# PRELIMINARY PROFIT ANNOUNCEMENT, REVIEWED GROUP RESULTS

FOR THE YEAR ENDED 30 JUNE 2016
AND DIVIDEND DECLARATION

System-wide turnover

R5,96 billion

– 2015: R5,22 billion –

Trading profit

R1 047 million

– 2015: R905 million –

Earnings per share

87,8 cents

– 2015: 75,9 cents –

Total ordinary dividend per share

29 cents

– 2015: 25 cents –

## 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.

# Commentary

## Overview for the year ended 30 June 2016

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 146 stores in Southern and East Africa. The brand offering targets homeowners across the LSM categories 4 to 10.

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

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

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

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

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

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

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

## Trading environment

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

Across the industry, competitor activity intensified, featuring aggressive pricing and promotions as traders sought to retain market share. Currency volatility and cash flow constraints led to further rationalisation of less established operators. In this context, the Group benefited from its solid balance sheet and integrated Supply Chain which ensured consistent availability of high-quality reputable brands and stable pricing.

## Results

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

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

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

## Financial highlights

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

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

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

Earnings growth includes the impact of the following:

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

# Commentary continued

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

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

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

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

## Operational review

### Retail brands

Improved performances were reported by the Group's retail operation, comprising Italtile Retail, CTM and TopT, with each brand recording double-digit sales growth and a gain in market share across its trading regions and merchandise categories.

*Italtile Retail*

Italtile Retail grew sales and profits. These results were primarily attributable to improved responsiveness to customer demand with the extension of the bathroom accessories, furniture and cladding categories, as well as wider ranges of highly fashionable large format tiles. The brand continued to benefit from its status as a purveyor of environmentally sensitive brassware (Tivoli and Idral) and sanitaryware (Laufen) products.

Margins remained stable as a function of an improved product/price matrix, enhanced efficiencies and intensified cost containment measures.

During the period, two new-generation stores were opened – in Northriding and Waterfall (Gauteng), and the Somerset West (Western Cape) store was comprehensively rebuilt. These stores showcase the brand's improved retail formula in terms of customer-centricity, and entrench Italtile's standing as the leading trendsetter in the home improvement market. All three stores have been well received, and served to drive sales and market share gain during the period.

The brand's e-commerce web store, launched in 2015, continued to be upgraded to meet increased demand from customers as the offering gained traction, while the bespoke online I-Spec application, designed to develop unique specifications for individual projects, grew its appeal with clients, demonstrating the strategic value this tool has for the business.

*CTM*

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

The brand recorded an improved quarter-on-quarter performance, with a strong final quarter. Results for the year reflect good organic sales growth and an increase in profits. The average basket grew in value, although margins declined very slightly, primarily a function of the deliberate strategy to retain key price points in the tile category to anchor the brand's competitive value positioning.

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

Three new stores were launched, in Mitchells Plain (Western Cape), Hazyview (Mpumalanga) and Waterfall (Gauteng) during the year. The Waterfall flagship "Millennial" store is a new generation concept, which while retaining CTM's heritage, features a more contemporary design and customer-centric technology aimed at improving the shopping experience.

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

*TopT*

TopT opened 15 new stores, to bring the total network to 50 stores and extend the brand's footprint to eight provinces across the country.

Turnover and profit increased in line with targets, and margins improved slightly as a function of an enhanced product/price mix. The brand gained market share in both its existing and new markets, attracting a wider audience of consumers based on its improved range and growing appeal to a new segment of cost-conscious shoppers seeking quality value offerings in the difficult economic climate.

Other factors underpinning the brand's growth is its focus on delivering consistent, large volumes of affordable, aspirational and accessible products in a market segment that has traditionally been informal, costly and poorly organised, as well as its flexibility to adapt to new home improvement trends by introducing innovative products and categories as demand emerges.

Fifteen stores are planned for opening in the forthcoming financial year in order to extend the brand's network in the Free State and establish a footprint in the Western Cape.

### Supply Chain

The Group's vertically integrated Supply Chain performs a key strategic support function for the retail brand operations through ensuring consistent availability of the right product at the right time, place and price. The Supply Chain's component businesses are: International Tap Distributors (importer of brassware and accessories), Cedar Point (importer of laminate flooring, bathroom furniture, shower enclosures, decor and other home-finishing products) and Distribution Centre (importer of polished and glazed porcelain). Each of these businesses reported increased sales and profitability, driven by strong demand from the store network across the retail brands. In the context of currency volatility, a tactical decision was taken to contain price increases to support the Group's competitive offering, which created margin pressure.

## Investment in associates

**Ceramic Industries**

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

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

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

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

**Offer to acquire shares in Ceramic**

Further to the SENS announcements published on 8 April 2016, 26 April 2016, 9 June 2016 and 20 July 2016, Italtile submitted a binding offer on 15 July 2016 to Ceramic, to acquire up to a further 73,5% of the company's issued share capital ("the Acquisition"). The balance of 6,5% comprises treasury shares held by National Ceramic Industries South Africa and a subsidiary of Italtile.

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

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

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

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

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

The matter is tabled for discussion at the general meeting to be held on 21 September 2016.

**Ezee Tile**

The Group holds an effective 46% stake in Ezee Tile, a national manufacturer of grout, adhesive and related products. As noted above, a consequence of Italtile acquiring Ceramic will be an increase of the Group's total effective holding in Ezee Tile to 68,95%.

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

## Property investment portfolio

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

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

As at 30 June 2016, the portfolio had an estimated market value of R2,4 billion (2015: R2,0 billion). In the year under review, R284 million (2015: R164 million) was invested in an ongoing store upgrade programme and the acquisition of seven properties. Across the Group, 20 new stores were opened, comprising 15 new TopTs, three CTMs and two Italtile Retail stores.

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

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

## 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, an allotment of 3,1 million shares (2015: 3,6 million shares) was allocated to 161 eligible employees of the Group and franchisees (2015: 171 employees).

# Commentary continued

## Prospects

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

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

In this regard, the following priorities have been identified:

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

## Subsequent events

No events, other than those disclosed in the notes 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 15,0 cents per share (2015: 13,0 cents per share), which together with the interim gross cash dividend of 14,0 cents per share (2015: 12,0 cents per share), produces a total gross cash dividend declared for the year ended 30 June 2016 of 29,0 cents per share (2015: 25,0 cents per share), an increase of 16%.

## Dividend announcement

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

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 15,00000 cents per share for shareholders exempt from the dividends tax.
- The net local dividend amount is 12,75000 cents per share for shareholders liable to pay the dividends tax.
- The local Dividend Withholding Tax amount is 2,25000 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 19 533 492 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 Tuesday, 13 September 2016. The shares will commence trading ex-dividend from the commencement of business on Wednesday, 14 September 2016 and the record date will be Friday, 16 September 2016. The dividend will be paid on Monday, 19 September 2016. Share certificates may not be rematerialised or dematerialised between Wednesday, 14 September 2016 and Friday, 16 September 2016, 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 Sponsor 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**
Chief Executive Officer

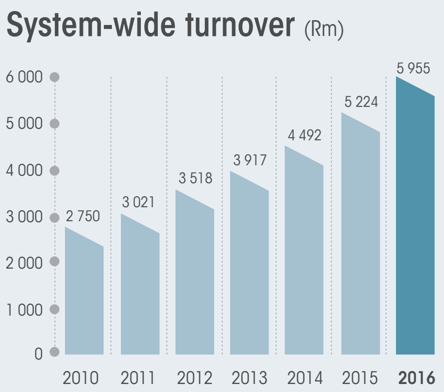
**B Wood**
Chief Financial Officer

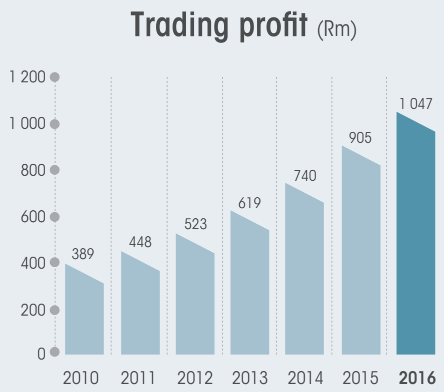
No forward looking statements in this announcement have been reviewed or reported on by the Group's auditors.

The Condensed Group Results Announcement for the year ended 30 June 2016 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

24 August 2016




## System-wide turnover analysis

For the year ended 30 June 2016

| (Rand millions unless otherwise stated) | % increase | Reviewed year to 30 June 2016 | Audited year to 30 June 2015 |
|---|---|---|---|
| **Group and franchised turnover** | | | |
| – By Group owned stores and entities | | **3 539** | 3 115 |
| – By franchise owned stores (unaudited) | | **2 416** | 2 109 |
| **Total** | 14 | **5 955** | 5 224 |

## Store network

At 30 June 2016

| Region | 2016 Franchise | 2016 Corporate | 2016 Total | 2015 Franchise | 2015 Corporate | 2015 Total |
|---|---|---|---|---|---|---|
| South Africa | | | | | | |
| – Italtile | **–** | **11*** | **11** | – | 9* | 9 |
| – CTM | **28** | **41*** | **69** | 32 | 34* | 66 |
| – TopT | **37** | **13** | **50** | 29 | 6 | 35 |
| Rest of Africa | **9** | **7*** | **16** | 10 | 6 | 16 |
| | **74** | **72** | **146** | 71 | 55 | 126 |

*Includes web store.*

# Condensed Group statements of comprehensive income

For the year ended 30 June 2016

| (Rand millions unless otherwise stated) | % increase | Reviewed year to 30 June 2016 | Audited year to 30 June 2015 |
|---|---|---|---|
| Turnover | | 3 539 | 3 115 |
| Cost of sales | | (2 117) | (1 911) |
| Gross profit | 18 | 1 422 | 1 204 |
| Other operating income | | 342 | 330 |
| Operating expenses | | (728) | (636) |
| Profit on sale of property, plant and equipment | | 11 | 7 |
| Trading profit | 16 | 1 047 | 905 |
| Financial income | | 25 | 17 |
| Financial cost | | (2) | (6) |
| Profit from associates – after tax | | 96 | 62 |
| Profit before taxation | 19 | 1 166 | 978 |
| Taxation | | (315) | (247) |
| **Profit for the year** | 16 | 851 | 731 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Foreign currency translation difference | | 25 | 21 |
| Other comprehensive income/(loss) from associates | | 8 | (3) |
| **Total comprehensive income for the year** | 18 | 884 | 749 |
| **Profit attributable to:** | | | |
| – Equity shareholders | | 813 | 700 |
| – Non-controlling interests | | 38 | 31 |
| | 16 | 851 | 731 |
| **Total comprehensive income attributable to:** | | | |
| – Equity shareholders | | 846 | 718 |
| – Non-controlling interests | | 38 | 31 |
| | 18 | 884 | 749 |
| **Earnings per share (all figures in cents):** | | | |
| – Earnings per share | 16 | 87,8 | 75,9 |
| – Headline earnings per share | 21 | 86,9 | 71,6 |
| – Diluted earnings per share | 15 | 86,4 | 75,0 |
| – Diluted headline earnings per share | 21 | 85,5 | 70,8 |

# Condensed Group statements of financial position

As at 30 June 2016

| (Rand millions unless otherwise stated) | **Reviewed year to 30 June 2016** | Audited year to 30 June 2015 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | **2 309** | 2 023 |
| Property, plant and equipment | **1 594** | 1 296 |
| Investment property | **–** | 97 |
| Investment in associates | **674** | 591 |
| Long-term assets | **15** | 15 |
| Goodwill | **6** | 6 |
| Deferred taxation | **20** | 18 |
| **Current assets** | **1 365** | 1 079 |
| Inventories | **693** | 479 |
| Trade and other receivables | **306** | 202 |
| Cash and cash equivalents | **347** | 392 |
| Taxation receivable | **19** | 6 |
| Assets held in disposal group | **116** | – |
| **Total assets** | **3 790** | 3 102 |
| **EQUITY AND LIABILITIES** | | |
| **Share capital and reserves** | **3 353** | 2 734 |
| Stated capital | **818** | 818 |
| Non-distributable reserves | **122** | 89 |
| Treasury shares | **(454)** | (461) |
| Share option reserve | **95** | 72 |
| Retained earnings | **2 711** | 2 154 |
| Non-controlling interests | **61** | 62 |
| **Non-current liabilities** | **18** | 44 |
| Interest-bearing loans | **–** | 29 |
| Deferred taxation | **18** | 15 |
| **Current liabilities** | **384** | 324 |
| Trade and other payables | **329** | 277 |
| Provisions | **53** | 43 |
| Interest-bearing loans | ***** | – |
| Taxation payable | **2** | 4 |
| Liabilities directly associated with assets held in disposal group | **35** | |
| **Total equity and liabilities** | **3 790** | 3 102 |
| Net asset value per share (cents) | **362** | 296 |

** Less than R1 million.*

# Condensed Group statement of changes in equity

For the year ended 30 June 2016

| (Rand millions unless otherwise stated) | Stated capital | Non-distri-butable reserves | Treasury shares | Share option reserve | Retained earnings | Total | Non-con-trolling interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| **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) |
| Transactions with non-controlling interests | | | | | | – | (12) | (12) |
| Share incentive costs (including vesting settlement) | | | 11 | 17 | (9) | 19 | | 19 |
| **Balance at 30 June 2015** | **818** | **89** | **(461)** | **72** | **2 154** | **2 672** | **62** | **2 734** |
| Profit for the year | | | | | **813** | **813** | **38** | **851** |
| Other comprehensive income for the year | | **33** | | | | **33** | | **33** |
| Total comprehensive income for the year | **–** | **33** | **–** | **–** | **813** | **846** | **38** | **884** |
| Dividends paid | | | | | **(252)** | **(252)** | **(27)** | **(279)** |
| Transactions with non-controlling interests | | | | | **(7)** | **(7)** | **(12)** | **(19)** |
| Share incentive costs (including vesting settlement) | | | **7** | **23** | **3** | **33** | | **33** |
| **Balance at 30 June 2016** | **818** | **122** | **(454)** | **95** | **2 711** | **3 292** | **61** | **3 353** |

# Condensed Group cash flow statement

For the year ended 30 June 2016

| (Rand millions unless otherwise stated) | Reviewed year to 30 June 2016 | Audited year to 30 June 2015 |
|---|---|---|
| Cash generated by operations | 892 | 864 |
| Dividend paid | (279) | (212) |
| Taxation paid | (330) | (220) |
| Other | 23 | 11 |
| **Cash flow from operating activities** | 306 | 443 |
| Additions to property, plant and equipment | (375) | (219) |
| Proceeds on disposal of property, plant and equipment | 15 | 49 |
| Increase in investments | 21 | 10 |
| Net changes of interests in subsidiaries | (19) | (14) |
| Other | – | (1) |
| **Cash flow from investing activities** | (358) | (175) |
| Decrease in loans and borrowings | – | (136) |
| Other | 7 | 11 |
| **Cash flow from financing activities** | 7 | (125) |
| Net movement in cash and cash equivalents for the year | (45) | 143 |
| Cash and cash equivalents at the beginning of the year | 392 | 249 |
| Cash and cash equivalents at the end of the year | 347 | 392 |

# Segmental report

For the year ended 30 June 2016

| (Rand millions unless otherwise stated) | Turnover | | | Gross margin | | | Net profit before tax | | |
|---|---|---|---|---|---|---|---|---|---|
| | **June 2016** | June 2015 | % change | **June 2016** | June 2015 | % change | **June 2016** | June 2015 | % change |
| Retail | **5 441** | 4 650 | 17 | **1 072** | 904 | 19 | **285** | 232 | 23 |
| Franchising | | | | | | | **200** | 190 | 5 |
| Properties | | | | | | | **249** | 223 | 12 |
| Supply and Support Services | **1 934** | 1 638 | 18 | **183** | 143 | 28 | **358** | 276 | 30 |
| Associates | | | | | | | **96** | 62 | 55 |
| **Total** | **7 375** | 6 288 | 17 | **1 255** | 1 047 | 20 | **1 188** | 983 | 21 |
| Franchise stores | **(2 416)** | (2 109) | 15 | | | | | | |
| Consolidation entries | **(1 420)** | (1 064) | 33 | **(22)** | (5) | 340 | **(22)** | (5) | 340 |
| **Total Group** | **3 539** | 3 115 | 14 | **1 233** | 1 042 | 18 | **1 166** | 978 | 19 |

**Geographical analysis**

| (Rand millions unless otherwise stated) | South Africa | Rest of Africa | Other* | Inter-group entries | Group | Disposal group |
|---|---|---|---|---|---|---|
| **Reviewed year to 30 June 2016** | | | | | | |
| Turnover | **4 562** | **397** | **–** | **(1 420)** | **3 539** | **–** |
| Non-current assets | **2 775** | **115** | **–** | **(601)** | **2 289** | **112** |
| **Audited year to 30 June 2015** | | | | | | |
| Turnover | 3 863 | 246 | 70 | (1 064) | 3 115 | – |
| Non-current assets | 2 461 | 92 | 97 | (645) | 2 005 | – |

* *Australia and Italy.*

With Italtile Australia Proprietary Limited being classified as a disposal group, the Australian properties are no longer presented in the "other" segment of the geographical analysis.

# 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 2016 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 Preliminary 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 2016. These financial 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 2016 and the financial position at 30 June 2016.

## 2. Commitments and contingencies

There are no material contingent assets or liabilities at 30 June 2016.

| (Rand millions) | 30 June 2016 | 30 June 2015 |
|---|---|---|
| **Capital commitments** | | |
| – Contracted | 42 | 176 |
| – Authorised but not contracted for | 239 | 197 |
| **Total** | 281 | 373 |

## 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 sold a 10% stake in TopT Ceramics Proprietary Limited at the beginning of the period under review to a new business partner identified during the previous financial year. This stake was sold at a cost of R7 million, and reduces the Group's interest in this entity to 90%.

## 5. Cedar Point Trading 326 Proprietary Limited

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

## 6. Assets held in disposal group

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

# Notes continued

## 7. Staff Share Scheme

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

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

| | Reviewed year to 30 June 2016 | Audited year to 30 June 2015 |
|---|---|---|
| **8. Earnings per share** | | |
| **Reconciliation of shares in issue (all figures in millions):** | | |
| – Total number of share issued | 1 033 | 1 033 |
| – Shares held by Share Incentive Trust | (19) | (21) |
| – BEE treasury shares | (88) | (88) |
| Shares in issue to external parties | 926 | 924 |
| **Reconciliation of share numbers used for earnings per share calculations (all figures in millions):** | | |
| Weighted average number of shares | 925 | 923 |
| – Dilution effect of share awards | 15 | 11 |
| Diluted weighted average number of shares | 940 | 934 |
| **Reconciliation of headline earnings (Rand millions):** | | |
| – Profit attributable to equity shareholders | 813 | 700 |
| – Profit on sale of property, plant and equipment – after taxation | (9) | (6) |
| – Fair value gain on SER-Export part disposal | – | (14) |
| – Reclassification of exchange difference to income | – | (19) |
| Headline earnings | 804 | 661 |

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

BASTION GRAPHICS

ITALTILE Limited

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