ITALTILE Limited

PRELIMINARY PROFIT ANNOUNCEMENT, REVIEWED GROUP RESULTS FOR THE YEAR ENDED 30 JUNE 2015 AND DIVIDEND DECLARATION

Italtile Limited

Share code: ITE **ISIN:** ZAE000099123

Registration number: 1955/000558/06

Incorporated in the Republic of South Africa
("Italtile" or "the Group")

Registered office:

The Italtile Building, cnr William Nicol Drive and Peter Place, Bryanston
(PO Box 1689, Randburg 2125)

Transfer secretaries:

Computershare Investor Services Proprietary Limited,
70 Marshall Street, Johannesburg 2001 (PO Box 61051, Marshalltown 2107)

Executive directors:

N Booth (Chief Executive Officer),
B G Wood (Chief Financial Officer),
J N Potgieter (Chief Operating Officer)

Non-executive directors:

G A M Ravazzotti (Non-executive Chairman),
S M du Toit, S I Gama, N Medupe, S G Pretorius,
A Zannoni* (*Italian)

Company Secretary: E J Willis **Sponsor:** Merchantec Capital **Auditors:** Ernst & Young Inc.

System-wide turnover#

R5,22 billion

– 2014: R4,46 billion –

Trading profit#

905 million

– 2014: R751 million –

Earnings per share#

75,9 cents

– 2014: 57,4 cents –

Total ordinary dividend per share

25 cents

– 2014: 19,0 cents –

#From continuing operations.

Commentary

Overview for the year ended 30 June 2015

Italtile Limited is a franchisor and retailer of local and imported tiles, sanitaryware, bathware, laminated flooring and other related home-finishing products. The Group's retail operation comprises three brands: Italtile Retail, CTM and TopT, represented by a total network of 126 stores in Southern and East Africa. The brand offering targets homeowners across the LSM categories 4 to 10.

The Group's retail operation is strategically supported by a vertically integrated Supply Chain, investments in key suppliers, and an extensive property portfolio.

At the outset of the year, management highlighted a range of opportunities which would be capitalised on to grow the business and gain market share through fulfilling the Group's chief goal: to deliver an unparalleled shopping experience for its customers. The theme underlying this growth strategy would be retail excellence – an intensive focus on all the customer-facing elements of the Group's offering. The growth opportunities would be realised under the auspices of a company-wide Business Optimisation Programme (BOP), to be implemented in the key areas across the business in two phases. The programme would commence with the back-end functions including the Supply Chain businesses and the Support Services divisions, while the second phase, scheduled for FY2016, would be implemented in the front-end retail brand operations.

Management is pleased to report that the first phase of the programme, which focused on leveraging the relationship between the Supply Chain and the retail operations, has been implemented, delivering satisfactory results. Enhanced performances were also reported by the Support Services departments, IT, e-commerce and human resources, all functions critical to the Group's long-term growth strategy and sustainability.

Trading environment

During the review period, while the renovations segment of the building industry continued to grow incrementally, no recovery materialised in the new build segment as infrastructure constraints (water, sanitation and power) hampered the roll-out of new housing developments. This situation is expected to persist in the foreseeable future.

There was also a notable deterioration in investment sentiment and property-related spend as consumer confidence dropped to record low levels in the country. At the top end of the income spectrum, customers adopted a selective "wait and see" approach to property investment; in the middle-income market, the Group's core target audience, consumers remained highly price sensitive and value conscious as they experienced intensifying pressure on disposable income. Discretionary spend was allocated cautiously, after extensive research, on tried-and-tested high profile brands. Customers with finite resources in the entry level segment continued to invest small amounts in their homes, on an ongoing basis, and as and when funds were available. In rural and outlying areas consumers' purchasing decisions demonstrated preference for ease of access to one-stop shopping offerings which assisted in overcoming transport and logistical constraints.

Nationally, the trading environment remained competitive. Intensified promotional activity and price-cutting featured throughout the period, as traders sought to reduce inventory levels and free up cash flow in the context of the deteriorating economy and local currency. In these conditions the Group's sound balance sheet and integrated Supply Chain, which facilitated consistent availability of competitively priced quality merchandise, stood the business in good stead.

Results

Despite the subdued economic climate, the Group recorded double digit growth across its trading regions. Improved sales and profitability were delivered by each of the three retail brands and the Supply Chain businesses, and across most of the merchandise categories.

This performance is largely attributable to better execution of basic retail principles and best practice in store, as well as improvements in the key back-end functions: suppliers, systems, and logistics.

Another notable achievement was the quicker than anticipated roll-out of TopT stores due to the availability of suitable sites. During the period eleven new TopT stores were opened.

Financial highlights – continuing operations

The financial information outlined below refers to continuing operations only.

System-wide turnover grew 17% to R5,22 billion (2014: R4,46 billion), while same store revenue increased 16%. Average selling price inflation was 7%. In a year-on-year comparison, the Group reported a stronger performance in the first half than the second six months.

Margins were forfeited in both the Supply Chain and retail operations due to the deliberate strategy to absorb increased costs and contain price inflation to entrench the Group's position as the price leader in a number of categories, and offset the effect of Rand weakness which drove up prices of imported product.

Commentary continued

Trading profit increased 21% to R905 million (2014: R751 million).

Overheads were reduced as a result of improved management of utilities, and containment of delivery and transport costs. Efficiencies were also gained across the Administration functions.

Earnings per share increased 32% to 75,9 cents (2014: 57,4 cents), while headline earnings per share rose 22% to 71,6 cents (2014: 58,7 cents). Earnings reflect the impact of the following:

- An IFRS 2 charge of R12 million (2014: R17 million) related to the Italtile Staff Share Scheme, of which R7 million (2014: R11 million) is an accelerated charge related to franchise staff;
- The increased contribution of R62 million (2014: R29 million) to Group profit from associates Ceramic Industries (Pty) Ltd and Ezeetile;
- Net finance income of R11 million (2014: net finance cost of R9 million) attributable to the settlement of long-term debt and improved net cash holdings of the Group;
- A lower effective tax rate resulting from reduced consolidated Dividend Withholding Tax charges compared with the prior corresponding period and the income tax benefit of share awards vesting and payments in the current period;
- A gain of R14 million derived from the loss of control of a subsidiary (SER-Export s.p.a.) to an associate, following the disposal by the Group of a portion of its shareholding in this company; and
- A once-off gain of R19 million resulting from the reclassification to income of foreign currency translation reserve related to Italtile Mauritius Proprietary Limited, previous bearer of certain of the Group's non-South African trademarks, following the liquidation distribution of that company's net assets to South Africa.

Inventories rose to R479 million (2014: R408 million) in line with increased sales growth, although controls ensured stock turn was commensurate, and stock losses were contained. Stock management across the business has been prioritised as a key strategic initiative.

Capital expenditure of R219 million (2014: R166 million) was incurred largely on the Group's property investment portfolio related to an ongoing store upgrade programme and the acquisition of four properties during the period. Investments were also made in IT requirements related to the BOP. In the review period dividend payments totalled R212 million, and loans totalling R136 million were settled, resulting in net cash reserves of R392 million (2014: R249 million) at the end of the period.

The Group's net asset value was 296 cents per share (2014: 243 cents per share).

Operational review

Retail brands

The retail operations comprising Italtile Retail, CTM and TopT, performed well, reflected by each brand's growth and gain in new market share across most trading regions and merchandise categories.

Italtile Retail

This business delivered solid results, primarily based on improved efficiencies, intensified cost management, and increased market share. Notable growth was recorded by the Commercial Projects division which completed an extensive portfolio of projects, ranging from office blocks, shopping centres and warehouses, to bespoke buildings in the education, health and religious sectors. Italtile Retail is recognised in South Africa as the leading supplier of environmentally sensitive products, a factor which affords the brand an advantage in the commercial projects industry.

CTM

CTM reported double digit sales growth across all of its trading regions. Notably, the coastal markets which have historically under-performed their counterparts, outpaced the inland regions.

Growth was achieved across the range of merchandise categories, with creditable results reported by the Bathroom Boulevard and laminate flooring segments. The value of the average basket also increased, reflecting an improvement in product range, mix and price, and more effective customer interactions.

In-store efficiencies were enhanced through better analysis of trading data and standardisation of best practice disciplines across the store network.

Capacity and capability improvements were effected through staff changes at senior management and store operator level, while advancements were made in recruitment processes and personnel development, contributing to closer alignment with the brand's growth ambitions.

The brand's web store reported an improved performance for the year, increasing online sales above expectations.

TopT

TopT reported sound results for the period, growing turnover and profit and gaining market share in new and existing markets.

During the year the business made progress in achieving its priority objectives, including the goal to roll out five to ten new stores annually. Eleven stores were opened across five provinces in the reporting period and a further three opened shortly after year-end. The brand is now represented in seven provinces.

Within the business, cost management and stock turn improved; supplier relationships were extended and improved; and enhancements were made in store layouts, ranges, systems and processes. Particular attention was paid to appointing and developing fit-for-purpose staff, and the management team was restructured to facilitate the brand's growth forecasts.

Supply Chain

The Group's vertically integrated Supply Chain businesses, International Tap Distributors, Cedar Point and Distribution Centre, underpin the retail brand operations and enhance customer service through continuous and consistent availability of the right product at the right time and place. Each of these businesses reported increased turnover and profitability, reflecting improved sales to the store network across the brand portfolio. In light of the weaker currency, margin pressure was experienced as a result of the deliberate strategy to limit average price increases to support the competitive offering in-store.

Investment in associates

Ceramic Industries (Pty) Ltd ("Ceramic")

Ceramic is Italtile's primary supplier of tiles, sanitaryware and baths. The strategic 20% investment which the Group holds in this business serves to provide tactical advantage and underpin its growth programme.

In the year under review Ceramic increased its contribution to Group profit to R55 million from R24 million in the prior period. This strong improvement is attributable to higher production volumes, supported by Rand weakness, which led to better capacity utilisation and enhanced efficiencies. In addition, improved margins were achieved through price recovery and intensified management of input costs.

Ceramic's new plant, Gryphon, is scheduled to commence manufacturing in November 2015. The factory will produce large format glazed porcelain tiles which will compete favourably with imported product.

Ezeetile

The Group holds an effective 46% stake in Ezeetile, a national manufacturer of grout, adhesive and related products. Following an extensive organisation-wide restructuring programme, the operation made progress in achieving enhanced efficiencies in the factories and gaining market share. For the year under review, the business contributed R7 million (2014: R5 million) to Group profits.

Property investment portfolio

This division has strategic advantage for the Group's retail operations through ensuring that the brands are represented by well-maintained stores situated on highly visible, accessible sites. Management's goal to deliver an optimal shopping experience for customers is advanced through this division's continuous evaluation and enhancement of its property portfolio. As at 30 June 2015 the portfolio had an estimated market value of R2,0 billion (2014: R1,9 billion). During the review period R157 million (2014: R96 million) was invested in an ongoing store upgrade programme and the acquisition of four properties. Eleven new TopT stores were opened and nine stores across all brands were renovated.

Management's strategy to introduce flexibility to the CTM store size format is underway, designed to ensure that new stores are optimally aligned with their specific market size, and affording the brands the opportunity to extend their presence in new, smaller non-traditional markets where they are currently under-represented. A pipeline of sites has been secured which will ensure that the Group's three-year expansion plan is on track.

The Group also owns and manages a small portfolio of retail properties in Australia, which are leased out. During the period one of the five owned properties was sold. A net loss of R3 million (AUD360 000) was made on the sale, reflecting the weak state of the commercial property market in that country. The carrying value of the balance of the portfolio is R97 million (2014: R129 million).

Staff Share Scheme

The Group's equity-settled Staff Share Scheme is designed to incentivise employees to participate in the growth and profitability of the business. During the reporting period a second allotment of 3,6 million shares (2014: first allotment of 15,0 million shares) was made to 171 eligible local and foreign employees of the Group and franchisees (2014: 499 eligible local employees).

Prospects

The trading environment is likely to remain largely unchanged. In the event of further Rand weakness, continued rationalisation, especially amongst smaller independent traders, is anticipated.

If prevailing conditions do not deteriorate further and the Group succeeds in capitalising on the growth opportunities which exist in the business and the market place, Italtile

Commentary continued

should deliver results in line with its current performance in the next reporting period.

The opportunities for growth are internal and external:

- The Business Optimisation Programme will be rolled out to the retail brand operations. Further investment will be made in systems, technology and human resources to achieve the programme's goals; it is anticipated that full implementation of this intervention will take up to three years.
- In the light of sustained demand for the Group's offering and steady growth in market share in traditional and new markets, the business will continue to expand its retail footprint across all three brands. The pace of this programme will be determined by availability of suitable sites and franchisees.

Subsequent events

No events, other than those disclosed in note 4 to the condensed financial information, have occurred subsequent to the reporting period that require any additional disclosures or adjustments.

Cash dividend

The Group has maintained its dividend cover of three times. The Board has declared a final gross cash dividend of 13,0 cents per share (2014: 10,0 cents per share), which together with the interim gross cash dividend of 12,0 cents per share (2014: 9,0 cents per share), produces a total gross cash dividend declared for the year ended 30 June 2015 of 25,0 cents per share (2014: 19,0 cents per share), an increase of 32%.

Dividend announcement

The Board has declared a final gross cash dividend (number 98) for the year ended 30 June 2015 of 13,0 cents per ordinary share to all shareholders recorded in the books of Italtile as at the record date of Friday, 18 September 2015.

In accordance with paragraphs 11.17(a)(i) to (x) and 11.17(c) of the JSE Listings Requirements, the following additional information is provided:

- The dividend has been declared out of income reserves.
- The local Dividend Withholding Tax rate is 15% (fifteen percent).
- The gross local dividend amount is 13,00000 cents per share for shareholders exempt from the dividends tax.
- The net local dividend amount is 11,05000 cents per share for shareholders liable to pay the dividends tax.
- The local Dividend Withholding Tax amount is 1,95000 cents per share for shareholders liable to pay the dividends tax.
- Italtile's income tax reference number is 9050182717.
- The Group has 1 033 332 822 shares in issue including 21 078 846 shares held by the Italtile Share Incentive Trust and 88 000 000 shares held as BEE treasury shares.

Timetable for cash dividend

The cash dividend timetable is structured as follows: the last day to trade cum dividend in order to participate in the dividend will be Friday, 11 September 2015. The shares will commence trading ex dividend from the commencement of business on Monday, 14 September 2015 and the record date will be Friday, 18 September 2015. The dividend will be paid on Monday, 21 September 2015. Share certificates may not be rematerialised or dematerialised between Monday, 14 September 2015 and Friday, 18 September 2015, both days inclusive.

The full Reviewed Group Results Announcement has been released on SENS and is available for viewing on the company's website (www.italtile.com); furthermore, it is available for inspection at the registered offices of Italtile and the sponsors Merchantec Capital during business hours. Copies of the full announcement are available at no cost on request and may be obtained from the Company Secretary who is contactable on: +27 11 882 8200 or: liz@rootginger.co.za.

For and on behalf of the Board

N Booth	B Wood
Chief Executive Officer	Chief Financial Officer

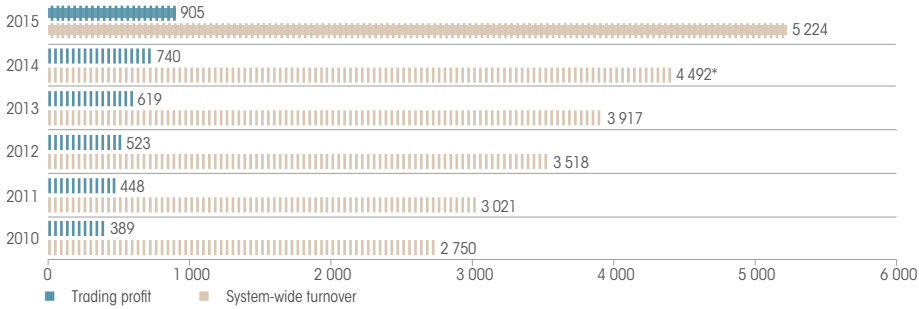
No forward looking statements in this announcement have been reviewed or reported on by the Group's auditors.

The Condensed Group Results Announcement for the year ended 30 June 2015 on pages 6 to 12 has been reviewed by Ernst & Young Inc. ("EY"). EY's unmodified review conclusion does not necessarily report on all of the information contained in this Condensed Group Results Announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of auditors' engagement, they should obtain a copy of EY's unmodified review opinion together with the accompanying financial information from the Company Secretary at the company's registered office.

Johannesburg

25 August 2015

System-wide turnover and trading profit* (Rand millions)



* Including discontinued operations.

System-wide turnover analysis

For the year ended 30 June 2015

(Rand millions unless otherwise stated)	% increase	**Reviewed year to 30 June 2015**	Audited year to 30 June 2014
GROUP AND FRANCHISED TURNOVER (CONTINUING OPERATIONS)			
– By Group owned stores and entities		**3 115**	2 714
– By franchise owned stores (unaudited)		**2 109**	1 747
Total	17	**5 224**	4 461

Store network

At 30 June 2015

Region	**2015** Franchise	**2015** Corporate	**2015** Total	2014 Franchise	2014 Corporate	2014 Total
South Africa						
– Italtile	**–**	**9***	**9**	–	8	8
– CTM	**32**	**34***	**66**	31	36*	67
– TopT	**29**	**6**	**35**	18	6	24
Rest of Africa	**10**	**6**	**16**	11	5	16
	71	**55**	**126**	60	55	115

*Includes web store.

Condensed Group statements of comprehensive income

For the year ended 30 June 2015

(Rand millions unless otherwise stated)	% increase	**Reviewed year to 30 June 2015**	Audited year to 30 June 2014
CONTINUING OPERATIONS			
Turnover		**3 115**	2 714
Cost of sales		**(1 911)**	(1 657)
Gross profit	14	**1 204**	1 057
Other operating income		**330**	245
Operating expenses		**(636)**	(560)
Profit on sale of property, plant and equipment		**7**	9
Trading profit	21	**905**	751
Financial revenue		**17**	11
Financial cost		**(6)**	(20)
Profit from associates – after tax		**62**	29
Profit before taxation from continuing operations	27	**978**	771
Taxation		**(247)**	(227)
Profit for the period from continuing operations	34	**731**	544
DISCONTINUED OPERATIONS			
(Loss)/profit after tax for the year from discontinued operations		**–**	(20)
Profit for the period	40	**731**	524
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation difference		**21**	9
Other comprehensive income from associates		**(3)**	3
Total comprehensive income for the period	40	**749**	536
Profit attributable to:			
– Equity shareholders		**700**	509
– Non-controlling interests		**31**	15
	40	**731**	524
Total comprehensive income attributable to:			
– Equity shareholders		**718**	521
– Non-controlling interests		**31**	15
	40	**749**	536
Earnings per share (all figures in cents):			
– Earnings per share	37	**75,9**	55,3
– Headline earnings per share	24	**71,6**	57,6
– Diluted earnings per share	37	**75,0**	54,7
– Diluted headline earnings per share	24	**70,8**	57,1
Earnings per share from continuing operations (all figures in cents):			
– Earnings per share	32	**75,9**	57,4
– Headline earnings per share	22	**71,6**	58,7
– Diluted earnings per share	32	**75,0**	56,9
– Diluted headline earnings per share	22	**70,8**	58,1
– Dividends per share	32	**25,0**	19,0

Condensed Group statements of financial position

As at 30 June 2015

(Rand millions unless otherwise stated)	Reviewed year to 30 June 2015	Audited year to 30 June 2014
ASSETS		
Non-current assets	**2 023**	1 856
Property, plant and equipment	**1 296**	1 296
Investment property	**97**	–
Investments in associates	**591**	522
Long-term assets	**15**	14
Goodwill	**6**	6
Deferred taxation	**18**	18
Current assets	**1 079**	857
Inventories	**479**	408
Trade and other receivables	**202**	169
Cash and cash equivalents	**392**	249
Taxation receivable	**6**	31
Total assets	**3 102**	2 713
EQUITY AND LIABILITIES		
Share capital and reserves	**2 734**	2 230
Stated capital	**818**	818
Non-distributable reserves	**89**	102
Treasury shares	**(461)**	(472)
Share option reserve	**72**	55
Retained earnings	**2 154**	1 676
Non-controlling interests	**62**	51
Non-current liabilities	**44**	12
Interest-bearing loans	**29**	–
Deferred taxation	**15**	12
Current liabilities	**324**	471
Trade and other payables	**277**	261
Provisions	**43**	43
Interest-bearing loans	**–**	165
Taxation	**4**	2
Total equity and liabilities	**3 102**	2 713
Net asset value per share (cents)	**296**	242

Condensed statement of changes in equity

For the year ended 30 June 2015

(Rand millions unless otherwise stated)	Stated capital	Non-distributable reserves	Treasury shares	Share option reserve	Retained earnings	Total	Non-controlling interest	Total equity
BALANCE AT 30 JUNE 2013	818	93	(474)	36	1 774	2 247	54	2 301
Profit for the year					509	509	15	524
Other comprehensive income for the year		12				12		12
Total comprehensive income for the year	–	12	–	–	509	521	15	536
Transfer of reserves		(9)			9	–		–
Dividends paid					(618)	(618)	(13)	(631)
Discontinued operations		6				6	5	11
Repurchase of non-controlling interest in subsidiary						–	(10)	(10)
Share incentive costs (including vesting settlement)			2	19	2	23		23
BALANCE AT 30 JUNE 2014	**818**	**102**	**(472)**	**55**	**1 676**	**2 179**	**51**	**2 230**
Profit for the year					**700**	**700**	**31**	**731**
Other comprehensive income for the year		**18**				**18**		**18**
Total comprehensive income for the year	**–**	**18**	**–**	**–**	**700**	**718**	**31**	**749**
Dividends paid					**(204)**	**(204)**	**(8)**	**(212)**
Subsidiary transactions		**(31)**			**(9)**	**(40)**		**(40)**
Repurchase of non-controlling interest in subsidiary						**–**	**(12)**	**(12)**
Share incentive costs (including vesting settlement)			**11**	**17**	**(9)**	**19**		**19**
BALANCE AT 30 JUNE 2015	**818**	**89**	**(461)**	**72**	**2 154**	**2 672**	**62**	**2 734**

Condensed Group cash flow statement

For the year ended 30 June 2015

(Rand millions unless otherwise stated)	Reviewed year to 30 June 2015	Audited year to 30 June 2014
Cash flow from operating activities	**443**	(127)
Cash flow from investing activities	**(175)**	(50)
Cash flow from financing activities	**(125)**	123
Net movement in cash and cash equivalents for the year	**143**	(54)
Cash and cash equivalents at the beginning of the year	**249**	303
Cash and cash equivalents at the end of the year	**392**	249

Segmental report

For the year ended 30 June 2015

(Rand millions unless otherwise stated)	Turnover			Gross margin			Net profit before tax		
	June 2015	June 2014	% change	**June 2015**	June 2014	% change	**June 2015**	June 2014	% change
Retail*	**4 650**	3 996	16	**904**	812	11	**232**	199	17
Franchising							**190**	148	28
Properties							**223**	179	25
Supply and Support Services	**1 638**	1 337	23	**143**	127	13	**276**	236	17
Associates							**62**	29	114
Total	**6 288**	5 333	18	**1 047**	939	12	**983**	791	24
Franchise stores#	**(2 109)**	(1 747)	21						
Consolidation entries	**(1 064)**	(872)	22	**(5)**	(20)	(75)	**(5)**	(20)	(75)
Total continuing operations	**3 115**	2 714	15	**1 042**	919	13	**978**	771	27
Discontinued operations	**–**	31	(100)	**–**	11	(100)	**–**	(12)	(100)
Total Group	**3 115**	2 745	13	**1 042**	930	12	**978**	759	29

** Includes unaudited franchise stores turnover.*

 # Unaudited.

Geographical analysis

(Rand millions unless otherwise stated)	South Africa	Rest of Africa	Other*	Inter-group entities	Group	Dis-continued operations
YEAR ENDED 30 JUNE 2015						
Turnover	**3 863**	**246**	**70**	**(1 064)**	**3 115**	**–**
Non-current assets	**2 461**	**92**	**97**	**(645)**	**2 005**	**–**
YEAR ENDED 30 JUNE 2014						
Turnover	3 319	197	70	(872)	2 714	31
Non-current assets	2 303	87	143	(695)	1 838	–

**Australia and Italy.*

As a result of the change in the executive and the chief operating decision maker, the Group has updated the disclosures of the previously aggregated segments to align with the information reviewed by them regularly for the purpose of allocating resources. The Group now discloses two additional segments, Associates and Franchise Stores, which had previously not been included in the segmental report. The prior year segmental reporting has been restated and is presented above.

Notes

1. Basis of preparation and changes in accounting policy

Basis of preparation

The Preliminary Condensed Consolidated Financial Statements for the year ended 30 June 2015 have been prepared in accordance with IAS 34 Interim Financial Reporting, the Companies Act, 2008 (Act 71 of 2008), as amended, the SAICA Financial Reporting Guides, as issued by the Financial Reporting Standards Council and the Listings Requirements of the JSE. The Condensed Consolidated Financial Statements do not include all information on disclosures required in the Annual Financial Statements and should be read in conjunction with the Group's Annual Financial Statements as at 30 June 2015. These results have been prepared under the supervision of Chief Financial Officer, Mr B Wood CA(SA).

New standards, interpretations and amendments adopted

The accounting policies adopted and methods of computation are in terms of International Financial Reporting Standards ("IFRS") and consistent with those of the previous financial year except for the adoption of new and amended IFRS and IFRIC interpretations which became effective during the current financial year. The application of these standards and interpretations did not have a significant impact on the Group's reported results and cash flows for the year ended 30 June 2015 and the financial position at 30 June 2015.

2. Commitments and contingencies

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

There are no material contingent assets or liabilities at 30 June 2015 in addition to the above.

(Rand millions)	**30 June 2015**	30 June 2014
Capital commitments		
– Contracted	**176**	68
– Authorised but not contracted for	**197**	107
Total	**373**	175

3. Fair values of financial instruments

The Group does not fair value its financial assets or liabilities in accordance with quoted prices in active markets or market observables, as there is no difference between their fair value and carrying value due to the short-term nature of these items, and/or existing terms are equivalent to market observables. There were no transfers into or out of Level 3 during the period.

4. TopT Ceramics Proprietary Limited

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 in the current period. A new business partner has been identified during the current period and subsequent to the financial year end, the Group sold a 10% stake in this entity to the business partner. This stake was sold at a cost of R7 million, and reduces the Group's interest in this entity to 90%.

5. Italtile Mauritius Limited

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

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

6. SER-Export s.p.a.

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

The carrying value of the identifiable assets and liabilities of SER-Export s.p.a. as at the date of disposal was:

	Rand millions
ASSETS	
Property, plant and equipment	7
Investments	8
Inventories	1
Trade and other receivables	24
Cash and cash equivalents	16
	56
LIABILITIES	
Trade and other payables	24
Total identifiable net assets	32
The gain on disposal is calculated as follows:	
Consideration received	13
Fair value of residual value of investment	19
Foreign currency translation reserve	14
Less: Net assets disposed	(32)
Total gain on disposal	14

R12 million of the gain has been realised on the disposal (R2 million remains unrealised).

7. Discontinued operations

The Group disposed of the following non-core businesses in the prior period:

– Cladding Finance Proprietary Limited – the entity used to extend and manage credit to the contractors market;

– The seven store CTM retail operation in Australia; and

– Allmuss Properties Zambia Limited – a property holding company.

The results of these businesses were thus recorded as discontinued operations in the comparative period. 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 operation 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 taxation assets totalling R8 million, also included in the discontinued operations results in the prior comparative period.

8. Reclassification of Australian property

Given that the Group's property in Australia is now leased to third parties, it has been reclassified from property, plant and equipment to investment property. The carrying value of this property is determined using the cost model per IAS 40, Investment Property, and was R97 million at 30 June 2015.

Notes continued

9. Staff Share Scheme

During the prior comparative period, the Group implemented a share incentive scheme for all employees of the Group and its franchisees that had been in the employ of the Group and/or franchise network for a period of three uninterrupted years at each allotment date in August every year from the implementation date. As a result, 14,5 million of the Group's shares net of forfeitures were held by qualifying staff members at 30 June 2015 (2014: 12,6 million). Until vesting, the shares will continue to be accounted for as treasury shares and have an impact on the diluted weighted average number of shares.

The scheme is classified as an equity settled scheme in terms of IFRS 2 Share-based Payment, and has resulted in a charge of R12 million (2014: R17 million) to the Group's income; R7 million (2014: R11 million) of this charge is an accelerated expense for franchise staff.

	Reviewed year to 30 June 2015	Audited year to 30 June 2014
10. Earnings per share		
Reconciliation of shares in issue (all figures in millions):		
– Total number of shares issued	**1 033**	1 033
– Shares held by Share Incentive Trust	**(21)**	(24)
– BEE treasury shares	**(88)**	(88)
Shares in issue to external parties	**924**	921
Reconciliation of share numbers used for earnings per share calculations (all figures in millions):		
Weighted average number of shares	**923**	921
– Dilution effect of share awards	**11**	8
Diluted weighted average number of shares	**934**	929
Reconciliation of headline earnings (Rand millions):		
– Profit attributable to equity shareholders	**700**	509
– Profit on sale of property, plant and equipment	**(6)**	(8)
– Impairment of Australian property, plant and equipment	**–**	29
– Fair value gain on SER-Export part disposal	**(14)**	–
– Reclassification of exchange difference to income	**(19)**	–
Headline earnings	**661**	530
Reconciliation of headline earnings for continuing operations (Rand millions):		
– Profit attributable to equity shareholders	**700**	529
– Profit on sale of property, plant and equipment	**(6)**	(8)
– Impairment of Australian property, plant and equipment	**–**	20
– Fair value gain on SER-Export s.p.a. part disposal	**(14)**	–
– Reclassification of exchange difference to income	**(19)**	–
Headline earnings	**661**	541

No adjustments to earnings are required for diluted earning per share calculations, as the share awards do not have an impact on diluted earnings.

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