by a competent, suitably qualified and experienced Company Secretary	Applied	AAA		Please refer to the Governance report
Principle 2.22	The evaluation of the Board, its committees and individual directors is performed every year	Applied	AAA		
Principle 2.23	The Board delegates certain functions to well-structured committees without abdicating from its own responsibilities	Applied	AAA		
Principle 2.24	A governance framework has been agreed upon between the Group and its subsidiary boards	Applied	AAA		
Principle 2.25	The Company remunerates its directors and executives fairly	Applied	AAA		
Principle 2.26	The Company has disclosed the remuneration of each individual director and prescribed officer	Applied	AAA		Please refer to the Directors' report
Principle 2.27	The shareholders have approved the Company's remuneration policy	Applied	AAA		

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 four executive directors, a non-executive chairman and six 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 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
- Independent non-executive directors are all other directors irrespective of the period during which they have been members of the Board.

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.

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

Term of office

The four 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 which 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 in 2014
G A M Ravazzotti	4/4
N Booth [#] [°]	n/a
J N Potgieter ^{**}	n/a
P D Swatton	4/4
P Langenhoven [#]	2/4
S M du Toit	4/4
S I Gama	4/4
A Zannoni	4/4
S G Pretorius	4/4
N Medupe [□]	n/a
B G Wood [#]	4/4

[#]Executive

[°]Appointed 1 July 2014

^{**}Appointed 1 August 2014

[□]Appointed 20 August 2014

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

Whilst the Board is led by a non-executive Chairman, 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 report of the Audit and Risk Committee is on page 72 of this document.

Remuneration report

Remuneration Committee – 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. In order to ensure that the majority of directors on the Committee are independent, Mr S G Pretorius replaced Mr P D Swatton with effect from 1 November 2013. 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 Financial Officer attends all meetings by invitation in order to provide input and guidance with regards 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 meeting was as follows:

Members and invitees	Attendance at meetings in 2014
S M du Toit	2/2
G A M Ravazzotti	2/2
P D Swatton	1/2
S G Pretorius	1/2

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; and
- reviewing and recommending short and long-term incentive policies for directors, executive management and staff.

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 and EY.

Details of directors' remuneration is set out on page 77 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.

Performance management

For executives and senior management, performance is linked to strategic delivery and defined financial targets set each year. The Committee performs a rigorous review of performance in determining remuneration packages.

Policy on annual incentive schemes

All employees share in Group profits, based on an individual's contribution to the Group.

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 Rights 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 LTIP and SARS, 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 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.

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 independent, non-executive Chairman and comprises a majority of independent non-executive directors. The current members of the Committee are:

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

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 twice in the period under review at which all members were present.

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 and terms of engagement

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 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 four directors. The current members of the Committee are:

Ms S M du Toit (Chairman), Mr G A M Ravazzotti, Mr P D Swatton 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.

The Committee met three times during the year and all members were present, besides one meeting not attended by Mr G A M Ravazzotti.

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 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.

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 which 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 on a monthly basis 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;
- will not knowingly associate with suppliers who exploit labour or discriminate on any basis;
- will not deal with suppliers who conduct unethical or improper business practices; and
- will 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 market place.

8. Compliance with laws and regulations

Employees and leaders must comply with all applicable laws and regulations, which relate 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, 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 (EY); 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 Material Issues report on page 13 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 all 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 Limited 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.

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 which 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 2014

	Male				Female				Foreign nationals		Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	Male	Female	
Skilled to top management	87	18	5	49	14	8	2	18	2	2	205
Semi-skilled and unskilled	338	42	3	70	124	28	3	40	7	1	656
Total	425	60	8	119	138	36	5	58	9	3	861

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 over recent 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 which 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; and
- National Sea Rescue Institute.

Furthermore, the Group implemented a community investment programme to establish up to two sports grounds per year 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-owned, joint-venture and franchised stores across the Group make ongoing corporate social investments to various community causes.

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 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 the property portfolio department, 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 44 and 45 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 milestones 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.

178 (2013: 86) Group-wide training courses were conducted during the year. 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. Minimum training competencies have been mapped for all job titles to support consistent standards across the Group.

Over the past year R5 million (2013: R5 million) was spent on training and staff communications and course development. 1 311 (2013: 964) 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.

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.

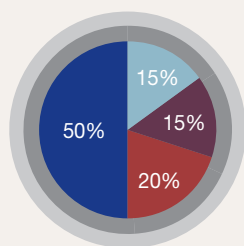
The value added statement is a measurement of the wealth the Group created in its operations by adding value to the cost of raw materials, products and services purchased. The statement shows the total wealth created and how that was distributed.

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

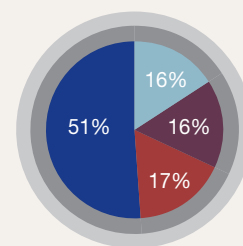
Value added statement

	GROUP			
	2014 Rm's	%	2013 Rm's	%
Turnover	2 745		2 141	
Cost of goods and services	(1 597)		(1 182)	
Income from investments and interest received	1 148		959	
Value added	11		26	
	1 159		985	
Value distributed and retained				
Employees				
– Salaries, incentives and benefits	178	15	155	16
Providers of capital	172	15	161	16
– Outside equity holders	15	1	20	2
– Ordinary dividend	157	14	141	14
Taxation	232	20	172	17
Reinvested in Group activities	577	50	497	51
– Depreciation	68	6	53	5
– Retained income	509	44	444	46
	1 159	100	985	100

Value distributed and retained 2014



Value distributed and retained 2013



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 597 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 R232 million in taxation, for the ultimate benefit of all South Africans.
- The Group paid R178 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 South African economy.

DIRECTORATE AND ADMINISTRATION

Directors

Giovanni Ravazzotti (71)

Chairman

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

Nick Booth (54)

National Diploma: Heavy Clay Technology

National Management Diploma

Chief Executive Officer

Appointed to the Board in July 2014.

Nick was formerly Chief Executive Officer of Ceramic Industries Limited, a position he was appointed to in 2001.

Jan Potgieter (45)

CA(SA)

Chief Operating Officer and executive director

Appointed to the Board in August 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 at his previous company, a major national South African retailer.

Brandon Wood (32)

B Acc, CA(SA)

Chief Financial Officer

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 May 2013.

Susan du Toit (41)

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 (47)

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, 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 Freight Rail.

Pierre Langenhoven (45) – Australian

Executive director

Appointed to the Board in June 2011.

Pierre Langenhoven joined the Italtile Group in 1990 in Johannesburg. He started in sales at CTM and over the years was promoted to each level within the division, around South Africa. Pierre was transferred to Australia in 2000, and has been the Managing Director of Italtile Australia since 2002.

Brand Pretorius (66)

MCom Business Economics

Independent non-executive director

Appointed to the Board in June 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 the Barclays Africa Group, Reunert, Tongaat Hulett and Metair Investments.

Peter Swatton (56) – British

BCompt (Hons), CA(SA)

Non-executive director

Peter was appointed to the Board in 1992 as an executive director and became a non-executive director on 1 May 2013.

Peter has had 26 years service with the Group during which time he was Chief Executive Officer (for two and a half years) and Chief Financial Officer.

Alessia Zannoni (39)

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 (43)

BAcc, CA(SA)

Non-executive director

Appointed to the Board in August 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, the Eastern Cape Development Corporation and the SA Forestry Company.

Audit and Risk Committee

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

*By invitation.

Remuneration Committee

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

Nominations Committee

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

Social and Ethics Committee

S M du Toit (Chairman), G A M Ravazzotti, P D Swatton, B G Wood.

Directors' approval

The directors are responsible for both the preparation and integrity of the financial statements and related financial information contained in the Integrated Annual Report. In their opinion, the 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 financial statements. Their report to the members of the Company is set out on page 71.

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

The 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 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 74 to 116 were approved by the Board on 22 September 2014 and signed on its behalf by:



G A M Ravazzotti

Chairman



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 2014

Independent auditors' report to the shareholders of Italtile Limited

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the consolidated and separate financial statements of Italtile Limited set out on pages 80 to 116 which comprise the statements of financial position as at 30 June 2014, and the statements of comprehensive income, statements of changes in equity and statements 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 CONSOLIDATED 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 in the 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 management, 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 financial statements present fairly, in all material respects, the consolidated and separate financial position of Italtile Limited as at 30 June 2014, 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 financial statements for the year ended 30 June 2014, 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 these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Ernst & Young Inc.

Ernst & Young Inc.

Director: Sarel Jacobus Johannes Strydom

Registered Auditor (RA)

Chartered Accountant (SA)

102 Rivonia Road, Sandton, Johannesburg

23 September 2014

Audit and Risk Committee report

The Audit and Risk Committee (“Committee”) submits this report in terms of the Companies Act, No 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 three independent non-executive directors, namely Ms S M du Toit (Chairman), Mr S I Gama and Mr S G Pretorius. Mr P D Swatton stepped down from the Committee with effect from 1 November 2013.

The Committee meets at least three times a year. The Chief Financial Officer, external audit partner, internal audit representative 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	12 Aug 2013	18 Sept 2013	16 Oct 2013	10 Feb 2014	14 May 2014
Ms S M du Toit	✓	✓	✓	✓	✓
Mr S I Gama	✓	Ap	✓	✓	✓
Mr S G Pretorius	✓	✓	✓	✓	✓
Mr P D Swatton*	✓	✓	*	*	*

✓Present

Ap:Apologies

*Not a member at the time of the meeting

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 internal audit function is an integral part of the Group finance function. 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 EY 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 Italtile Group's system of internal financial controls, and considering feedback and information from management, the Committee is of the opinion that the Italtile 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 Italtile 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 2014

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, home-finishing products, décor and tools.

The store network comprises 115 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, 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 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 70% growth in profitability and an increase in contribution to Group profit of R24 million for the full year (2013: R9 million).

Ezeetile

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, and whilst improved efficiencies have resulted, the restructuring remains to be completely bedded down before the full benefits of the programme will be realised. The business reported growth for the period, contributing R5 million (2013: R3 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 72. Page 58 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

Like-on-like system-wide turnover across the Group from continuing operations increased 17% to R4,46 billion (2013: R3,82 billion). Growth was recorded by all three retail brands. With only six new stores opened in the period, growth was largely organic and attributable to enhanced efficiencies in the business and supply chain, as well as a gain in market share.

Normalised profit and trading operations

Reported trading profit from continuing operations grew 23% to R751 million (2013: R611 million). 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 this portfolio increased to R1,9 billion. Capital expenditure of R96 million was incurred on new and refurbished properties. An impairment of R20 million (2013: R5 million) has been recorded on property in Australia, reflecting adverse economic conditions in that country.

Cash and cash equivalents

Capital expenditure of R166 million (2013: R168 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 special dividend of R467 million paid during the period, resulted in net cash reserves of R249 million (2013: R303 million) at the end of the period.

Interest-bearing loans and borrowings

In terms of interest-bearing debt, the Group's exposure includes R40 million (2013: R44 million) loan finance utilised in the acquisition of fixed property in Australia.

Prospects

In the absence of a strong economic recovery in the short term, consumers will remain cost-conscious, with higher expectations of value-for-money offerings. In addition to price, there will be growing demand for good service, quality and style.

In this environment, the Group's key differentiator, its unique business model, will stand it in good stead. Our high-profile brands have appeal across the income and fashion spectrum, whilst the established supply chain supports our year-round value offering.

A range of opportunities has been identified which will advance our ambitious growth plans. Amongst those is to grow market share in existing and new markets, including developing new store formats to provide expansion flexibility. Intensified implementation of our best practice benchmarks and controls across all major disciplines of the business and supply chain should also deliver an enhanced performance.

DISCONTINUED OPERATIONS

The Group disposed of the following non-core businesses (date of disposal disclosed in brackets):

- Cladding Finance Proprietary Limited – the entity used to extend and manage credit to the contractors market (30 September 2013);
- The seven store CTM retail operation in Australia (31 October 2013); and
- Allmuss Properties Zambia Limited – a property holding company (31 December 2013).

The results of these businesses have thus been recorded as discontinued operations in these results.

Cladding Finance Proprietary Limited and Allmuss Properties Zambia Limited's contribution to Group earnings is immaterial, although R4 million profit was realised on the sale of the latter. The sale of the Australian retail operations was concluded via a management buyout, and was preceded by fixed asset impairment and other rationalisation costs totalling R9 million. A further consequence of the sale of the Australia retail operations was the derecognition of deferred assets totalling R8 million, also included in the discontinued operations results.

STAFF SHARE SCHEME

During the year, the Group implemented a share incentive scheme for all employees of the Group and its franchisees in South Africa that had been in the employ of the Group and/or franchise network for a period of three uninterrupted years as at 31 August 2013. As a result, 13 million of the Group's shares were held by qualifying staff members at 30 June 2014 (the shares were previously held by the Italtile Empowerment Trust). 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, although they do 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 R17 million to the Group's income (R11 million thereof being a once-off charge for franchisee staff).

TOPT CERAMICS PROPRIETARY LIMITED

Subsequent to the financial year end, the Group acquired the 20% non-controlling stake held by the previous business partner of TopT Ceramics Proprietary Limited at a cost of R11 million. The Group is currently in the process of identifying new business partners for this business.

STATED CAPITAL

The authorised and issued share capital remains unchanged at 3 300 000 000 shares of no par value. Issued share capital is 1 033 332 822 (2013: 1 033 332 822) shares of no par value.

ORDINARY DIVIDEND

The Board has declared a final dividend (no 96) for the year ended 30 June 2014 of 10 cents per Italtile ordinary share (share) (2013: 8,0 cents per share), which together with the interim dividend of 9 cents per share (2013: 8,0 cents per share), produces a total dividend declared for the year of 19 cents per share (2013: 16,0 cents per share), an increase of 19%, to all shareholders recorded in the books of Italtile at the close of business on Friday, 5 September 2014. The Group has maintained its dividend cover of three times.

CASH DIVIDEND TIMETABLE

The cash dividend timetable for the dividend was structured as follows: the last day to trade *cum* dividend in order to participate in the dividend was Friday, 5 September 2014. The shares commenced trading *ex* dividend from the commencement of business on Monday, 8 September 2014 and the record date was Friday, 12 September 2014. The dividend was paid on Monday, 15 September 2014. Share certificates were not able to be rematerialised or dematerialised between Monday, 8 September 2014 and Friday, 12 September 2014, both days inclusive.

DIRECTORS AND OFFICERS

The details of the directors of the Company are set out on page 69.

With effect from 1 July 2014, Mr Nick Booth assumed the position of Chief Executive Officer (CEO) of the Group. Mr Giovanni Ravazzotti, who served as interim CEO pending Mr Booth's appointment, resumed his role as Chairman, while Mr Brand Pretorius, who served as interim Chairman in Mr Ravazzotti's stead, resumed his position as independent non-executive director. With effect from 1 August 2014, Mr Jan Potgieter was appointed Chief Operating Officer and executive director to the Board. With effect from 20 August 2014, Ms Ndumi Medupe has been appointed to the Board as a non-executive director. Ms Medupe, CA(SA) is a founder and director of Indyebo Consulting (Pty) Limited.

In accordance with the Company's Memorandum of Incorporation, Ms S M du Toit and Ms A Zannoni retire by rotation, and being eligible, offer themselves for re-election at the forthcoming annual general meeting (AGM). Furthermore, the appointments of Messrs N Booth and J N Potgieter as executive directors and G A M Ravazzotti as non-executive Chairman are to be confirmed at this 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 32, 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. There has been no change of interests between 30 June 2014 and the date of this Integrated Annual Report.

At 30 June 2014 Director					Non-beneficial			
	Direct	Beneficial indirect	Total	% held	Direct	indirect	Total	% held
G A M Ravazzotti	14 637 088	345 980 215	360 617 303	34,90	—	—	—	—
P D Swatton	13 037 168	—	13 037 168	1,26	—	—	—	—
S I Gama [#]	200 000	—	200 000	0,02	—	—	—	—
At 30 June 2013 Director	Direct	Beneficial indirect	Total	% held	Direct	Non-beneficial indirect	Total	% held
G A M Ravazzotti	14 637 088	345 980 215	360 617 303	34,90	—	—	—	—
P D Swatton	13 037 168	—	13 037 168	1,26	—	—	—	—
S I Gama [#]	200 000	—	200 000	0,02	—	—	—	—

[#]Beneficial indirect interest in BEE Special Purpose Entities.

DIRECTORS' PARTICIPATION IN THE LONG-TERM INCENTIVE PLAN AND SHARE APPRECIATION RIGHTS SCHEME

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 2013	Awarded during the year	Exercised during the year	Forfeited during the year	Awards held at 30 June 2014
B G Wood	1 150 000	250 000	—	—	1 400 000

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 2014 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 the fringe benefit value of Company cars for executive directors and fees for services rendered by non-executive directors.

All figures in R000's	Salary	Bonus performance-related payments	Provident fund and medical contributions	Gain on exercised share awards	Other benefits	Total 2014	Total 2013
Executive directors							
G A M Ravazzotti*	696	215	—	—	128	1 039	1 058
P D Swatton ^o	—	—	—	—	—	—	4 715
P Langenhoven [#]	514	—	122	—	62	698	1 760
B G Wood	1 106	190	194	—	131	1 621	239
2014	2 316	405	316	—	321	3 358	
2013	4 264	692	538	1 470	808		7 772

*Paid to Rallen (Pty) Ltd, the company that this director represents for his services as director of Italtile Limited. Refer to note 34.

#Paid by Italtile (Australia) Pty Ltd.

^oNon-executive director from 1 May 2013.

All figures in R000's	Board fees	Other	Total 2014	Total 2013
Non-executive directors				
S I Gama	166	—	166	221
S M du Toit	407	—	407	593
A Zannoni	118	—	118	114
S G Pretorius ^o	612	—	612	256
P D Swatton	229	—	229	57
2014	1 532	—	1 532	
2013	1 094	147		1 241
Aggregate emoluments of directors who served during the year			4 890	9 013

^oServed as Chairman during the period.

SUBSIDIARY COMPANIES

Details of the Company's interest in its subsidiaries are set out on page 116.

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

	2014 Rm's	2013 Rm's
Profits	515	448

CORPORATE GOVERNANCE

The Corporate Governance report is set out on pages 52 to 68.

SHAREHOLDERS

An analysis of the shareholdings of the Company appears on page 117 of this report.

EMPLOYEES

The Group employs 922 employees (2013: 765).

SPECIAL RESOLUTION

At the annual general meeting of shareholders held on Friday, 20 November 2013, four 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; approving the Company's non-executive directors' fees; and approving amendment to the Company's Employee Share Incentive Scheme.

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 (2013: 136 470 068), 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.

No share option expense was recognised for this scheme in the current year (2013: nil).

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	
	2014	2013
At 1 July	13 731 250	8 050 000
Awarded during the year	1 050 000	9 050 000
Vested during the year	(325 000)	(687 500)
Cancelled during the year	—	(2 681 250)
At 30 June	14 456 250	13 731 250

Refer to note 6 for further disclosure related to the LTIP and SARS.

BORROWING POWERS

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

LITIGATION

As previously disclosed, legal proceedings have been instituted against Majuba Aviation (Pty) Ltd, a subsidiary company of the Group providing aircraft charter services, for which there is insurance cover.

AUDITORS

EY continued in office as auditors of Italtile Limited. At the annual general meeting of 28 November 2014, shareholders will be requested to appoint EY as auditors for the 2015 financial year and it will be noted that Mr S Strydom 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:

Registered office:	The Italtile Building Cnr William Nicol Drive and Peter Place Bryanston 2021
Postal address:	PO Box 1689 Randburg 2125
Telephone number:	+27 (0) 11 510 9050
Fax number:	+27 (0) 11 510 9061

Statements of comprehensive income

for the year ended 30 June 2014

COMPANY			GROUP	
2014	2013		2014	2013
Rm's	Rm's	Note	Rm's	Rm's
		Continuing operations		
724	165	Revenue	2 961	2 307
		Turnover	2 714	2 047
		Cost of sales	(1 657)	(1 241)
		Gross profit	1 057	806
		Other operating income	245	241
700	155	Dividend income from subsidiaries		
4	4	Management fees		
		Expenses		
(3)	(3)	Operating expenses	(560)	(451)
—	27	Impairment reversal of investments and loans		
		Profit on sale of property, plant and equipment	9	15
		Trading profit	751	611
701	183	Finance revenue	11	26
20	6	Finance cost	(20)	(17)
(1)	—	Income from associates – after tax	29	11
		Profit before taxation from continuing operations	771	631
720	189	Taxation	(227)	(168)
(2)	(1)			
718	188	Profit for the year from continuing operations	544	463
		Discontinued operations		
		(Loss)/profit after taxation for the year from discontinued operations	(20)	1
718	188	Profit for the year	524	464
		Other comprehensive income, net of taxation:		
		<i>Items that will be reclassified subsequently to profit or loss:</i>		
		Currency translation	12	13
718	188	Total comprehensive income for the year, net of taxation	536	477
		Profit attributable to:		
		Equity holders of the parent	509	444
		Non-controlling interests	15	20
718	188		524	464
		Total comprehensive income attributable to:		
		Equity holders of the parent	521	457
		Non-controlling interests	15	20
718	188		536	477
		Earnings per share: (all figures in cents)		
		Earnings per share	55,3	48,3
		Headline earnings per share	57,6	47,4
		Diluted earnings per share	54,7	48,2
		Diluted headline earnings per share	57,1	47,3
		Earnings per share from continuing operations:		
		<i>(all figures in cents)</i>		
		Earnings per share	57,4	48,2
		Headline earnings per share	58,7	47,3
		Diluted earnings per share	56,9	48,1
		Diluted headline earnings per share	58,1	47,2

Statements of financial position

at 30 June 2014

COMPANY			GROUP	
2014	2013		2014	2013
Rm's	Rm's	Note	Rm's	Rm's
287	330			
		Assets		
		Non-current assets	1 856	1 850
166	146	Property, plant and equipment 13	1 296	1 246
		Investments 14.1	—	4
121	184	Investment in associates 14.2	522	553
		Long-term assets 15	14	24
		Goodwill 16	6	6
		Deferred taxation 17	18	17
555	467	Current assets	857	777
		Inventories 18	408	335
555	467	Trade and other receivables 19	169	121
#	#	Cash and cash equivalents 20	249	303
#	#	Taxation 27	31	18
		Assets classified as held for sale 35	—	26
842	797	Total assets	2 713	2 653
		Equity and liabilities		
		Equity attributable to equity holders of the parent	2 179	2 247
840	795	Stated capital 21	818	818
818	818	Non-distributable reserve 22	102	93
		Treasury shares 21	(472)	(474)
56	40	Share schemes reserve 6	55	36
(34)	(63)	Retained earnings	1 676	1 774
		Non-controlling interest	51	54
		Reserves related to discontinued operations 35	—	2
840	795	Total equity	2 230	2 303
2	2	Total liabilities	483	350
		Non-current liabilities	12	53
		Interest-bearing loans and borrowings 23	—	44
		Deferred taxation 17	12	9
2	2	Current liabilities	471	297
2	2	Trade and other payables 24	261	252
		Provisions 25	43	43
		Interest-bearing loans and borrowings 23	165	—
		Taxation 27	2	2
842	797	Total equity and liabilities	2 713	2 653

#Less than R1 million.

Statements of changes in equity

for the year ended 30 June 2014

Rm's	Stated capital	Non-distributable reserve	Treasury shares	Share schemes reserve	Retained earnings	Discontinued operations	Total	Non-controlling interests	Total equity
Group									
Balance at 1 July 2012	818	82	(478)	9	1 500		1 931	77	2 008
Profit for the year					444		444	20	464
Other comprehensive income for the year		13					13		13
Total comprehensive income for the year, net of taxation	—	13	—	—	444		457	20	477
Dividends paid					(141)		(141)	(4)	(145)
Discontinued operations		(2)				2	—		
Transactions with non-controlling interests#							—	(39)	(39)
Reinstatement of BEE share incentive reserve				30	(30)		—		
Share-based payment (including vesting settlement)			4	(3)	1		2		2
Balance at 30 June 2013	818	93	(474)	36	1 774	2	2 249	54	2 303
Profit for the year					509		509	15	524
Other comprehensive income for the year		12					12		12
Total comprehensive income for the year, net of taxation	—	12	—	—	509	—	521	15	536
Transfer of reserves		(9)			9		—	—	—
Dividends paid					(618)		(618)	(13)	(631)
Discontinued operations		6				(2)	4	5	9
Transactions with non-controlling interests#							—	(10)	(10)
Share-based payment (including vesting settlement)			2	19	2		23		23
Balance at 30 June 2014	818	102	(472)	55	1 676	—	2 179	51	2 230

Note

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#Relates to transactions with non-controlling interests in Italtile Australia Pty Ltd and Cedar Point Trading 326 (Pty) Ltd.

Rm's	Stated capital	Share schemes reserve	Retained earnings	Total equity
Company				
Balance at 1 July 2012	818	9	(67)	760
Profit for the year/comprehensive income			188	188
Dividends paid			(155)	(155)
Reinstatement of BEE share incentive reserve		30	(30)	—
Share-based payment (including vesting settlement)		1	1	2
Balance at 30 June 2013	818	40	(63)	795
Profit for the year/comprehensive income			718	718
Dividends paid			(692)	(692)
Share-based payment (including vesting settlement)		16	3	19
Balance at 30 June 2014	818	56	(34)	840

Note

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Statements of cash flows

for the year ended 30 June 2014

COMPANY		GROUP		
2014 Rm's	2013 Rm's	Note	2014 Rm's	2013 Rm's
		Cash flows from operating activities		
		Cash receipts from customers	2 714	2 047
		Cash paid to suppliers and employees	(1 956)	(1 362)
#	29	Cash generated by operations	26	685
20	6	Finance revenue	7	26
700		Dividends received from subsidiary		
(2)	(1)	Taxation paid	27	(173)
(1)	—	Finance cost	8	(17)
(692)	(155)	Dividends paid	28	(145)
25	(121)	Net cash flows from/(utilised by) operating activities	(127)	376
		Cash flows from investing activities		
		Additions to property, plant and equipment	13	(166)
		Proceeds on disposal of plant and equipment		42
—	93	Decrease/(increase) in investments	14.2	(529)
		Net disposal/(acquisition) of interest in subsidiary*		(39)
—	(121)	Advance of loan to Foundation Trust	15	
63	3	Repayments of BEE share trust loan	15	
63	(25)	Net cash flows from/(utilised by) investing activities	(50)	(694)
		Cash flows from financing activities		
		Increase in interest-bearing loans and borrowings		400
		Repayment of interest-bearing loans and borrowings		(279)
		Treasury share movements		2
(88)	142	(Increase)/decrease in amounts owing by subsidiaries		4
(88)	142	Net cash flows (utilised by)/from financing activities	123	(296)
#	(4)	Movement in cash and cash equivalents for the year	(54)	(614)
#	4	Cash and cash equivalents at beginning of year	303	917
#	#	Cash and cash equivalents at end of year	20	249

#Less than R1 million.

*Net cash flows related to the disposals of Cladding Finance (Pty) Ltd and Allmuss Properties Zambia Ltd (as per note 35), and transactions with non-controlling interests of Cedar Point Trading 326 (Pty) Ltd.

Notes to the financial statements

for the year ended 30 June 2014

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) and its interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

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 2014:

- IAS 27 – *Amendment to IAS 27 – Separate financial statements.*
- IAS 28 – *Amendment to IAS 28 – Investments in associates and joint ventures.*
- IFRS 7 – *Amendment to IFRS 7 – Financial instruments: Disclosures.*
- IFRS 10 – *Replaces part of IAS 27 – Consolidated financial statements.*
- IFRS 12 – *Amendment to IFRS 12 – Disclosures of interests in other entities.*
- IFRS 13 – *Fair value measurements.*

The financial statements are presented in South African Rands and all values are rounded to the nearest million (R'000 000), 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 18.

Classification of leased land and buildings

The Group leases certain properties it owns to its franchisees. The leased properties do not generate cashflows 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 assumed 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 note 13.

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.

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies. Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Refer to notes 9 and 17.

1. ACCOUNTING POLICIES *(continued)*

1.3 Judgements and estimates *(continued)*

Materiality of non-controlling interests

The Group considers non-controlling interests related to subsidiaries which contribute less than 10% of Group turnover and profit prior to intergroup eliminations as immaterial. In the current and prior year, no individual non-controlling interests exceeded this threshold.

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.

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 retaining 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.

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 the statement of comprehensive income. Consideration received or paid with regards to treasury shares is recognised in equity.

Notes to the financial statements continued

for the year ended 30 June 2014

1. ACCOUNTING POLICIES *(continued)*

1.8 Foreign currencies

The consolidated and separate financial statements are presented in Rands, 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.

1.9 Property, plant and equipment

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

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.

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	2% to 5%	zero to 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 profit and loss as incurred.

1. ACCOUNTING POLICIES *(continued)*

1.9 Property, plant and equipment *(continued)*

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 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.

1.11 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.

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 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.

Dividends withholding tax

Dividends 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 dividends withholding tax on its dividend receipts, except for certain consolidated entities which hold treasury shares. The dividends withholding tax for such entities is included in the Group's taxation expense.

Notes to the financial statements continued

for the year ended 30 June 2014

1. ACCOUNTING POLICIES *(continued)*

1.12 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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.

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.

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. ACCOUNTING POLICIES (continued)

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 cost
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 values. 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.

Investments are carried at cost as a reliable measure of fair value cannot be determined.

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 the statement of comprehensive income 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 uncollectable. 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. The amount of the loss is recognised in profit or loss.

Trade and other payables are subsequently measured at amortised cost.

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 re-assessing 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.

Notes to the financial statements continued

for the year ended 30 June 2014

1. ACCOUNTING POLICIES *(continued)*

1.16 Financial instruments *(continued)*

Derivative financial instruments

The Group uses foreign exchange contracts to manage its risks associated with foreign currency fluctuations. It is the Group's policy not to trade in derivative financial instruments. Details of the Group's financial risk management objectives and policies are set out in note 31.

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.

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 of 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 the statement of comprehensive income.

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 treated as 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. Contingent rents are recognised as revenue in the period in which they are earned.

1. ACCOUNTING POLICIES *(continued)*

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.

The statement of comprehensive income reflects the share of the results of operations of the associate in profit or loss. 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.

1.20 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 intends 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 16 and IAS 38 – Property, Plant and Equipment and Intangible assets (Amendment)

The amendment clarifies the acceptable methods of depreciation and amortisation, prohibiting the use of revenue-based depreciation methods for fixed assets and limiting the use of revenue-based amortisation methods for intangible assets. The amendments are effective for annual periods beginning on or after 1 January 2016, and will have no impact on the Group.

IAS 32 – Financial Instruments: Presentation (Amendment)

The amendment clarifies the meaning of the entity currently having a legally enforceable right to set off financial assets and financial liabilities as well as the application of IAS 32 offsetting criteria to settlement systems (such as clearing houses). The amendment is effective for annual periods beginning on or after 1 January 2014.

IAS 36 – Financial Instruments: Disclosure (Amendment)

The amendment clarifies the disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment is effective for annual periods beginning on or after 1 January 2014, and is not anticipated to have an impact on the Group.

1. ACCOUNTING POLICIES *(continued)*

1.21 Standards issued but not yet effective *(continued)*

IFRS 9 – Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities, as well as hedge accounting.

The standard does not yet have a mandatory effective date, but early adoption is allowed. A mandatory effective date will be set when the IASB completes the impairment phase of the project. At its February 2014 meeting, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be for annual periods beginning on or after 1 January 2018. The Group is currently assessing the impact of adopting IFRS 9; however, the impact of adoption depends on the assets and liabilities held by the Group at the date of adoption, it is not practical to quantify the effect.

IFRS 10 – Consolidated Financial Statements (Amendment)

The amendment is effective for annual periods beginning on or after 1 January 2014. The amendment provides an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments.

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 IFRSs, 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 2017.

IFRIC 21 – Levies

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Asset and those where the timing and amount of the levy is certain.

The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached.

2. DEFINITIONS

2.1 Cost of sales

Cost of sales is calculated as the weighted average cost of inventory, including distribution costs incurred in bringing the inventory to the retail locations, net of rebate income and settlement discounts.

2.2 Cash and cash equivalents

The cash and cash equivalent amounts comprise cash in hand, deposits held on call with banks and highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant changes in value.

2.3 Treasury shares

Shares in Italtile Limited held by the entities in the Group.

2.4 Cash-generating unit

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

COMPANY			GROUP	
2014	2013		2014	2013
Rm's	Rm's		Rm's	Rm's
		3. REVENUE		
		<i>Total revenue comprises:</i>		
		Turnover	2 714	2 047
		Rental income, including sub-leases	111	107
20	6	Finance revenue	11	26
700	155	Dividend income from subsidiaries		
		Royalty income from franchising	93	95
		Other franchise income	32	32
4	4	Management fee		
724	165		2 961	2 307
		Turnover represents net sales, excluding value added tax and intercompany sales.		
		All the rental income pertains to properties that are leased to franchised stores. These rentals are turnover related and can therefore not be predetermined.		
		4. COST OF SALES		
		Cost of sales consists largely of the cost of inventories recognised as an expense	1 657	1 241

Notes to the financial statements continued

for the year ended 30 June 2014

COMPANY			GROUP	
2014	2013		2014	2013
Rm's	Rm's		Rm's	Rm's
		5. TRADING PROFIT		
		Trading profit is stated after taking into account the following items:		
		Auditors' remuneration		
#	#	– Audit fee	3	3
#	#	– Expenses	#	#
#	#		3	3
		Depreciation		
		Owned and leased		
		– Buildings	16	15
		– Plant and machinery	6	6
		– Vehicles	6	4
		– Computer equipment	9	6
		– Furniture and fittings	31	22
			68	53
		Operating lease payments		
		– Properties	19	16
		All the operating leases pertain to properties that are rented and then sublet to Group-owned and franchised stores. The subrentals are based on a percentage of turnover and can therefore not be predetermined. At current levels they exceed abovementioned obligations.		
		Contingent lease payments were determined, based on escalated contractual rentals charged by third parties. Certain leases have renewal terms. There are no trading restrictions on any of the leases.		
		Total of future minimum contracted operating lease payments:		
		Within 1 year	15	16
		Within 2 – 5 years	17	17
		Later than 5 years	6	6
			38	39
		Employee remuneration		
		– Salaries and wages	142	127
		– Profit share	22	15
		– Contributions to retirement benefits	14	13
			178	155
		Other		
		Profit on sale of property, plant and equipment	9	15
		Share-based payment expense	24	7

#Less than R1 million.

6. SHARE-BASED PAYMENTS

Share Incentive Trust

In terms of the Share Incentive Trust, shares are offered on a combined option and deferred sale basis. Options vest over a period of five years. An agreement of deferred sale is automatically constituted on acceptance of the offer. All shares must be taken up by way of a purchase and delivery by no later than five years after the grant date. The exercise price of the option is not less than the market value of the ordinary shares on the day prior to the date of grant and the option is exercisable provided that the participant has remained in the Group's employ until the option vests. Should the participant resign before these vesting dates, the options will be forfeited. An exception may be made in the case of termination of employment as a result of death or retirement. Options are settled in equity once exercised and subsequently taken up.

6. SHARE-BASED PAYMENTS *(continued)*

In terms of a resolution passed at a shareholders' meeting on 12 January 1993, 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 following assumptions were used in valuing the various option grants on grant date:

Expected volatility	18% to 24%
Risk-free interest rate	8,19% to 8,54%
Expected dividend yield	1,90% to 2,07%
Expected life (years)	5,5

The expected life of the options is based on historical data and expected future trends and is not necessarily indicative of exercise patterns that may occur. The expected volatility of 18% to 24% reflects the assumption that the historical volatilities of 18% to 24% are indicative of future trends.

No share options were granted over the year to 30 June 2014 (2013: nil). Included in the expenses in the profit and loss for the year is Rnil (2013: Rnil) relating to the current year share option expense for the Share Incentive Trust.

All outstanding allocations were fully redeemed in 2010, with the redemption of 2 310 000 share allocations at an average subscription price of R2,39 per share. There were no further movements in 2014 or 2013.

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 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 and the Trust, of which their investments are held 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.

Notes to the financial statements continued

for the year ended 30 June 2014

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 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 (source: Standard Bank)	Zero yield curve (7,06% – 8,36%)	Zero yield curve (5,98% – 7,28%)
Dividend	R0,11 per share per annum	R0,11 per share per annum

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

	Number of awards	
	2014	2013
At 1 July	1 981 250	4 500 000
Awarded during the year	–	–
Vested and exercised during the year	(200 000)	(687 500)
Forfeited during the year	–	(1 831 250)
At 30 June	1 781 250	1 981 250

The exercise price of awards exercised during the year was R7,09 (2013: R6,25) per award.

The weighted average vesting period of awards outstanding at year end is 0,53 years (2013: 1,38 years).

The fair value of the awards granted over the previous year to 30 June 2014 was Rnil (2013: Rnil). Included in the expenses in the profit and loss for the year is R1 million (2013: R2 million) relating to the current year share-based payment expense for this scheme.

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. 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 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
Notional share award	500 000	3 050 000	9 050 000	1 050 000
Grant price	R3,56	R4,21	R5,55	R6,30
Interest rate – zero yield curve*	6,57% – 7,11%	5,71% – 6,39%	5,72% – 6,34%	6,59% – 7,40%
Dividend yield	2,66%	2,66%	2,51%	2,37%

*Source: Standard Bank

6. SHARE-BASED PAYMENTS *(continued)*

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

	Number of awards	
	2014	2013
At 1 July	11 750 000	3 550 000
Awarded during the year	1 050 000	9 050 000
Vested and exercised during the year	(125 000)	—
Forfeited during the year	—	(850 000)
At 30 June	12 675 000	11 750 000

The weighted average vesting period of awards outstanding at year end is 2,42 years (2013: 3,27 years).

The fair value of the awards granted over the year to 30 June 2014 was R2,5 million (2013: R18,5 million). Included in the expenses in the profit and loss for the year is R5,7 million (2013: R5,2 million) relating to the current year share-based payment expense for this scheme.

Staff share scheme

During the year, the Group implemented a share incentive scheme for all employees of the Group and its franchisees in South Africa that had been in the employ of the Group and/or franchise network for a period of three uninterrupted years as at 31 August 2013. As a result, 13 million of the Group's shares were held by qualifying staff members at 30 June 2014 (the shares were previously held by the Italtile Empowerment Trust). 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 using a modified Black-Schöles model. The following assumptions and inputs were used in valuing the awards:

Grant date: 1 August 2013

Vesting date: 1 August 2016

Share awards: 14 970 000

Grant price per share: R4,57

Share price on grant date: R6,00

Interest rate (source: Standard Bank): Zero yield curve 5,01% – 8,77%

Dividend yield: 2,40%

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

	Number of awards 2014
At 1 July	—
Awarded during the year	14 970 000
Forfeited during the year	(2 370 000)
At 30 June	12 600 000

The weighted average vesting period of awards outstanding at year end is 2,17 years.

The fair value of the awards granted over the previous year to 30 June 2014 was R1,86 per award.

Included in the expenses in the profit and loss for the year is R17 million relating to the current year share-based payment expense for this scheme (R11 million is a once-off charge related to employees of the Group's franchisees).

Share Schemes Reserve

The composition of the Share schemes reserve is as follows:

	2014 Rm's	2013 Rm's
Black Economic Empowerment transaction	30	30
Long-term incentive plan and share appreciation rights scheme	11	6
Staff share scheme	14	—
	55	36

Notes to the financial statements continued

for the year ended 30 June 2014

COMPANY			GROUP	
2014	2013		2014	2013
Rm's	Rm's		Rm's	Rm's
		7. FINANCE REVENUE		
#	#	Bank interest received	9	11
		Dividends from cash equivalents	2	15
20	6	Dividend income from special purpose entities		
20	6	Total finance revenue	11	26
		8. FINANCE COST		
1	—	Bank loans and overdraft	20	17
1	—	Total finance cost	20	17
		9. TAXATION		
		Current taxation		
1	1	– Normal tax (including foreign taxes) – current year	231	174
		– Normal tax (including foreign taxes) – prior year adjustments	1	(2)
1	—	– Deferred tax – current year	(1)	(1)
		– Deferred tax – prior year adjustments	(4)	(3)
2	1		227	168
	%	Reconciliation of tax rate		%
28,0	28,0	Standard tax rate – South Africa	28,0	28,0
		Adjusted for:		
(28,0)	(23,9)	Exempt income	(0,1)	(0,7)
		Tax effect from income from associates	(1,2)	(0,4)
		Other differences, including effect of foreign tax rates, prior period over/under provisions and dividend withholding tax paid by SPEs	2,7	(0,3)
0,3	(3,6)			
0,3	0,5	Effective tax rate	29,4	26,6
		10. EARNINGS PER SHARE		
		Earnings per share and diluted earnings per share is based on the income attributable to ordinary shareholders of R509 million (2013: R444 million). Earnings per share and diluted earnings per share from continuing operations is based on the income attributable to ordinary shareholders of R529 million (2013: R443 million). The earnings per share calculations are based on 920 804 270 (2013: 919 448 864) weighted average number of shares in issue during the period, excluding weighted average treasury shares. The calculation of diluted earnings per share is based on:		
		Weighted average number of shares in issue for basic earnings per share	920 804 270	919 448 864
		Potentially dilutive ordinary shares resulting from outstanding share-based payment awards per note 6	8 569 822	1 697 718
		Weighted average number of shares for diluted earnings per share	929 374 092	921 146 582

#Less than R1 million.

COMPANY			GROUP	
2014 Rm's	2013 Rm's		2014 Rm's	2013 Rm's
		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 3/2012, <i>Headline Earnings</i> .		
		Reconciliation of headline and diluted headline earnings		
		Basic earnings	509	444
		Profit on sale of property, plant and equipment	(8)	(13)
		Gross amount	(9)	(15)
		Taxation	1	2
		Impairment of Australian property, plant and equipment	29	5
		Headline and diluted headline earnings	530	436
		Headline earnings adjustments after taxation for the year for discontinued operations	11	(1)
		Headline and diluted headline earnings from continuing operations	541	435
		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		
		Final 2013 – No 94		
83	72	Paid 2014: 8 cents per share (2013: 7 cents per share)	74	65
516	—	Special dividend – No 4	461	—
		Interim 2014 – No 95		
93	83	Paid 2014: 9 cents per share (2013: 8 cents per share)	83	76
692	155	Total – 67 cents per share (2013: 15 cents per share)	618	141
		12b. DIVIDENDS DECLARED IN RELATION TO CURRENT YEAR PROFIT		
		Interim – No 95		
93	83	9 cents per share (2013: 8 cents per share)	83	76
103	83	Final – No 96	92	74
		10 cents per share (2013: 8 cents per share)		
196	166	Total – 19 cents per share (2013: 16 cents per share)	175	150

#Less than R1 million.

Notes to the financial statements continued

for the year ended 30 June 2014

	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						
2014						
Owned and leased						
Beginning of year						
– assets at cost	1 203	43	22	45	225	1 538
– accumulated depreciation	(53)	(33)	(9)	(30)	(167)	(292)
– discontinued operations (note 35)		4	1		3	8
– net book value	1 150	14	14	15	61	1 254
Current year movements						
– additions	96	10	7	7	46	166
– disposals	(34)	(1)	(1)	#	(1)	(37)
– depreciation	(16)	(6)	(6)	(9)	(31)	(68)
– translation	10	1	#	#	#	11
– impairment	(20)	(5)	(1)	(1)	(3)	(30)
Balance at end of year	1 186	13	13	12	72	1 296
Made up as follows:						
– assets at cost	1 282	51	25	48	266	1 672
– accumulated depreciation and impairments	(96)	(38)	(12)	(36)	(194)	(376)
Net book value	1 186	13	13	12	72	1 296

An impairment of R20 million (2013: R5 million) has been recorded on property in Australia, a reflection of adverse economic conditions in that country. A further R10 million (2013: nil) impairment was recorded on discontinued operations' assets prior to their disposal.

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
2013						
Owned and leased						
Beginning of year						
– assets at cost	1 102	54	18	40	203	1 417
– accumulated depreciation	(40)	(39)	(6)	(24)	(154)	(263)
– net book value	1 062	15	12	16	49	1 154
Current year movements						
– additions	114	6	8	6	34	168
– disposals	(19)	(2)	(2)	(2)	(2)	(27)
– depreciation	(15)	(6)	(4)	(6)	(22)	(53)
– translation	13	1	#	1	2	17
– impairment	(5)	–	–	–	–	(5)
– discontinued operations (note 35)	–	(4)	(1)	#	(3)	(8)
Balance at end of year	1 150	10	13	15	58	1 246
Made up as follows:						
– assets at cost	1 203	43	22	45	225	1 538
– accumulated depreciation and impairments	(53)	(33)	(9)	(30)	(167)	(292)
Net book value	1 150	10	13	15	58	1 246

#Less than R1 million.

COMPANY			GROUP	
2014	2013		2014	2013
Rm's	Rm's		Rm's	Rm's
		14.1 INVESTMENTS		
8	8	Unlisted		
34	14	Investment in subsidiaries		
124	124	Equity instruments – at cost	–	4
		Preference shares		
166	146	Directors' valuation of unlisted investments	–	4
		Investments in subsidiaries are carried at cost less accumulated impairment. A list of subsidiaries appears in note 36.		
		Equity instruments in the Company's records relates to the notional investment cost as a result of the Group share-based payments schemes as disclosed in note 6.		
		Unlisted equity instruments have no reliable measure of fair value as there is no active trading market for these instruments, therefore these investments are carried at cost less accumulated impairment.		
		R27 million of impairment was reversed in the prior year as a result of the restructuring of the BEE deal as disclosed in note 6.		
		14.2 INVESTMENT IN ASSOCIATES		
		Ezeetile		
		During the 2011 financial year, the Group began accounting for an existing investment in Ezeetile, 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 Ezeetile group.		
		Carrying value of investment in the Ezeetile group		
		Cost	6	6
		Share of profit and reserve movements post commencement of equity accounting (net of dividends)	24	21
			30	27
		Ceramic Industries Ltd		
		During the 2013 financial year, the Group acquired a 20% stake in Ceramic Industries 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 Ltd:		
		Cost	529	529
		Share of profit and reserve movements post commencement of equity accounting (net of dividends)	(37)	(3)
			492	526
		Total carrying amount of investments in associates	522	553
		The following tables illustrate the summarised financial information of the Group's investment in the Ezeetile group and Ceramic Industries Ltd:		
		<i>Statement of financial position:</i>		
		Non-current assets	798	861
		Current assets	789	833
		Non-current liabilities	(87)	(78)
		Current liabilities	(267)	(243)
		Equity	1 233	1 373
		<i>Statement of comprehensive income:</i>		
		Turnover	2 329	1 291
		Profit for the year	130	55
		Profit and reserve movements attributable to ordinary shareholders of Italtile Limited	33	11
		Less: Dividends	(64)	(11)
		Share of associated companies' income	(31)	–

Notes to the financial statements continued

for the year ended 30 June 2014

COMPANY			GROUP	
2014 Rm's	2013 Rm's		2014 Rm's	2013 Rm's
		15. LONG-TERM ASSETS		
–	63	Loan to BEE Trust		
121	121	Loan to Foundation Trust		
		Lease premiums	14	24
121	184		14	24
		In order to raise funds necessary to purchase BEE shares (refer to note 6), the Company has funded the BEE Trust and Foundation Trust by way of loans. The BEE Trust loan was to accrue interest at the prime lending rate once it started issuing shares to employees. The loan was however settled in full following the initial allotment of shares in accordance with the staff share scheme as disclosed in note 6. 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). Lease premiums are paid in advance on land leases that have a duration of between 35 and 50 years.		
		16. 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.		
		17. DEFERRED TAXATION		
		Deferred tax assets	18	17
		Deferred tax liabilities	(12)	(9)
			6	8

The deferred tax balance is made up as follows:

	Opening balance Rm's	Charged through statement of comprehensive income Rm's	Closing balance Rm's
<i>Deferred tax asset:</i>			
Accruals	12	7	19
Property, plant and equipment	1	#	1
Assessed loss*	7	(7)	–
<i>Deferred tax liability:</i>			
Property, plant and equipment	(12)	(1)	(13)
Prepayments	#	(1)	(1)
Net deferred tax asset	8	(2)	6

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% (2013: 28%) for normal taxation.

#Less than R1 million.

*Relates to discontinued operations.

COMPANY			GROUP	
2014	2013		2014	2013
Rm's	Rm's		Rm's	Rm's
		18. INVENTORIES		
		Finished goods and merchandise		
		– continuing operations	408	335
		– discontinued operations (note 35)	–	18
			408	353
		Inventory losses recognised as an expense totalled R11 million for the year (2013: R9 million). This expense is included in the operating expense line item on the face of the statement of comprehensive income.		
		19. TRADE AND OTHER RECEIVABLES		
		Trade receivables – net of impairment	102	108
		Prepayments	6	3
		Sundry debtors*	61	10
555	467	Amounts owing by subsidiary		
555	467		169	121

*Includes deposits and rebates receivable.

For terms and conditions relating to Group related-party receivables, refer to note 32.

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 Limited. 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.

As at 30 June 2014, trade receivables at nominal value of R9 million (2013: R5 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 2012	3
Utilised during the year	(2)
Raised during the year	4
At 30 June 2013	5
Utilised during the year	#
Raised during the year	4
At 30 June 2014	9

#Less than R1 million.

As at 30 June 2014, 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
2014	102	97	2	1	2
2013	108	75	27	2	4

Notes to the financial statements continued

for the year ended 30 June 2014

COMPANY			GROUP	
2014	2013		2014	2013
Rm's	Rm's		Rm's	Rm's
		20. CASH AND CASH EQUIVALENTS		
#	#	Cash at banks and on hand	171	222
		Cash equivalents	78	81
#	#		249	303
		Cash at banks earns 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.		
		21. STATED CAPITAL		
		Authorised 3 300 000 000 ordinary shares of no par value		
818	818	Issued 1 033 332 822 (2013: 1 033 332 822) ordinary shares of no par value	818	818
		Aggregated treasury shares in issue	(472)	(474)
1 033 332 822	1 033 332 822	<i>Number of shares in issue to external parties:</i> Total shares in issue	1 033 332 822	1 033 332 822
		Treasury shares: Share incentive trust and other BEE transaction	(24 386 096) (88 000 000)	(24 702 909) (88 000 000)
1 033 332 822	1 033 332 822	In issue to external parties	920 946 726	920 629 913
		All unissued shares are under the control of the directors until the next annual general meeting.		

#Less than R1 million.

	Capital Redemption Reserve Fund Rm's	Foreign currency translation reserve Rm's	Total Rm's
22. NON-DISTRIBUTABLE RESERVE			
Balance as at 30 June 2012	9	73	82
Translation of foreign entities		13	13
Related to discontinued operations		(2)	(2)
Balance as at 30 June 2013	9	84	93
Translation of foreign entities		12	12
Related to discontinued operations		6	6
Realisation of reserves	(9)		(9)
Balance as at 30 June 2014	—	102	102

COMPANY			GROUP	
2014	2013		2014	2013
Rm's	Rm's		Rm's	Rm's
		23. INTEREST-BEARING LOANS AND BORROWINGS		
		Loans		
		Rand		
		Loan bears interest at a fixed rate of 7,49%. The loan is secured by a cession of all shares and claims in Allmuss Properties (Pty) Ltd, and is repayable by 1 March 2015.	125	—
		Australian dollars		
		Loans secured by a first mortgage over property that has a carrying value of R74 million (2013: R84 million).	40	44
		The first loan of R30 million bears interest at 5,91% per annum, and matures on 5 October 2014. The second loan of R10 million bears interest of 6,12% per annum, and matures on 2 December 2014.		
			165	44
		Current portion of interest-bearing debt	165	—
			—	44
		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 (fixed and variable) do not differ materially from those specified in the loan agreements.		
		24. TRADE AND OTHER PAYABLES		
		Trade payables	196	198
2	2	Accruals/other payables	65	54
2	2		261	252
		For terms and conditions relating to related parties, refer to note 32.		
		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	Incentive	Total
	Rm's	bonus	Rm's
		Rm's	Rm's
25. PROVISIONS			
Balance as at 30 June 2012	13	26	39
Provision utilised	(1)	(15)	(16)
Provision raised	1	19	20
Balance as at 30 June 2013	13	30	43
Provision utilised	(6)	(22)	(28)
Provision raised	1	27	28
Balance as at 30 June 2014	8	35	43

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 2015 financial year, and is based on terms as dictated in employment contracts (subject to the final approval from management).

Notes to the financial statements continued

for the year ended 30 June 2014

COMPANY			GROUP	
2014	2013		2014	2013
Rm's	Rm's		Rm's	Rm's
		26. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS		
720	189	Profit before taxation	771	631
		Adjusted for:		
		Pretax (loss)/profit for discontinued operations	(12)	1
		Income from associates	(29)	(11)
		Depreciation	68	53
		Profit on sale of property, plant and equipment	(5)	(15)
(20)	(6)	Finance revenue	(11)	(26)
(700)	(155)	Dividends received from subsidiary		
1	—	Finance cost	20	17
		Share-based payment expense	24	4
		Impairments	30	5
(1)	2	Other non-cash movements	(4)	3
		Working capital changes		
		Increase in inventories	(55)	(14)
		(Increase)/decrease in trade and other receivables	(48)	5
—	—	Increase/(decrease) in trade and other payables, including provisions	9	32
#	(1)			
#	29	Cash generated by operations	758	685
		27. TAXATION PAID		
#	#	Net amount prepaid at beginning of year	16	15
(2)	(1)	Charged per statement of comprehensive income	(232)	(172)
#	#	Net amount prepaid at end of year	(29)	(16)
(2)	(1)	Amounts paid	(245)	(173)
		28. DIVIDENDS PAID		
(692)	(155)	Charged per statement of changes in equity	(618)	(141)
		Dividends paid to non-controlling interests	(13)	(4)
(692)	(155)	Amounts paid	(631)	(145)

#Less than R1 million.

COMPANY			GROUP	
2014	2013		2014	2013
Rm's	Rm's		Rm's	Rm's
		29. COMMITMENTS AND CONTINGENCIES		
		Capital commitments		
		Capital expenditure for land and buildings, computer equipment and other fixed assets:		
		Contracted	68	34
		Authorised but not contracted for	107	92
			175	126
		Capital expenditure will be financed from own resources.		

Operating lease commitments

Refer to note 5 for details of lease commitments.

Litigation

As previously disclosed, legal proceedings have been instituted against Majuba Aviation (Pty) Ltd, a subsidiary company of the Group providing aircraft charter services, for which there is insurance cover.

30. 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 Fund 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 2014, the Fund was found to be in a sound financial position.

At 30 June 2014, 1 182 (2013: 1 039) employees of the Group and Franchisees were members of the Fund, to which the Group and Franchisees contributed R19 million (2013: R17 million) and the employees Rnil (2013: 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.

31. 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 BEE and 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 revenue generating ability of cash surpluses and preference shares held by the Company. To manage this risk, management constantly review cash placements and contract 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.

Notes to the financial statements continued

for the year ended 30 June 2014

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

The loans (refer to note 23) attract a fixed rate of interest. 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	2014 Rm's	2013 Rm's
+1%	2	4
-1%	(2)	(4)

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 23.

The Company is not sensitive to fluctuations in interest rates.

Foreign currency risk

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

Approximately 14% (2013: 15%) 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.

Forward exchange contracts outstanding at the reporting date all fall due within six months (2013: four months), have a settlement value of R6 million (2013: R13 million) and are denominated in euros and US dollars with average exchange rates of R14,66: €1 and R10,60: US\$1 (2013: R1,65: CNY1, R10,00: US\$1 and R12,58: €1).

Exchange rates utilised to convert financial information are as follows:

	2014		2013	
	Weighted average rate for the year	Closing rate	Weighted average rate for the year	Closing rate
ZAR: Australian \$	9,52:1	9,96:1	9,06:1	9,01:1
ZAR: Botswana pula	1,17:1	1,18:1	1,09:1	1,13:1
ZAR: Euro	14,07:1	14,45:1	11,42:1	12,85:1
ZAR: Kenyan shilling	0,12:1	0,12:1	0,10:1	0,11:1
ZAR: US\$	10,37:1	10,58:1	8,83:1	9,87:1

31. 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	Euro Rm's	US Dollar Rm's	Other* Rm's	Total Rm's
2014						
Financial assets						
Investments	—	—	—	—	—	—
Trade and other receivables	142	2	20	2	3	169
Cash and cash equivalents	150	1	16	27	55	249
Financial liabilities						
Interest-bearing loans and borrowings	(125)	(40)	—	—	—	(165)
Trade and other payables	(215)	(1)	(26)	(3)	(16)	(261)
2013						
Financial assets						
Investments	—	—	4	—	—	4
Trade and other receivables	91	2	18	6	4	121
Cash and cash equivalents	157	18	15	43	70	303
Financial liabilities						
Interest-bearing loans and borrowings	—	(44)	—	—	—	(44)
Trade and other payables	(200)	(12)	(25)	(3)	(12)	(252)

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

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

Group	2014 Rm's	2013 Rm's
Net profit before tax		
+10%	(1)	2
-10%	1	(2)
Foreign currency translation reserve		
+10%	(1)	(1)
-10%	1	1

The Company has no exposure to foreign currency risk.

Notes to the financial statements continued

for the year ended 30 June 2014

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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 19. 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 20. 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.

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, 14.1, 15, 19 and 20. 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.

Year ended 30 June 2014	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
Interest-bearing loans and borrowings	—	53	118	—	—	171
Trade and other payables	—	261	—	—	—	261
	—	314	118	—	—	432

Year ended 30 June 2013	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
Interest-bearing loans and borrowings	—	#	3	46	—	49
Trade and other payables	—	253	—	—	—	253
	—	253	3	46	—	302

#Less than R1 million.

The Group has cash and cash equivalents of R249 million (2013: R303 million), and unutilised credit facilities of R55 million (2013: R45 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 R0,2 million (2013: R0,2 million), and no credit facilities. All liabilities are current.

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 2014 and 2013.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

	2014 Rm's	2013 Rm's
Interest-bearing debt and borrowings	165	44
Equity attributable to the equity holders of the parent	2 179	2 247
Gearing ratio (%)	7,6	2

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 2014 and 2013.

The Company monitors capital using liquidity ratio analysis:

	2014 Rm's	2013 Rm's
Current assets (excluding loans to subsidiaries)	#	#
Current liabilities (excluding loans from subsidiaries)	2	2
Current ratio (times)	0,1	0,1

#Less than R1 million.

In addition, consideration is given to Black Economic Empowerment, or BEE, as disclosed above.

32. RELATED PARTY TRANSACTIONS

Group

The Group is controlled by Rallen (Pty) Ltd which owns 54,0% (2013: 53,9%) of its issued share capital. The Group purchases product from its associates, Ceramic Industries Limited and the Ezeetile group. In addition, the Company pays Rallen (Pty) Ltd for directors' remuneration.

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 2014, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2013: Rnil) nor incurred any bad debt expense in the current year (2013: 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	
		2014 Rm's	2013 Rm's	2014 Rm's	2013 Rm's
Ceramic Industries Limited	Inventory purchases	506	420	24	25
Ezeetile group	Inventory purchases	173	130	14	8
Rallen (Pty) Ltd	Management fees	1	1	–	–

Notes to the financial statements continued

for the year ended 30 June 2014

32. RELATED PARTY TRANSACTIONS *(continued)*

Key management personnel comprise only the Board of Directors. Remuneration paid to key management personnel of the Group is provided below. Nil balances were owing at year end (2013: nil).

All figures in R000's	Salary	Bonus performance-related payments	Provident fund and medical contributions	Gain on exercised share awards	Other	Total 2014	Total 2013
Executive directors							
G A M Ravazzotti*	696	215	—	—	128	1 039	1 058
P D Swatton ^o	—	—	—	—	—	—	4 715
P Langenhoven [#]	514	—	122	—	62	698	1 760
B G Wood	1 106	190	194	—	131	1 621	239
2014	2 316	405	316	—	321	3 358	
2013	4 264	692	538	1 470	808		7 772

*Paid to Rallen (Pty) Ltd, the company that this director represents for his services as director of Italtile Limited.

#Paid by Italtile (Australia) Pty Ltd.

^oNon-executive director from 1 May 2013.

All figures in R000's	Board fees	Other	Total 2014	Total 2013
Non-executive directors				
S I Gama	166	—	166	221
S M du Toit	407	—	407	593
A Zannoni	118	—	118	114
S G Pretorius ^o	612	—	612	256
P D Swatton	229	—	229	57
2014	1 532	—	1 532	
2013	1 094	147		1 241
Aggregate emoluments of directors who served during the year			4 890	9 013

^oServed as Chairman during the period.

Company

The Company owns 100% of the issued share capital of Italtile Ceramics (Proprietary) Limited and receives dividends and management fees from its subsidiary.

The Company receives preference share dividends from Four Arrow Investments 256 (Pty) Limited. This is a special purpose entity set up as part of the BEE transaction. During the year, the Italtile Foundation Trust acquired the Italtile Limited shares which were held by Arrow Creek Investments 74 (Pty) Limited – 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. No interest has been received or accrued as no shares have been issued by the Italtile Empowerment Trust as yet.

All related-party transactions are concluded at arm's length. There have been no guarantees provided or received for any related-party receivables or payables. For the year ended 30 June 2014, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2013: Rnil) nor incurred any bad debt expense in the current year (2013: 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.

32. RELATED PARTY TRANSACTIONS (continued)

Details of related-party transactions are as follows:

Related party	Nature of transactions	Aggregate value of transactions		Balance owing at year end	
		2014 Rm's	2013 Rm's	2014 Rm's	2013 Rm's
Arrow Creek Investments 74 (Pty) Limited	Preference share dividends	—	2	—	—
Four Arrows Investments 256 (Pty) Limited	Preference share dividends	20	5	124	124
Italtile Empowerment Trust	Interest	—	—	—	63
Italtile Ceramics (Proprietary) Limited	Dividends and management fees	704	159	555	467
Italtile Foundation Trust	Interest free loan	—	—	121	121

Refer to notes 6, 14, 15 and 19 for further disclosure relating to terms of balances owing at year end.

Key management personnel comprise only the Board of Directors. Remuneration paid to key management personnel of the Company is provided above. No balances were owing at year end (2013: nil).

33. 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 four operating segments:

Segment	Nature of business
Retail	– Retailers of tiles, brassware, laminated flooring, sanitaryware and accessories.
Franchising	– Bearer of South African and non-South African trademarks.
Properties	– Property investments.
Supply and support services	– Distributor of brassware, laminated flooring, accessories, and tiling tools. – Group administration and management services. – Outsourced debtor solutions. – Procurement.

All intersegmental transactions are concluded at arm's length.

The following measures, as included in the quarterly management report reviewed by the chief operating decision-makers, are used to assess performance:

Income measures (Rm's)	Retail	Franchising	Properties	Supply and support services	Inter-group eliminations	Group	Discontinued# operations
2014							
Turnover	2 249	—	—	1 337	(872)	2 714	31
Gross margin	812			127	(20)	919	11
Other income*	35	250	255	178	(326)	392	
Overheads	(648)	(102)	(76)	(60)	326	(560)	(23)
Trading profit	199	148	179	245	(20)	751	(12)
Geographical analysis	South Africa	Rest of Africa	Other*	Inter-group entities	Group	Dis-continued operations	
Revenue	3 994	233	78	(1 198)	3 106	31	
Non-current assets	2 303	87	143	(694)	1 838	—	

*Other income includes franchise fees, rentals, royalties and rebates received, as well as profit or loss on disposal of property, plant and equipment.

#The Australian discontinued operations were previously included in the Retail segment.

*Australia and Italy.

Notes to the financial statements continued

for the year ended 30 June 2014

33. SEGMENT REPORT *(continued)*

Income measures (Rm's)	Retail	Franchising	Properties	Supply and support services	Inter-group eliminations	Group	Discontinued# operations
2013							
Turnover	1 597	—	—	1 072	(622)	2 047	94
Gross margin	585	—	—	116	—	701	36
Other income*	29	211	231	135	(245)	361	—
Overheads	(485)	(92)	(61)	(58)	245	(451)	(35)
Trading profit	129	119	170	193	—	611	1
Geographical analysis	South Africa	Rest of Africa	Other*	Inter-group entities	Group	Dis-continued operations	
Revenue	3 042	174	59	(867)	2 408	94	
Non-current assets	2 313	95	172	(747)	1 833	8	

*Other income includes franchise fees, rentals, royalties and rebates received, as well as profit or loss on disposal of property, plant and equipment.

#The Australian discontinued operations were previously included in the Retail segment.

*Australia and Italy.

Asset measures (Rm's)	Retail	Franchising	Properties	Supply and support services	Provisions and inter-group eliminations	Group
2014						
Inventory	292	—	—	197	(81)	408
Trade receivables	1	18	27	131	(75)	102
2013						
Inventory	219	—	—	178	(62)	335
Trade receivables	5	18	19	115	(49)	108

#Less than R1 million.

Segmental liabilities have not been disclosed, as these measures do not form part of the key performance indicators reviewed by chief operating decision makers.

Given the nature of the Group's operations, there are no significant concentrations of large or major customers, thus this information has not been disclosed.

34. SUBSEQUENT EVENTS

Purchase of non-controlling interests in TopT Ceramics Proprietary Limited

Subsequent to the financial year end, the Group acquired the 20% non-controlling stake held by the previous business partner of TopT Ceramics Proprietary Limited at a cost of R11 million. The Group is currently in the process of identifying new business partners for this business.

35. DISCONTINUED OPERATIONS

The Group disposed of the following non-core businesses (date of disposal in brackets):

- Cladding Finance Proprietary Limited – the entity used to extend and manage credit to the contractors market (30 September 2013);
- The seven store CTM retail operation in Australia (31 October 2013); and
- Allmuss Properties Zambia Limited – a property holding company (31 December 2013).

The results of these businesses have thus been recorded as discontinued operations in these financial statements and disclosed voluntarily. Cladding Finance Proprietary Limited and Allmuss Properties Zambia Limited's contribution to Group earnings is immaterial, although R4 million profit was realised on the sale of the latter. The sale of the Australian retail operations was concluded via a management buyout, and was preceded by fixed asset impairment and other rationalisation costs totalling R9 million. A further consequence of the sale of the Australian retail operations was the derecognition of deferred assets totalling R8 million, also included in the discontinued operations results.

The results of the discontinued operations for the year are presented below:

	2014 Rm's	2013 Rm's
Turnover	31	94
Cost of sales	(21)	(58)
Gross profit	10	36
Other operating income	–	–
Operating expenses	(22)	(34)
Profit on sale of property, plant and equipment	–	#
Trading profit	(12)	1
Financial revenue	#	–
Financial cost	#	#
(Loss)/profit before taxation	(12)	1
Taxation	(8)	–
(Loss)/profit for the period	(20)	1
No assets are classified as held for sale on the balance sheet as all sales transactions were concluded by 30 June 2014.		
Assets		
Property, plant and equipment	–	8
Inventory	–	18
Assets classified as held for sale	–	26
Included in other comprehensive income:		
Foreign currency translation reserve	–	2
The net cash flows incurred by the discontinued operations are as follows:		
Operating	(13)	(5)
Investing	–	–
Financing	–	–
	(13)	(5)
The earnings per share attributable to the discontinued operations for the period are as follows:		
Basic earnings per share (cents)	(2,1)	0,1
Headline earnings per share (cents)	(1,1)	0,1

#Less than R1 million.

Notes to the financial statements continued

for the year ended 30 June 2014

36. GROUP ENTITIES

	Issued share capital R	% held		Shares		Book value of interest Amounts owing to	
		2014	2013	2014	2013	2014	2013
				Rm's	Rm's	Rm's	Rm's
Held by Italtile Limited							
RETAILING							
Italtile Ceramics (Pty) Ltd	36 383 670	100	100	1	1	555	467

	Issued share capital		Effective % shareholding	
	2014 R	2013 R	2014	2013
Held by subsidiaries				
FRANCHISING				
Italtile Franchising (Pty) Ltd	1 000	1 000	100	100
Italtile (Franchising) Pty Ltd ⁸	4	4	75	66
Italtile Mauritius (Pty) Ltd ¹	1 589	1 589	100	100
PROPERTY INVESTMENT				
Allmuss Properties (Pty) Ltd	1 500	1 500	100	100
Allmuss (Botswana) (Pty) Ltd ²	4 651	4 651	100	100
Allmuss Properties Namibia (Pty) Ltd ³	1 100	1 100	100	100
Allmuss Lesotho (Pty) Ltd ⁴	1 000	1 000	100	100
Allmuss Properties Kenya Ltd ⁵	12 446 865	12 446 865	100	100
Allmuss Properties (Uganda) Ltd ⁶	5 825 590	5 825 590	100	55
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
Melkbos Pty Ltd ⁸	7 346 541	7 346 541	86	83
Norstrom Pty Ltd ⁸	9 149 000	9 149 000	75	66
SUPPORT SERVICES				
International Tap Distributors (Pty) Ltd	210	210	71	71
Majuba Aviation (Pty) Ltd	12 339 876	12 339 876	100	100
Ser Export s.p.a. ⁷	37 546	37 546	53,5	53,5
Cedar Point Trading 326 (Pty) Ltd	1 000	1 000	100	100
RETAILING				
Ceramic Tile Projects (Pty) Ltd	100	100	40	40
CTM Kenya Ltd ⁵	4 307 429	8 422 623	100	100
Italtile Australia Pty Ltd ⁸	57 849 956	57 849 956	75	66
Italtile Floorings Pty Ltd ⁸	80 591	80 591	75	66
Italtile Retail (Pty) Ltd	1 000	1 000	55	55
Joxisec (Pty) Ltd	120	—	40	—
Orban Investments 375 (Pty) Ltd ³	175	175	100	100
TopT Ceramics (Pty) Ltd	1 000	1 000	100	80
Braintree (Pty) Ltd ²	1 000	1 000	100	100
Special purpose entities				
Italtile Foundation Trust				
Italtile Share Incentive Trust				
Italtile Empowerment Trust				

¹ Incorporated in Mauritius.

² Incorporated in Botswana.

³ Incorporated in Namibia.

⁴ Incorporated in Lesotho.

⁵ Incorporated in Kenya.

⁶ Incorporated in Uganda.

⁷ Incorporated in Italy.

⁸ Incorporated in Australia.

Analysis of shareholders

Category of shareholder	Number of shareholders	Number of shares held	Shares held %
The Italtile Foundation Trust	1	26 400 000	2,6
The Italtile Empowerment Trust	1	26 400 000	2,6
The Italtile Share Incentive Trust	1	24 386 095	2,4
Empowerment company	1	35 200 000	3,4
Individuals	589	58 525 216	5,6
Nominee shareholders	18	30 939 452	3,0
Companies and other corporate bodies	152	163 082 116	15,7
Trusts	130	62 266 502	6,0
Directors	3	27 874 256	2,7
Associates to directors	2	578 259 185	56,0
Total	898	1 033 332 822	100,0

Concentration of holdings – number of shares	Number of shareholders	Number of shares held	Shares held %
1 – 5 000	186	64 648	0,01
5 001 – 20 000	352	1 632 768	0,16
20 001 – 100 000	226	7 080 790	0,69
100 001 – 1 000 000	89	38 053 151	3,68
Over 1 000 000	45	986 501 465	95,46
Total	898	1 033 332 822	100,0

Shareholders' spread

Category of shareholder	Number of shareholders	Number of shares held	Shares held %
Directors	3	27 874 256	2,7
Associates to directors	2	578 259 185	56,0
The Italtile Share Incentive Trust	1	24 386 095	2,4
The Italtile Empowerment Trust	1	26 400 000	2,6
Empowerment company	1	35 200 000	3,4
The Italtile Foundation Trust	1	26 400 000	2,6
Total non-public shareholders	9	718 519 536	69,5
Public shareholders	873	314 813 286	30,5
Total	882	1 033 332 822	100,0

Major shareholders	Number of shares held	% interest in the issued share capital
Rallen (Pty) Limited	558 161 523	54,02
Old Mutual Group*	97 432 415	9,43
The Tommaso Altini Trust	42 042 904	4,07
Four Arrows Investments 256 (Pty) Limited#	35 200 000	3,41

*Includes third party funds under management.

#BEE Special Purpose Entities.

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
JSE share ITE
ISIN code ZAE000099123
Company Secretary E J Willis
Registered office The Italtile Building
Cnr William Nicol Drive and
Peter Place
Bryanston, 2021
Postal address PO Box 1689, Randburg, 2125
Telephone number +27 (0) 11 510-9050
Fax number +27 (0) 11 510-9061

Transfer secretaries Computershare Investor
Services (Pty) Limited
70 Marshall Street
Johannesburg, 2001

Sponsor Merchantec Capital

Legal advisers Derek H Rabin & Associates
(Pty) Limited
Routledge Modise
Webber Wentzel

Bankers Nedbank Limited

Auditors Ernst & Young Inc.

Website <http://www.Italtile.com>



**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

18 Rapid Street
Riverside Industrial Park
Nelspruit 1200
PO Box 13040, Nelspruit 1200
Tel: (013) 752-8333
Fax: (013) 753-3362

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 Tetford Crescent
Umhlanga Ridge
Umhlanga
PO Box 2474
Mount Edgecombe
Country Club 4301
Tel: (031) 566-5069
Fax: (031) 566-5090



**CTM Group Owned Stores
Southern Africa**

Alberton

Dion Centre, St Austall Road
New Redruth Extension
PO Box 1689, Randburg 2125
Tel: (011) 869-0070
Fax: (011) 869-0084

Birch Acres (Tembisa)

1, Erf 4859, Isimuku Street
Birch Acres Ext
Tembisa
PO Box 1689, Randburg 2125
Tel: (084) 585-9348
Fax: 086-508-1640

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

Boksburg

Corner Northrand and
Trichardt Streets
Boksburg 1459
PO Box 1689, Randburg 2125
Tel: (011) 918-5858
Fax: (011) 894-3782

Botshabelo

No. 1 Blue Street
Botshabelo 9781
PO Box 34654, Faunasig
Bloemfontein 9325
Tel: (051) 534-8899
Fax: (051) 534-8991
Fax: 086-508-1639

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
Tel: (013) 231-7968
Fax: (013) 231-7687

Centurion

Highway Business Park
Old Johannesburg Road
Rooihuiskraal
Centurion 0187
PO Box 1689, Randburg 2125
Tel: (012) 661-2196/7/8/9
Fax: 086-555-0550

Crossroads

Corner Hammer and
Spanner Crescent
Philippi, Mitchells Plain
PO Box 1689, Randburg 2125
Tel: (021) 387-7207
Fax: (021) 387-7200

Dobsonville

301 Roodepoort Road
Mmesi Park
Dobsonville 1863
PO Box 1689, Randburg 2125
Tel: (011) 988-6789
Fax: (011) 988-6726

East London

Corner Main and
Fitchett Streets
Amalinda
East London
PO Box 12836, Amalinda
East London 5252
Tel: (043) 741-1360
Fax: (043) 741-1369

Hermanus

Corner Skulphoek and
Adam Roads, Sandbaai
Hermanus
PO Box 1622, Sandbaai
Hermanus 7200
Tel: (028) 313-1199
Fax: (028) 313-2928

Kimberley

Pniel Road No 7
Kimberley 8301
PO Box 194, Kimberley 8301
Tel: (053) 831-4230
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Ladysmith

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Ladysmith 3370
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Lonehill

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Paulshof 2062
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Menlyn

Adjacent to Menlyn Park
Shopping Centre
38 Palala Road
Ashlea Gardens
Pretoria
PO Box 1689, Randburg 2125
Tel: (012) 365-3070/1/2
Fax: (012) 365-3080

Montague Gardens

Marconi Centre, Koeberg Road
Montague Gardens 7945
PO Box 1179, Milnerton 7435
Tel: (021) 552-2999
Fax: (021) 552-3049

Montana

Corner Taaifontein and
Caliandra Roads
Montana Park
Pretoria
PO Box 1689, Randburg 2125
Tel: (012) 548-3555
Fax: (012) 548-4009

Nelspruit

18 Rapid Street
Riverside Industrial Park
Nelspruit 1200
PO Box 3171, Nelspruit 1200
Tel: (013) 755-2006
Fax: (013) 755-1434

Northgate

8 Gold Street
Northgate Business Park
Yster Plaat
PO Box 1179, Milnerton 7435
Tel: (021) 510-3307
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
Botswana
Tel: (00267) 490-0430
Fax: (00267) 490-0429

Pietermaritzburg

116 Victoria Road
Pietermaritzburg 3201
Tel: (033) 342-9701
Fax: (033) 342-7330

Port Shepstone

1 Oscar Nero Road, Marburg
Port Shepstone
PO Box 2533
Port Shepstone 4240
Tel: (039) 682-1601
Fax: (039) 682-1762

Pretoria

Corner Michael Brink Street
and Hendrik Verwoerd Drive
Innesdale
Pretoria
PO Box 1689, Randburg 2125
Tel: (012) 335-3308
Fax: (012) 335-3323

Route 24 (Edenvale)

198 Herman Road
Meadowdale, Edenvale
PO Box 1689, Randburg 2125
Tel: (011) 453-0320
Fax: (011) 453-7443

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
Fax: (011) 494-5000

Springs

3 Lead Road, New Era
Springs
PO Box 9410, Elsburg 1407
Tel: (011) 817-1336
Fax: (011) 813-3922

Strijdompark

1 Arbeid Street
Strijdompark
PO Box 1689, Randburg 2125
Tel: (011) 792-4136
Fax: (011) 792-4138

Tokai

Corner Vans and Tokai Roads
Tokai 7945
Tel: (021) 715-8506
Fax: (021) 715-8569

Umhlanga

7 Tetford Crescent
Umhlanga Ridge
Durban
PO Box 2474
Mount Edgecombe
Country Club 4301
Tel: (031) 566-3340
Fax: (031) 566-3341

Vaal

Corner Johannesburg and
Leeuwenhoek Streets
Vereeniging 1930
PO Box 1689, Randburg 2125
Tel: (016) 422-7353
Fax: (016) 422-7350/54

Westgate

Corner C R Swart and
Ontdekkers Roads
Wilropark
PO Box 1689, Randburg 2125
Tel: (011) 768-5758/0416/7
Fax: (011) 768-1969

Windhoek

Andimba Toivo Ya Toivo
No. 3 Krupp Street,
Southern Industria
Windhoek
PO Box 40480
Ausspanplatz
Windhoek
Namibia
Tel: (00264) 612-55318/9
Fax: (00264) 612-35479

Worcester

10 Park Close
Worcester 6850
PO Box 767, Worcester 6849
Tel: (023) 347-4869
Fax: (023) 342-4808

CTM Group Owned Stores Rest of 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) 735-177700

**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

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

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

Gaborone

Plot 22077
Ditsotswane Road
Gaborone
West Industrial
Botswana
PO Box 25033, Gaborone
Botswana
Tel: (00267) 393-3770
Fax: (00267) 393-3771

George

Corner Knysna Road and
Blue Mountain
George East 6529
PO Box 1223
Garden Route Mall
George 6546
Tel: (044) 871-1021/2
Fax: (044) 871-1048

Groblersdal

9 Eind Street Corner
Van Riebeeck and Canal
PO Box 1641
Groblersdal 0470
Tel: (013) 262-5416
Fax: (013) 262-3976

Klerksdorp

Corner Bishop Desmond Tutu
and Jo Slovo
Klerksdorp 2571
PO Box 966, Klerksdorp 2570
Tel: (018) 464-1222/1999
Fax: 086-576-6105

Louis Trichardt

No. 1 Makhado Crossing
Corner Limpopo and
Commercial Road
Louis Trichardt
PO Box 4200
Louis Trichardt 0920
Tel: (015) 516-2779/0279
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) 518-4061
Fax: (00268) 518-4048

Mbabane

Plot 940, Mshini Road
Sidwashini, Mbabane
PO Box 1095, Matsapha
Swaziland
Tel: (00268) 422-1720
Fax: (00268) 518-4048

Middelburg (Mpumalanga)

No 25 Meyer Street
Middelburg
PO Box 830, Middelburg 1050
Tel: (013) 282-2420/30
Fax: (013) 282-2425

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: (047) 532-6868
Fax: 086-622-7652

Newcastle

Allen Street
Newcastle
PO Box 20543
Newcastle 2940
Tel: (034) 315-5145/6
Fax: (034) 315-5147

Phuthaditjhaba

Factory 115, Mohale Street
Phuthaditjhaba Area 3
Tel: (058) 713-6183/93
Fax: (058) 713-6178

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

Potchefstroom

18 Poortmain Street
Potch Industria
PO Box 1660
Potchefstroom 2520
Tel: (018) 294-3011/12
Fax: (018) 294-3013

Prospecton

2 B Prospecton Road
Prospecton, Durban
PO Box 26311
Isipingo Beach 4115
Tel: (031) 902-9230
Fax: (031) 902-9234

Queenstown

123 Cathcart Road
Queenstown 5320
PO Box 687
Queenstown 5320
Tel: (045) 838-5376/7/8
Fax: (045) 838-5011

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: 086-508-1694

Secunda

Erf 8512, Manie Maritz Street
PO Box 6985, Secunda 2302
Tel: (017) 631-5102
Fax: (017) 631-5105

Swakopmund

Moses-Garoeb 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

Upington

Corner Le Roux and
Swartmodder Streets
Upington 8801
PO Box 1735, Upington 8800
Tel: (054) 331-2577/79
Fax: (054) 331-2575

Vredenburg

20 Saldanha Road
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

Welkom

Corner Koppie Alleen and
Constantia Roads
PO Box 98, Welkom 9460
Tel: (057) 396-3371/2
Fax: (057) 396-4818

Witbank

Stand 16
Mandela Road
President Park
Witbank
PO Box 13150
Leraatsfontein 1035
Tel: (013) 690-2874/6
Fax: (013) 690-2878

**CTM Franchise Stores
Rest of Africa****UGANDA****Kampala**

Plot 171/177, 6th Street
Industrial Area
Kampala
PO Box 25202
Kampala Uganda
Tel: (00256) 312-261-888
Fax: (00256) 312-261-889

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
(Mwenge Store) – CTM (EA)
Limited**

Plot 109, Mikocheni Light
Industrial Area
PO Box 79085
Dar-es-Salaam
Tanzania
Tel: (00255) 22-270-0602
Fax: (00255) 22-286-5692



TopT Group Owned Stores

Benoni

36 Tom Jones Avenue, Benoni
PO Box 1689, Randburg 2125
Tel: (011) 421-0213
Fax: 086-508-1701

Lenasia/Lawley

Main Lawley Road, Lenasia
PO Box 1689, Randburg 2125
Tel: (011) 857-1232/1249
Fax: (011) 857-1556

Pretoria West

Crown Court Shop 1
135 Church Street
Pretoria West
PO Box 1689, Randburg 2125
Tel: (012) 327-4108
Fax: (012) 327-4767

Roodepoort

Corner Anvil and
Granville Streets
Robertville
PO Box 1689, Randburg 2125
Tel: (011) 674-2134
Fax: (011) 674-3306

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

Empangeni

14 Ngwelezane Road
Kuleka, Empangeni
KwaZulu-Natal
PO Box 104, Izinga Ridge
KwaZulu-Natal 4021
Tel: (035) 787-0097
Fax: (035) 787-0099

Giyani

Main Road, Horizon Mall
Giyani
PO Box 1689, Randburg 2125
Tel: (015) 812-1326
Fax: (015) 812-3819

Jane Furse

105 Mamone Road
Jane Furse, 1085
PO Box 4749,
Mokopane 0600
Tel: (013) 265-1971
Fax: (013) 265-1978

Kimberley

99D/99E, Transvaal Road
Kimberley
PO Box 972, Kimberley
Northern Cape 8301
Tel: (053) 831-5780
Fax: (053) 831-2811

Kuruman

3466 Livingstone Road
Kuruman
PO Box 972, Kimberley
Northern Cape 8301
Tel: (053) 712-2561
Tel: (053) 712-1636
Fax: (053) 712-1636

Lichtenburg

Corner Melville and
Buchanan Streets
Ebenlou Building
Lichtenburg
PO Box 1689, Randburg 2125
Tel: (018) 632-0604
Fax: (018) 632-0605

Matoks

Stand # 2759, N1 Freeway
Limpopo
PO Box 31281
Polokwane 0759
Tel: (076) 902-2278

Mogwase

Stand 949 Unit 3, Mogwase
Postnet Suite 4529
Private Bag X82323
Rustenburg, Northwest 0300
Tel: (014) 555-5404
Fax: (014) 555-5403

Musina

Stand 2075
Corner N1 Highway and
Pat Harrison Street
Musina
PO Box 31281
Polokwane 0759
Tel: (015) 534-1115
Fax: 086-269-1560

Nelspruit

10 Cameron Street, Nelspruit
PO Box 1689, Randburg 2125
Tel: (013) 752-7036
Fax: (013) 752-8359

Newcastle

18 Kirkland Street
Shop 7 Kirkland Park
Newcastle 2940
PO Box 20543
Newcastle 2940
Tel: (034) 312-3175
Fax: (034) 312-3338

Polokwane (Pietersburg)

79 Hoof Street
Superbia
PO Box 31281
Polokwane 0759
Tel: (015) 292-3841
Fax: (015) 292-3842

Rustenburg

115 Leyds Street
Postnet Suite 4529
Private Bag X82323
Rustenburg 0030
Tel: (014) 597-2701
Fax: (014) 597-3056

Thohoyandou

On the main road R524
Muledane next to
TJ Superquick Tyres
Thohoyandou
PO Box 31281
Polokwane 0759

Vryheid

111 East Street, Vryheid
KwaZulu-Natal
PO Box 104, Izinga Ridge
KwaZulu-Natal 4021
Tel: (034) 980-2233
Fax: (034) 980-2203

Witbank

2 Van der Bijl Street, Witbank
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 to shareholders



Italtile Limited

(Incorporated in the Republic of South Africa)

(Registration No 1955/000558/06)

("the Company" or "Italtile")

JSE code: ITE

ISIN code: ZAE000099123

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, please consult your Central Securities Depository Participant (CSDP), broker, banker, legal adviser, accountant or other professional adviser immediately.

It should be noted that the record date in terms of section 59 of the Companies Act, No 71 of 2008, as amended (the Companies Act) for Italtile shareholders to be recorded on the register in order to receive notice of the annual general meeting (AGM) is Friday, 19 September 2014.

The record date for determining which Italtile shareholders are entitled to participate in and vote at the AGM is Friday, 21 November 2014. Accordingly, the last day to trade in order to be on the register on the record date to participate and vote at the AGM shall be Friday, 14 November 2014.

Notice is hereby given that the 25th AGM of shareholders of Italtile will be held at Italtile Place, Cnr William Nicol Drive and Peter Place, Bryanston on Friday, 28 November 2014 at 08:00, for the following purposes:

ORDINARY BUSINESS

To receive the annual financial statements for the year ended 30 June 2014 of the Company and the Group, together with the reports of the directors and auditors.

Ordinary Resolution No 1 – Election of directors

- 1.1 RESOLVED THAT Ms S M du Toit, lead independent director, who is retiring by rotation in terms of the Memorandum of Incorporation of the Company and, being eligible, offers herself for re-election, be and is hereby re-elected as a director of the Company.
- 1.2. RESOLVED THAT Ms A Zannoni, who is retiring by rotation in terms of the Memorandum of Incorporation of the Company and, being eligible, offers herself for re-election, be and is hereby re-elected as a director of the Company.
- 1.3. RESOLVED THAT the appointment of Ms N Medupe as a director of the Company as an independent, non-executive director with effect from 20 August 2014 be and is hereby confirmed.
- 1.4. RESOLVED THAT the appointment of Mr N Booth as a director of the Company in his role as Chief Executive Officer with effect from 1 July 2014 be and is hereby confirmed.

1.5. RESOLVED THAT the appointment of Mr J N Potgieter as a director of the Company in his role as Chief Operations Officer with effect from 1 August 2014 be and is hereby confirmed.

1.6. RESOLVED THAT Mr G A M Ravazzotti's appointment as Chairman of the Board as a non-executive director of the Company be and is hereby confirmed.

A brief *curriculum vitae* in respect of these directors is contained on page 69 of this Integrated Annual Report.

Ordinary Resolution No 2 – Appointment of auditors

RESOLVED THAT Ernst & Young Inc. be and are hereby reappointed as independent auditors of the Company and Sarel Strydom, 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 ensuing period terminating on the conclusion of the next AGM of the Company.

Ordinary Resolution No 3 – Audit and Risk Committee

RESOLVED THAT, in terms of Section 94(2) of the Companies Act, 2008 (Act 71 of 2008) the following independent non-executive directors be and are hereby appointed as members of the Company's Audit and Risk Committee, subject to the re-election of Ms du Toit as a director in terms of resolution 1.1 above: S M du Toit (Chairman), S I Gama and S G Pretorius.

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 59 to 60 of this Annual Report be and is hereby approved and adopted.

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 is provided for in the King Report on Governance for South Africa – 2009 (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 all or any of such ordinary shares to such person or persons on such terms and conditions and at such times as the directors may from time to time in their discretion deem fit, subject to the proviso that the aggregate number of shares to be allotted

and issued in terms of this resolution shall be limited to 15% (fifteen percent) of the authorised share capital and subject to the provisions of the Companies Act and the Listings Requirements of JSE Limited (JSE).

Ordinary Resolution No 6 – General authority to issue shares, and to sell treasury shares, for cash

RESOLVED THAT the directors of the Company and/or any of its subsidiaries from time to time be and they are hereby authorised, by way of a general authority, to:

- allot and issue shares or options in respect of all or any of the authorised but unissued ordinary shares in the capital of the Company; and/or
- 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 conditions and at such times as the directors in their discretion deem fit, subject to the Companies Act, the Memorandum of Incorporation of the Company, the Listings Requirements of the JSE and the following limitations:
 - The 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 by the Listings Requirements of the JSE and not to related parties.
 - The number of ordinary shares issued for cash shall not in any one financial year in the aggregate exceed 15% (fifteen percent) of the number of issued ordinary shares, including instruments which are convertible into ordinary shares. The number of ordinary shares which may be issued shall be based on the number of ordinary shares in issue at the date of such application less any ordinary shares issued during the current financial year, provided that any ordinary shares to be issued pursuant to a rights issue (announced, irrevocable and underwritten) or acquisition (which has had final terms announced) may be included as though they were in issue at the date of application.
 - This general authority is valid until the earlier of the Company's next annual general meeting or expiry of a period of 15 (fifteen) months from the date that this authority is given.
 - A published announcement giving full details, including the impact on the net asset value per share, net tangible asset value per share, earnings per share and headline earnings per share, will be published when the Company has issued ordinary shares representing, on a cumulative basis within 1 (one) financial year, 5% (five percent) or more of the number of ordinary shares in issue prior to the issue.
 - 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 determined or agreed by the directors of the Company.

- 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 of the JSE as if such use was a fresh issue of ordinary shares.

In terms of the Listings Requirements of the JSE a 75% (seventy five percent) majority of the votes cast by shareholders present or represented by proxy at the AGM must be cast in favour of ordinary resolution number 6 for it to be approved.

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 approval, 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 Memorandum of Incorporation of the Company, the provisions of the Companies Act and the Listings Requirements of the JSE 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;
- at any point in time, the Company may only appoint one agent to effect any repurchase on the Company's behalf;
- this general authority 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 number 1 (whichever period is shorter);
- an announcement be published 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 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 number 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 of Directors pass a resolution that they have authorised the repurchase, that the Company passed the solvency and liquidity test and that since the test was done 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 was effected; and
- repurchases may not be undertaken by the Company or one of its wholly owned subsidiaries during a prohibited period.

The reason for the passing of the above special resolution is to grant the Company a general authority in terms of the Act for 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 annual general meeting, 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 of this general meeting. The passing and registration of this special resolution will have the effect of authorising the Company or any of its subsidiaries to acquire securities issued by the Company.

The following information, which is required by the Listings Requirements of the JSE with regard to the resolution granting a general authority to the Company to repurchase securities, appears on the pages of the financial statements to which this notice of AGM is annexed, is indicated below:

Directors of the Company	page 69
Major shareholders	page 118
Directors' interests in securities	page 118
Share capital of the Company	page 104
Responsibility statement	page 74
Material changes	page 75

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.

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 consolidated assets of the Company and its subsidiaries, fairly valued in accordance with International Financial Reporting Standards, will be in excess of the consolidated liabilities of the Company and its subsidiaries for a period of 12 (twelve) months after the date on which the repurchase is contemplated;
- the issued 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;
- the working capital available to the Company and its subsidiaries will be sufficient for the Group's requirements for a period of 12 (twelve) months after the date on which the repurchase is contemplated; and
- the Company will provide its sponsor and the JSE with all documentation as required in Schedule 25 of the Listings Requirements of the JSE, and will not commence any repurchase programme until the sponsor has signed off on the adequacy of its working capital, advised the JSE accordingly and the JSE has approved this documentation.

Special Resolution No 2 – Financial assistance to related and inter-related entities

THAT the Board may, subject to compliance with the requirements of the Company's Memorandum of Incorporation and the Companies Act, authorise the provision by the Company, at any time and from time to time during the period of 2 (two) 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 company or corporation related to any such company or corporation as outlined in section 2 of the Companies Act, on such terms and conditions as the Board may deem fit.

The reason for the passing of this special resolution is that, on a strict interpretation of section 45 of the Companies Act, the Company may not provide the financial assistance contemplated in such section without a special resolution. The above resolution

gives the Board 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 number 2.

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 number 2.

It should be noted that this resolution does not authorise financial assistance to a director or a prescribed officer or any company or person related to a director or prescribed officer.

Special Resolution No 3 – Approval of non-executive directors' remuneration

THAT, in terms of section 66(9) of the Companies Act, payment of the remuneration for the non-executive directors of the Company be approved as follows:

- (i)
 - A basic annual fee of R45 000 (forty five thousand Rand).
 - R20 000 (twenty thousand Rand) per Board meeting attended.
 - R22 000 (twenty two thousand Rand) per strategy session.
 - R17 000 (seventeen thousand Rand) per committee meeting attended, with the chairman of such meeting being paid R21 000 (twenty one thousand Rand).
- (ii) The Chairman to receive an annual fee of R1 million p.a. with effect from 1 July 2014, subject to the approval thereof by the shareholders.
- (iii) The fees payable to directors as detailed in (i) above shall, but only until the expiry of a period of 12 (twelve) 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), escalated as determined by the Remuneration Committee of the Company, up to a maximum of 15% (fifteen percent) per annum per amount as set out above.

Explanatory note to special resolution number 3

The Companies Act requires that remuneration paid to directors for their services as directors must be approved by the shareholders.

Special Resolution No 4 – Proposed amendment to the Employee Share Incentive Scheme

RESOLVED THAT clause 10.1 of the trust deed of the Italtile Employee Share Incentive Trust, a trust duly registered by the Master of the High Court under number IT 409/93, (Italtile Employee Share Incentive Trust) be and is hereby amended to provide that the purchase price to be paid by persons who are eligible for participation in the Italtile Employee Share Incentive Trust (Participant) in terms of offers of ordinary shares in the issued share capital of the Company (Italtile Shares) in terms of the Italtile Employee Share Incentive Trust will be the volume weighted average price of Italtile Shares on the JSE Limited for the 30 business days immediately prior to making the offer of the Italtile Shares to the proposed Participant in the Italtile Employee Share Incentive Trust.

For special resolution number 4 to be approved by Italtile Shareholders, it must be supported by at least 75% of the voting rights exercised on the resolution, excluding all the votes attaching to all Italtile shares owned or controlled by persons who are existing Participants in the Employee Share Incentive Scheme.

Ordinary Resolution No 7 – Authority to sign documentation

RESOLVED THAT any director of the Company or the Company Secretary be and is hereby authorised to take all actions necessary and sign all documents required to give effect to the abovementioned special resolutions numbers 1 to 4 and ordinary resolutions numbers 1 to 6.

LITIGATION STATEMENT

The directors of the Company, whose names are given on page 69 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 (twelve) months preceding the date of this notice, a material effect on the Company's financial position.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors, whose names are given on page 69 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 of the JSE.

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.

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 subregister 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 11:00 on Wednesday, 26 November 2014. Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to attend and vote in person 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.

By order of the Board



E J Willis

Company Secretary

Johannesburg

22 September 2014



Italtile Limited
 (Incorporated in the Republic of South Africa)
 (Registration No 1955/000558/06)
 ("the Company" or "Italtile")
 JSE code: ITE
 ISIN code: ZAE000099123

ONLY TO BE COMPLETED BY CERTIFICATED SHAREHOLDERS AND DEMATERIALISED SHAREHOLDERS WITH 'OWN NAME' REGISTRATION

For use at the annual general meeting of the holders of ordinary shares in the Company (Italtile shareholders) to be held at Italtile Place, Cnr William Nicol Drive and Peter Place, Bryanston on Friday, 28 November 2014 at 08:00.

Italtile shareholders who have dematerialised their shares through a CSDP or broker must not complete this form of proxy but must provide their CSDP or broker with their voting instructions, except for Italtile shareholders who have elected 'own name' registration in the subregister through a CSDP or broker. It is these shareholders who must complete this form of proxy and lodge it with the transfer secretaries.

Holders of dematerialised Italtile shares wishing to attend the annual general meeting must inform their CSDP or broker of such intention and request their CSDP or broker to issue them with the relevant authorisation to attend.

A member entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend, vote and speak in his/her/ its stead at the annual general meeting. A proxy need not be a member of the Company.

I/We _____ (Name in block letters)

of (address) _____

being a member(s) of the Company, and entitled to _____ votes do hereby appoint _____

of _____ or, failing him/her _____

of _____ or, failing him/her _____

the Chairman of the annual general meeting, as my/our proxy to represent me/us at the annual general meeting, which will be held at Italtile Place, Cnr William Nicol Drive and Peter Place, Bryanston 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 the resolutions and/or abstain from voting in respect of the shares in the issued share capital of the Company registered in my/our name (see note 2 overleaf) as follows:

Resolutions	For	Against	Abstain
1.1 To re-elect S M du Toit as a director			
1.2 To re-elect A Zannoni as a director			
1.3 To confirm appointment of N Medupe as a director			
1.4 To confirm appointment of N Booth as a director			
1.5 To confirm appointment of J N Potgieter as a director			
1.6 To confirm appointment of G A M Ravazzotti as non-executive Chairman			
2. To reappoint Ernst & Young Inc. as auditors and Sarel Strydom as designated auditor			
3. To appoint S M du Toit, S I Gama and S G Pretorius as members of the Audit and Risk Committee			
4. To approve the Company's remuneration policy			
5. To place the unissued shares of the Company under the control of the directors			
6. To issue shares or sell treasury shares for cash			
7. Special Resolution No 1 – Acquisition of own securities			
8. Special Resolution No 2 – Financial assistance			
9. Special Resolution No 3 – Non-executive directors remuneration			
10. Special Resolution No 4 – Amendments to the Employee Share Incentive Scheme			
11. To authorise the signature of documentation to implement above resolutions			

and generally to act as my/our proxy at the said annual general meeting. (Indicate with an 'X' or the relevant number of votes, in the applicable space, how you wish your votes to be cast. If no directions are given, the proxy holder will be entitled to vote or to abstain from voting as that proxy holder deems fit.)

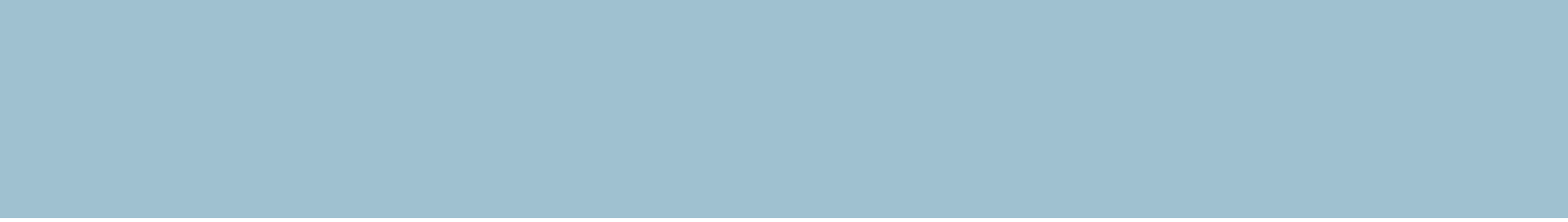
Signed at _____ on _____ 2014.

Signature of member(s) _____ Assisted by (where applicable) _____

Please read the notes on the reverse side hereof.

Notes to the form of proxy

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of his/her choice in the space(s) provided, with or without deleting 'Chairman of the annual general meeting', but any such deletion or insertion must be initialled by the shareholder. Any insertion or deletion not complying with the foregoing will be declared not to have been validly effected. The person whose name stands first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names that follow. In the event that no names are indicated, the proxy shall be exercised by the Chairman of the annual general meeting.
2. A shareholder's instructions to the proxy must be indicated by the insertion of an 'X' or the relevant number of votes exercisable by that shareholder in the appropriate box provided. An 'X' in the appropriate box indicates the maximum number of votes exercisable by that shareholder. Failure to comply with the above 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 his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded, may not exceed the maximum number of votes exercisable by the shareholder or by his/her proxy.
3. To be effective, completed proxy forms must be lodged with the transfer secretaries or at the registered office of the Company not less than 48 hours (excluding Saturdays, Sundays and public holidays) before the time appointed for the holding of the annual general meeting. As the annual general meeting is to be held at 08:00 on 28 November 2014, proxy forms must be lodged on or before 08:00 on 26 November 2014.
4. The completion and lodging of this proxy form will not preclude the relevant shareholder attending the annual general meeting and speaking and voting in person thereat instead of any proxy appointed in terms hereof.
5. The Chairman of the annual general meeting may reject or accept any proxy form which is completed and/or received other than in compliance with these notes.
6. Any alteration to this proxy form, other than a deletion of alternatives, must be initialled by the signatories.
7. Documentary evidence establishing the authority of a person signing this proxy form in a representative or other legal capacity must be attached to this proxy form unless previously recorded by the Company or its registrars or waived by the chairman of the annual general meeting.
8. Where there are joint holders of shares:
 - 8.1 any one holder may sign the proxy form; and
 - 8.2 the vote of the senior shareholder (for that purpose seniority will be determined by the order in which the names of the shareholders appear in the Company's register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholders.





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