31. EMPLOYEE BENEFITS

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

The financial position of the Alexander Forbes Retirement Fund (Provident Section): Italtile Limited is currently reviewed on a monthly basis. As at 30 June 2017, the Fund was found to be in a sound financial position.

At 30 June 2017, 1 538 (2016: 1 500) employees of the Group and Franchisees were members of the Fund, to which the Group and Franchisees contributed R33 million (2016: R28 million) and the employees Rnil (2016: Rnil).

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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Group

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

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

Company

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

The main risk arising from the Company's financial instruments are cash flow interest rate risk, liquidity risk, and credit risk. The Board 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. Fair values are all based on Level 3 input, except cash which is Level 2.

Interest rate risk

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

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

Notes to the financial statements continued

for the year ended 30 June 2017

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

Group

At the end of the financial year, the Group did not have loan financing liabilities on its statement of financial position. 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	2017 Rm's	2016 Rm's
+1%	#	3
–1%	(#)	(3)

Company

The Company is not sensitive to fluctuations in interest rates.

Foreign currency risk

Group

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

Approximately 11% (2016: 13%) of cost of sales are denominated in the currencies other than the Group's functional currency. The Group requires all of its operating units to use forward currency contracts to eliminate the currency exposures on any individual transaction for which payment is anticipated on terms after the Group has entered into a firm commitment for a purchase, for which no letter of credit has been issued. The forward currency contracts must be in the same currency as the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

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

Forward exchange contracts outstanding at the reporting date all fall due within three months (2016: two months), have a settlement value of R5 million (2016: R17 million) and are denominated in Euro, Chinese Yuan and US Dollar with average exchange rates of R14,79:€1, R1,90:CNY1 and R12,99: US$1 (2016: R17,33:€1 and R14,88:US$1).

Exchange rates utilised to convert financial information are as follows:

	2017		2016	
	Weighted average rate for the year	Closing rate	Weighted average rate for the year	Closing rate
ZAR: Australian Dollar	**10,61:1**	**—**	10,67:1	10,99:1
ZAR: Botswana Pula	**1,29:1**	**1,26:1**	1,34:1	1,33:1
ZAR: Euro	**14,93:1**	**15,11:1**	14,11:1	16,44:1
ZAR: Kenyan Shilling	**0,13:1**	**0,12:1**	0,14:1	0,14:1

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

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

	South African Rand Rm's	Australian Dollar Rm's	Other* Rm's	Total Rm's
2017				
Financial assets				
Trade and other receivables – before impairments	**247**	**—**	**66**	**313**
Cash and cash equivalents	**432**	**—**	**79**	**511**
Financial liabilities				
Interest-bearing loans and borrowings	**—**	**—**	**—**	**—**
Trade and other payables	**146**	**—**	**158**	**304**
2016				
Financial assets				
Trade and other receivables – before impairments	294	4	22	320
Cash and cash equivalents	260	—	87	347
Financial liabilities				
Interest-bearing loans and borrowings	#	—	—	#
Trade and other payables	248	—	81	329

* *Other includes the Botswana Pula, Kenyan Shilling, Namibian Dollar, Zambian Kwacha and the Lesotho Loti.*
\# *Less than R1 million.*

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

Group	2017 Rm's	2016 Rm's
Net profit before tax		
+10%	**2**	2
–10%	**(2)**	(2)
Foreign currency translation reserve		
+10%	**2**	(2)
–10%	**(2)**	2

Company

The Company has no exposure to foreign currency risk.

Credit risk

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

Group

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

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

Notes to the financial statements continued

for the year ended 30 June 2017

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Company

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

Liquidity risk

Group

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

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

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

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

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

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

	On demand Rm's	Less than 3 months Rm's	3 to 12 months Rm's	1 to 5 years Rm's	> 5 years Rm's	Total Rm's
Year ended 30 June 2017						
Interest-bearing loans and borrowings	—	—	—	—	—	—
Trade and other payables	—	**304**	—	—	—	—
	—	**304**	—	—	—	—
Year ended 30 June 2016						
Interest-bearing loans and borrowings	—	—	—	#	—	#
Trade and other payables	—	329	—	—	—	329
	—	329	—	#	—	329

 # Less than R1 million.

The Group has cash and cash equivalents of R511 million (2016: R347 million), and unutilised credit facilities of R80 million (2016: R80 million) in respect of which all conditions precedent had been met.

Company

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

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

The Company has cash and cash equivalents of R3 million (2016: R2 million), and no credit facilities. All liabilities are current.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

Group

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

The Group manages its capital structure (equity attributable to the equity holders) and makes adjustments to it, in light of changes in economic conditions.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes during the years ended 30 June 2017 and 2016.

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.

	2017 Rm's	2016 Rm's
Interest-bearing debt and borrowings	—	#
Equity attributable to the equity holders of the parent	**3 713**	3 292
Gearing ratio (%)	**0,0**	0,0

 # Less than R1 million.

In addition, consideration is given to Black Economic Empowerment, or BEE. The Group finalised a BEE transaction to sell 10,7% of the Group's ordinary share capital to a BEE consortium which includes Italtile's black staff. All conditions precedent were met on 22 February 2008 and 88 000 000 ordinary shares were issued. The BEE transaction fulfils an important component of Italtile's BEE strategy which was initiated with enterprise development and the introduction of black-owned franchisees, following which the Group met all its employment equity targets. With the achievement of these key elements of broad-based BEE, the Group is now well positioned to access segments of the market from which it was previously precluded.

Refer to note 6 for disclosure relating to the modification of the BEE transaction.

Company

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

The Company manages its capital structure (equity attributable to the equity holders) and makes adjustments to it, in light of changes in economic conditions.

To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes during the years ended 30 June 2017 and 2016.

The Company monitors capital using liquidity ratio analysis:

	2017 Rm's	2016 Rm's
Current assets (excluding loans to subsidiaries)	**3**	2
Current liabilities (excluding loans from subsidiaries)	**1**	2
Current ratio (times)	**3**	1

 # Less than R1 million.

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