



**Reviewed condensed Group results for the
six months ended 31 December 2019
and dividend declaration**

HIGHLIGHTS



System-wide
turnover

R5,4 billion
2018: R5,3 billion

↑ 1%

Headline
earnings per share

55,3 cents
2018: 54,7 cents

↑ 1%

Trading
profit

R1 029 million
2018: R968 million

↑ 6%

Net asset value
per share

450 cents
2018: 453 cents

↓ 1%

Adjusted
headline
earnings per share

58,4 cents
2018: 54,7 cents

↑ 7%

Ordinary
dividend per share

23,0 cents
2018: 22,0 cents

↑ 5%

Earnings
per share

55,3 cents
2018: 55,4 cents

↔

Net cash

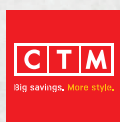
R702 million
2018: R1,0 billion

↓ 30%

Adjusted
earnings per share

58,4 cents
2018: 55,4 cents

↑ 5%



OVERVIEW

Italtile is a manufacturer, franchisor and retailer of tiles, bathroomware and other related home-finishing products. The Group's retail brands are CTM, Italtile Retail, TopT and U-Light, represented through a total network of 197 stores, including five online webstores. The brand offering targets homeowners across the LSM 4 to 10 categories.

The retail operation is strategically supported by a vertically integrated supply chain, comprising key manufacturing and import operations, and an extensive property portfolio.

The Group's dream is to become the best manufacturer and retailer of tiles, sanitaryware and ancillary products in Africa, by offering an unrivalled shopping experience through the strategy of ensuring the right product, at the right time, place and price.

The Group's results include the contribution of Ceramic Industries Proprietary Limited ("Ceramic"), in which the Group holds a 95,47% stake, and Ezee Tile Adhesive Manufacturers Proprietary Limited ("Ezee Tile"), in which the Group holds an effective 71,54% stake. Sales related to Ceramic and Ezee Tile are referred to as "manufacturing" sales to distinguish them from "retail" sales reported by Italtile's retail brands, namely CTM, Italtile Retail, TopT and U-Light.

TRADING ENVIRONMENT

The moribund state of the country continued to weigh heavily on consumer and business confidence, and investment sentiment remained subdued in the absence of transformational economic and socio-political reforms, continued policy uncertainty and an increasingly unstable power supply. For homeowners, household consumption expenditure remained severely constrained in the context of escalating living costs, limited wage inflation, high levels of personal debt, retrenchments and unprecedented unemployment rates.

In Q3 2019, the confidence level in the residential building segment experienced its biggest drop-off in 10 years, while severe pessimism regarding the non-residential building segment also persisted. In line with the trend in recent years, building activity in the sector was confined to the renovation segment as the new-build market stagnated further. Of concern was the continued

deterioration of the commercial projects market, which had been relatively robust over the past few years. This decline is further evidence of investors deferring expenditure in light of general uncertainty. It is anticipated that a wait-and-see approach will prevail until after the national budget is presented in late February, and pending any further potential sovereign credit rating downgrades which may follow.

Volatility continued to characterise the industry as increasing numbers of both large, listed construction companies and smaller independent building-related businesses failed or downscaled.

At a global level the tile market remained overstocked, which resulted in higher levels of imported product in South Africa as opportunistic wholesalers and traders sought new outlets for their products. Inevitably, this led to a degree of margin pressure in certain segments in the local market.

In the brassware and home-finishing products categories, sustained inefficiencies at the Durban port resulted in long delays in clearing imported freight. This situation was exacerbated by inconsistent supply from international manufacturers due to the reduction in capacity in certain factories and closure of others in the current economic downturn.

RESULTS

Despite the challenging operating environment, the Group reported solid results for the review period, reflecting the strength of its strategically structured resilient business model. In light of unfavourable trading conditions and weak consumer demand, management's key focus areas were to:

- **compete vigorously to win market share;**
- **increase productivity and extract efficiencies;**
- **entrench a performance-driven culture; and**
- **continue to invest across the business.**

The Group's system-wide turnover for the review period was R5,4 billion, 1,4% higher than the prior corresponding period (2018: R5,3 billion). System-wide turnover is defined as the aggregate of the Group's consolidated turnover (total sales by Group-owned entities and corporate stores, excluding sales from owned supply chain businesses to corporate stores) and the retail turnover of franchisees of the Group.

Revenue from Group-owned stores and entities was R3,8 billion (2018: R3,7 billion).

Total retail store turnover rose 4,5% for the review period compared to the previous corresponding period, with average selling price inflation estimated at 1,5%. Like-for-like retail store turnover growth of 1,7% was below management's benchmark. Retail store turnover is defined as the aggregate turnover of all stores, both corporate and franchised, in the Group's retail network.

Generally softer consumer demand and the overstock position of tile wholesalers in the industry impacted negatively on Ceramic's

sales, which were flat compared to the previous corresponding period. Ezee Tile succeeded in reversing the disappointing performance reported in the prior year as remedial operational measures took effect. This business delivered good sales growth of 7,3%, which contributed to the manufacturing division's total sales growth of 1,3%. Estimated average selling price inflation in the manufacturing division was 1,0% for the review period.

The Group's trading profit improved 6,3% to R1 029 million (2018: R968 million).

During the review period, average selling price increases in the retail operation were contained in the deliberate strategy to support price-sensitive consumers. Measures implemented during the six months will improve productivity and efficiencies, which should have a positive impact on retail margins in the second half of the year. In the supply chain, margins improved across the manufacturing and import businesses as a result of better efficiencies, supplier negotiations and range rationalisation.

The Group's adjusted basic earnings per share improved 5,5% to 58,4 cents (2018: 55,4 cents), while adjusted headline earnings per share grew 6,8% to 58,4 cents (2018: 54,7 cents). The basic earnings per share and headline earnings per share were adjusted for the once-off charge of R39 million related to the BBBEE transaction concluded with Yard Investment Holdings Proprietary Limited ("Yard") as announced on SENS on 10 September 2019.

The disparity between basic earnings and headline earnings growth is attributable to net profits of R12 million realised on the disposal of local properties during the prior year.

Inventory value, including the consolidated inventory balances of Ceramic and Ezee Tile, increased to R964 million (2018: R846 million).

Excluding the consolidated inventory balances of Ceramic and Ezee Tile, the Group's inventory balance was R673 million (2018: R556 million).

Higher inventory levels reflect the inclusion of the new U-Light operation, conversion of the CTM Tanzania business from franchised to company-owned stores, the late arrival of imported stock after the peak trading period, and weak demand in a generally overstocked tile market. Management is however satisfied with the quality of stock and the ratio of business-critical products, and is confident that stockholding levels will be normalised over the next six months. Like-on-like stockholding decreased by 2,0% for the review period compared to the previous corresponding period.

Capital expenditure of R340 million (2018: R306 million) was incurred during the review period, primarily on investments across the Group's retail properties and manufacturing plants.

The Group's cash balance was R702 million (2018: R1 010 million), including the consolidated cash balances of Ceramic and Ezee Tile, totalling R231 million (2018: R326 million).

Material cash outflows for the period include:

- capital expenditure of R340 million (2018: R306 million);
- tax payments of R263 million (2018: R299 million);
- share purchases by the Group and the Italtile and Ceramic Foundation Trust of R214 million (2018: R38 million); and
- dividend payments totalling R1 184 million (2018: R661 million) as follows:
 - ordinary and special dividend of R880 million; and
 - dividend relating to the Yard transaction of R304 million.

The Group's net asset value per share was 450 cents (2018: 453 cents).

BROAD-BASED BLACK ECONOMIC EMPOWERMENT (“BBBEE”) TRANSACTION

Shareholders are referred to the announcement published on SENS on 10 September 2019, in which it was advised that in accordance with Italtile's strategy of improving its BBBEE credentials and establishing a medium to long-term relationship with a BBBEE partner with international commercial experience relevant to the Group's business, the Company entered into a subscription and relationship agreement (“Subscription Agreement”) with Yard and K2019313036 (South Africa) (RF) Proprietary Limited, a wholly-owned subsidiary of Yard (“Yard SPV”), in terms of which Yard SPV subscribed for 26 400 000 ordinary shares in Italtile (“Ordinary Shares”) (“Subscription Shares”) for an aggregate cash subscription amount of R312 176 258,34 (the “BBBEE Transaction”). The Transaction represents an in-substance option for the BBBEE shareholders. The option falls into the scope of IFRS 2 as the BBBEE shareholders receive shares in Italtile at a discount to fair value in exchange for BEE credentials. The scheme is an equity-settled share-based payment arrangement. The IFRS 2 charge and related equity-settled share-based payment reserve recognised at grant date amounted to R39 million and was recognised as an expense immediately on grant date. An option pricing model has been used to value the option on grant date.

Issued share capital

The BBBEE Transaction was implemented by way of a general issue of shares for cash. The Subscription Shares were issued at a price of R11,82 per subscription share. The Subscription Shares amount to approximately 2% of the total Ordinary Shares in issue following implementation of the BBBEE Transaction.

BBBEE rating

Based on various initiatives implemented, including the Yard transaction, the Group's BBBEE compliance improved from Level 6 to

Level 4 (81 points). In order to secure the BBEE ownership credentials which accrue to Italtile pursuant to the Transaction, Yard SPV has undertaken not to dispose of the Subscription Shares for a period of at least three years.

OPERATIONAL REVIEW

Over the past reporting period management committed to delivering on a range of key priorities. Good progress was made in attaining our goals, although opportunity exists for continued improvement:

- **Advance the store roll-out and revamp programme, and open 15 stores for the full year:** 10 stores were opened in the review period, with another five to eight to follow in the next six months. In total, 15 stores were revamped.
- **Focus on sales growth – specifically tile volumes.** While overall sales growth did not meet our benchmark, tile sales increased across the retail brands and market share was gained in a low demand environment. This achievement is pleasing recognition of the concerted effort to prioritise this key merchandise category, which contributes approximately half of total retail revenue.
- **Prioritise the shopping experience through retail excellence disciplines and innovation.** Across the brands, independent customer surveys confirmed that the shopping experience, specifically range and presentation, continued to improve and translate into sales. Significant opportunity exists to improve the standard of execution by our teams in-store to achieve the Group's robust growth targets.
- **Roll out U-Light.** The new lighting offering launched in the prior year is now represented by five pilot stores; this footprint will determine the future viability and scalability of the model.
- **Improve manufacturing efficiencies.** Both Ceramic and Ezee Tile reported sound results, derived from intensified focus on production efficiencies and cost management.

- **Extract synergies from the integrated supply chain.** Intensified efficiencies resulted in all three of the Group's supply chain import businesses recording pleasing growth. Furthermore, the improved integration of the logistics and distribution function through three Cedar Point distribution centres resulted in notable efficiencies and cost savings.
- **Entrench working capital and cash management as core disciplines.** The cash conversion rate for the period was disappointing, and despite substantial cash outflows, management believes opportunities for improved working capital, exist.

RETAIL BRANDS

Instilling retail excellence disciplines throughout the business remained a key management priority. In a very competitive market, the unwavering focus on improving the customer shopping experience was rewarded by a growth in market share across the retail brands, Italtile Retail, CTM and TopT, while the Group's new offering, U-Light, started to gain traction in an untapped category for the Group.

During the review period a strategic decision was taken to expand the Group's joint-venture model, which will afford the Group improved profitability and management oversight of stores.

Significant investment was made during the reporting period on upgrading the brands' webstore technology to offer an unrivalled shopping experience, with webstore sales continuing to grow strongly as customers capitalised on the Group's omni-channel 'total solution' offering.

CTM

CTM's improved performance is a reflection of the successful repositioning of the brand over the past year and an enhanced focus on in-store presentation and range. Both sales and average basket value grew, although margin pressure contained profitability. Measures to improve

store productivity are underway and should reflect in the next six to 12 months.

A new 1% equity partner was appointed in January 2020 and management is confident this partnership will be beneficial to the brand.

Particularly noteworthy results were reported by the East Africa operation, where the Group bought out the franchisee in Tanzania, and introduced a dedicated in-country management resource in Kenya. The pleasing performance recorded reflects the potential of this market and is encouraging for our ambitions in the region.

The key focus in the forthcoming period will be on driving a high-performance culture through intensified performance management. We are cognisant of the challenge this presents in the current retail environment where pessimistic sentiment and an air of malaise prevails.

Two stores were opened during the review period, with the roll out of further stores postponed until the new financial year. CTM is represented by a total of 94 stores.

Italtile Retail

Revenue reported for the review period was flat and profits declined marginally. The business's average basket value increased and margins were maintained.

The disappointing sales performance is a reflection of the downturn in investment by the shrinking upper-LSM market as the flight of capital continued, as well as the decline in the commercial projects business as developments were deferred or cancelled for the foreseeable future. Both trends gained momentum over the period. Sales in the retail business were stronger than those in the professional projects segment, which comprise a much smaller component of total brand revenue.

The brand opened its first store outside of South Africa, in Gaborone, Botswana, bringing the network to 14 stores.

TopT

Once again, TopT delivered double-digit sales and profit growth, albeit not at the levels achieved in previous years. Margins were down, in keeping with the strategy to support cash-strapped homeowners. An improvement in the average basket value was recorded and store productivity rose.

Continued investment in the range and in-store presentation underpinned the brand's gain in market share in a particularly difficult environment. The key focus in the period ahead is to improve in-stock levels of business-critical products, which will further boost sales.

Three stores were opened during the review period, and two were closed in marginal markets, bringing the total network to 84 stores.

U-Light

As of October 2019, the Group's new lighting offering is represented by five pilot stores, each comprising a unique format and catering to a specific target market. In addition to the standalone U-Light stores, the offering is available across the Group's branded retail store network and aligns with management's strategy to offer customers a total solution. The business broke even in the review period.

Should the pilot project prove successful, the goal is to open up to five U-Light stores per year.

SUPPLY CHAIN

The Group's retail brand operation is strategically supported by its vertically integrated supply chain businesses, which comprise manufacturing businesses, Ceramic and Ezee Tile, and importers, Cedar Point, International Tap Distributors ("ITD"), and Durban Distribution Centre.

MANUFACTURERS

The integration of Ceramic and Ezee Tile, acquired in October 2017, continued to deliver on management's strategy to provide a total solution to customers. Improved planning and

production efficiencies benefited both the stores and the factories and underpinned the Group's policy of ensuring the 'right product at the right time, place and price'.

Ceramic Industries

One out of every two tiles, baths and toilets purchased in South Africa is made by Ceramic, hence this operation has significant strategic advantage for the Group.

In South Africa, tile volumes and sales were under pressure due to weak demand, however, the business did well to grow profits and margins through range rationalisation, improved efficiencies and intensified cost management. This achievement is particularly noteworthy given the direct loss of R12 million suffered as a consequence of load-shedding during the review period. In light of high levels of imported stock in the market and constrained local demand, 10% of the kiln capacity, which was shut off during December 2019 for routine maintenance, has not been restarted.

The business reported solid results in Australia.

Export sales declined slightly due to the poor performance in certain markets including Zambia and Zimbabwe.

Solid results were reported by the bathroomware and bath division. The completion of the new warehouse facility which is currently in the planning phase, will improve capacity management and service to customers. In the forthcoming period, focus will remain on reducing costs and improving yields.

Ezee Tile

Ezee Tile turned around the unsatisfactory performance reported in the prior year as remedial measures took effect. The business recorded higher volumes and sales and grew margins and profitability. Management's priority will be to entrench and leverage operational improvements achieved. The business is a

leading supplier in the adhesives and grout market, and opportunities exist to grow Ezee Tile's presence in the paint segment.

IMPORTERS

All three supply chain businesses reported improvements in sales, profits and margins. Notwithstanding the late arrival of imported stock, the product quality, mix and ratio of in-stocks improved.

The establishment of three Cedar Point distribution centres in Gauteng, Cape Town and KwaZulu-Natal had a positive impact on logistics and distribution efficiencies across the Group and will provide significant opportunities for leveraging the supply chain and extracting further synergies in the years ahead.

PROPERTY INVESTMENT

The Group's property portfolio affords strategic advantage to the retail brand operations, comprising high visibility, easily accessible stores which are well presented and maintained and contribute to an aesthetically pleasing shopping experience. The Group's manufacturing operations consist of well-maintained state-of-the-art factories which are supplied with raw materials sourced from productive quarries in close proximity to the plants.

Management's constant priority is to improve returns on this portfolio, through optimal utilisation of existing owned land, strategic development of new store formats and achieving keener construction costs. The Group's sustainability agenda is promoted through cost-effective energy-efficient practices, products and equipment in the construction, renovation and operation of stores and factories.

As at 31 December 2019, the estimated market value of the portfolio was R4,1 billion, comprising a retail portfolio valued at R3,2 billion (2018: R3,0 billion) and a manufacturing portfolio valued at R0,9 billion (2018: R0,8 billion). During the review period, capital expenditure of R165 million was

incurred on an ongoing store upgrade programme, while R113 million was invested on plant and equipment upgrades across the manufacturing operations.

STAFF SHARE SCHEME VESTING

The Group's equity-settled staff share scheme is designed to incentivise employees to participate in the growth and profitability of the business. In this regard, the fourth allotment of shares, granted in 2016, vested on 31 August 2019. A total of 94 employees qualified, of which five employees opted to receive shares and the balance received the net value of the awards in cash. Cash payments after tax averaged R128 170 per individual (aggregate payments including income tax totalled R15,1 million), funded by the sale of the related shares to the market. Employees who elected to receive shares received an average of 8 500 Italtile shares each (dependent on the individual's effective income tax rate).

During the reporting period a seventh allotment of shares was made, comprising 5,2 million shares allocated to 231 eligible employees of the Group and franchisees. As at 31 December 2019, there were 475 participants in the scheme, holding 10,2 million Italtile shares.

PROSPECTS

Until such time as meaningful transformational reforms and policy certainty are implemented in the economy and socio-political environment, consumer confidence and discretionary spend will remain at extremely low levels. It is anticipated that homeowners and developers will continue to defer property investment decisions for at least the first six months of this calendar year and any subsequent investment in the short term will be limited.

From an operational perspective, continued service delivery protests will disrupt trading in

the stores, while load-shedding will hinder our manufacturing operations.

In a projected environment of minimal top-line growth, management's key goals in the period ahead will be to:

- continue to compete aggressively to gain market share through better execution of retail excellence disciplines;
- improve management of stockholding and working capital;
- intensify operational efficiencies and productivity both in the stores and the supply chain and between the stores and supply chain; and
- reduce manufacturing product cost.

OUTLOOK

While the weak macro-economic conditions are extremely challenging and expected to persist for the foreseeable future, management remains optimistic that the Group will deliver growth for the full financial year. However, given the continuing deterioration of the economy – and the retail and building and construction sectors specifically – growth in the second half of the year is anticipated to be less robust than projected at the outset of the year and will likely be in line with the current review period.

Notwithstanding the discouraging external environment, management remains committed to optimising on the opportunities within its control in the business to drive continued growth.

SUBSEQUENT EVENTS

No events have occurred subsequent to the review period that require any additional disclosures or adjustments.

ORDINARY CASH DIVIDEND

The Group's dividend cover is two and a half times. The Board has declared an interim gross dividend of 23,0 cents per share (2018: 22,0 cents), an increase of 5%.

DIVIDEND ANNOUNCEMENT

The Board has declared an interim gross cash dividend (number 107) for the review period ended 31 December 2019 of 23,0 cents per ordinary share to all shareholders recorded in the shareholder register of Italtile as at the record date of Friday, 6 March 2020.

In accordance with paragraphs 11.17(a)(i) to (x) and 11.17(c) of the Listings Requirements of the JSE ("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 20% (twenty percent);
- The gross local dividend amount is 23,0 cents per share for shareholders exempt from the dividends tax;
- The net local dividend amount is 18,4 cents per share for shareholders liable to pay the dividends tax;
- The local dividend withholding tax amount is 4,6 cents per share for shareholders liable to pay the dividend tax;
- Italtile's income tax reference number is 9050182717; and
- The Group has 1 321 654 148 shares in issue including 9 824 614 shares held by the Italtile Share Incentive Trust, 62 919 081 shares held as BEE treasury shares and 15 951 126 shares held by Italtile Ceramics Proprietary Limited ("Italtile Ceramics").

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, 3 March 2020. The shares will commence trading ex-dividend from the commencement of business on Wednesday, 4 March 2020 and the record date will be Friday, 6 March 2020. The dividend will be paid on Monday, 9 March 2020. Share certificates may not be rematerialised or dematerialised between Wednesday, 4 March 2020 and Friday, 6 March 2020, both days inclusive.

This full long form announcement is available at: <https://senspdf.jse.co.za/documents/2020/JSE/ISSE/ITE/interims20.pdf> and on Italtile's website at <https://www.italtile.com>. The short form announcement was published on SENS on 13 February 2020 and is also available on Italtile's website at <https://www.italtile.com>.

Both the short form and full announcement are also available for inspection at the registered offices of Italtile and its sponsor, Merchantec Capital, during business hours. Copies of the full announcement are available at no cost on request from the Company Secretary who is contactable on +27 11 882 8200 or lizwillis@ejaysecretarial.co.za.

For and on behalf of the Board

J N Potgieter

Chief Executive Officer

T T A Mhlanga

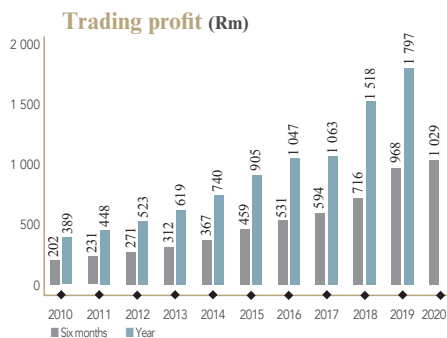
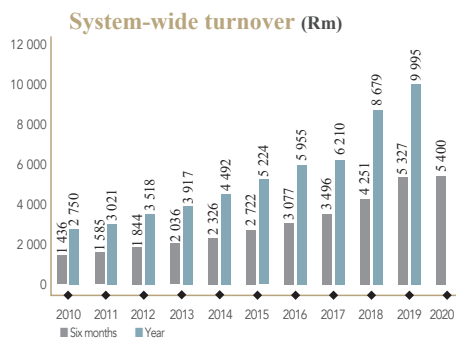
Executive Director: Finance

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

The reviewed condensed Group results announcement for the six months ended 31 December 2019 has been reviewed by PricewaterhouseCoopers ("PwC"). PwC's unmodified review conclusion does not necessarily report on all of the information contained in this reviewed 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 PwC's unmodified review opinion together with the accompanying financial information from the Company Secretary at the Company's registered office.

Johannesburg

13 February 2020



SYSTEM-WIDE TURNOVER ANALYSIS

for the six months ended 31 December 2019

		(Rand millions unless otherwise stated)		
	% increase	Reviewed six months to 31 December 2019	Reviewed six months to 31 December 2018	Audited year to 30 June 2019
Group and franchised turnover				
– By Group-owned stores and entities	3	3 824	3 701	6 975
– By franchise-owned stores (unaudited)	(3)	1 576	1 626	3 020
Total	1	5 400	5 327	9 995

STORE NETWORK

Region	As at 31 December 2019			As at 30 June 2019		
	Franchise	Other	Total	Franchise	Other	Total
South Africa						
– Italtile	–	13*	13*	–	13*	13*
– CTM	36	36*	72*	38	34*	72*
– TopT	61	22*	83*	66	16*	82*
– U-Light	–	5	5	–	1	1
Rest of Africa						
– Italtile	–	1	1	–	–	–
– CTM	4	18*	22*	5	15*	20*
– TopT	1	–	1	1	–	1
	102	95*	197*	110	79*	189*

* Includes webstore.

Note: During the review period, three new TopT stores were opened and two stores were closed.

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2019

(Rand millions unless otherwise stated)

		Reviewed six months to 31 December 2019	Reviewed six months to 31 December 2018	Audited year to 30 June 2019
	% increase			
Turnover	3	3 824	3 701	6 975
Cost of sales		(2 290)	(2 294)	(4 361)
Gross profit	9	1 534	1 407	2 614
Other operating income		278	261	511
Operating expenses		(783)	(711)	(1 342)
Profit on sale of property, plant and equipment		#	11	14
Trading profit	6	1 029	968	1 797
Finance income		58	31	71
Finance costs		(37)	(9)	(52)
BBBEE Transaction charge		(39)	–	–
Profit from associates – after tax		–	–	3
Profit before taxation	2	1 011	990	1 819
Taxation		(292)	(276)	(500)
Profit for the year	1	719	714	1 319
Other comprehensive income				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Foreign currency translation difference		#	(14)	(16)
Other comprehensive income from associates		–	–	–
Total comprehensive income for the period	3	719	700	1 303
Profit attributable to:				
– Equity shareholders		679	676	1 253
– Non-controlling interests		40	38	66
	1	719	714	1 319
Total comprehensive income attributable to:				
– Equity shareholders		679	662	1 237
– Non-controlling interests		40	38	66
	3	719	700	1 303
Earnings per share (all figures in cents):				
– Earnings per share	–	55,3	55,4	102,6
– Diluted earnings per share	–	55,0	55,1	102,0
– Dividends per share	5	23,0	22,0	41,0

Less than R1 million.

CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

(Rand millions unless otherwise stated)

	Reviewed six months to 31 December 2019	Reviewed six months to 31 December 2018	Audited year to 30 June 2019
ASSETS			
Non-current assets	4 636	4 249	4 472
Property, plant and equipment	4 120	3 817	3 942
Right-of-use assets	286	210	303
Investments in associates	26	23	26
Long-term financial assets	163	174	160
Goodwill	19	11	19
Deferred taxation	22	14	22
Current assets	2 650	2 819	2 953
Inventories	964	846	857
Trade and other receivables	931	935	850
Cash and cash equivalents	702	1 010	1 201
Taxation receivable	53	28	45
Total assets	7 286	7 068	7 425
EQUITY AND LIABILITIES			
Share capital and reserves	5 543	5 537	5 858
Stated capital	4 314	4 010	4 010
Non-distributable reserves	11	(26)	(28)
Treasury shares	(702)	(499)	(497)
Share option reserve	217	203	220
Retained earnings	1 440	1 599	1 902
Non-controlling interests	263	250	251
Non-current liabilities	930	810	923
Interest-bearing loans	500	500	500
Lease liabilities	253	167	257
Deferred taxation	177	143	166
Current liabilities	813	721	644
Trade and other payables	384	403	464
Provisions	102	110	121
Interest-bearing loans	254	164	3
Lease liabilities	24	33	44
Taxation payable	49	11	12
Total equity and liabilities	7 286	7 068	7 425
Net asset value per share (cents)	450	453	480

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2019

(Rand millions unless otherwise stated)

	Stated capital	Non- distributable reserves	Treasury shares	Share option reserve	Retained earnings	Total	Non- controlling interest	Total equity
For the six months ended 31 December 2018								
Audited balance at 30 June 2018	4 010	(12)	(477)	183	1 575	5 279	246	5 525
Effect of adoption of new accounting standards					(29)	(29)	–	(29)
Profit for the year					676	676	38	714
Other comprehensive income for the year		(14)				(14)		(14)
Total comprehensive income for the year	–	(14)	–	–	676	662	38	700
Purchase of own shares			(38)			(38)		(38)
Dividends paid					(633)	(633)	(28)	(661)
Transactions with non- controlling interests						–	(6)	(6)
Share incentive costs (including vesting settlement)			16	20	10	46	–	46
Reviewed balance at 31 December 2018	4 010	(26)	(499)	203	1 599	5 287	250	5 537
For the six months ended 31 December 2019								
Audited balance at 30 June 2019	4 010	(28)	(497)	220	1 902	5 607	251	5 858
Profit for the year					679	679	40	719
Other comprehensive income for the year		#				#	–	#
Total comprehensive income for the year	–	#	–	–	679	679	40	719
Issue of shares	304					304	–	304
Purchase of own shares			(214)			(214)	–	(214)
Dividends paid					(1 160)	(1 160)	(24)	(1 184)
BBBEE Transaction charge		39				39	–	39
Transactions with non- controlling interests						–	(1)	(1)
Share incentive costs (including vesting settlement)			9	(3)	19	25	(3)	22
Reviewed balance at 31 December 2019	4 314	11	(702)	217	1 440	5 280	263	5 543

Less than R1 million.

CONDENSED GROUP CASH FLOW STATEMENT

for the six months ended 31 December 2019

(Rand millions unless otherwise stated)

	Reviewed six months to 31 December 2019	Reviewed six months to 31 December 2018	Audited year to 30 June 2019
Cash generated by operations (note 8)	920	984	2 114
Finance income	58	31	71
Finance costs	(25)	(5)	(31)
Dividends paid	(1 184)	(661)	(941)
Taxation	(264)	(299)	(539)
Cash flow from operating activities	(495)	50	674
Additions to property, plant and equipment	(340)	(306)	(622)
Proceeds on disposal of property, plant and equipment	–	15	95
Decrease in long-term financial assets	(3)	(42)	(38)
Purchase of interest in subsidiaries	(1)	(12)	(28)
Cash flow from investing activities	(344)	(345)	(593)
Proceeds from share issue	304	–	–
Increase in loans and borrowings	250	664	503
Acquisition of non-controlling interest	–	(16)	(16)
Treasury share movements	(214)	(22)	(46)
Cash flow from financing activities	340	626	441
Net movement in cash and cash equivalents for the period	(499)	331	522
Cash and cash equivalents at the beginning of the period	1 201	679	679
Cash and cash equivalents at the end of the period	702	1 010	1 201

SEGMENTAL REPORT

for the six months ended 31 December 2019

(Rand millions unless otherwise stated)

			Supply and Support Services*	Franchising
2019	Retail	Manu- facturing*		
Turnover	1 878	2 228	1 094	–
– From external customers*	1 878	1 663	283	–
– Intersegment	–	565	811	–
Turnover from franchise stores	1 576	–	–	–
Achieved gross margin	669	606	121	–
Depreciation	(25)	(109)	(7)	#
Profit on sale of property, plant and equipment	–	–	#	–
Trading profit	171	363	107	207
Finance income	2	18	41	–
Finance costs	–	(1)	(15)	–
BBBEE Transaction charge	–	–	(39)	–
Profit before taxation	173	380	94	207

* Turnover from external customers includes sales to franchise stores.

Less than R1 million.

(Rand millions unless otherwise stated)

			Supply and Support Services*	Franchising
2018	Retail	Manu- facturing*		
Turnover	1 672	2 199	1 033	–
– From external customers*	1 672	1 686	343	–
– Intersegment	–	513	690	–
Turnover from franchise stores	1 626	–	–	–
Achieved gross margin	605	582	94	–
Depreciation	(21)	(102)	(9)	#
Profit on sale of property, plant and equipment	–	#	–	–
Trading profit	171	339	92	198
Finance income	3	14	30	–
Finance costs	–	#	(8)	–
Profit before taxation	174	353	114	198

* Turnover from external customers includes sales to franchise stores.

Less than R1 million.

Properties	Associates	Consolidation	Total
–	–	(1 376)	3 824
–	–	–	3 824
–	–	(1 376)	–
–	–	(1 576)	–
–	–	113	1 509
(39)	–	–	(178)
–	–	–	#
177	–	7	1 029
7	–	(10)	58
(31)	–	10	(37)
–	–	–	(39)
153	–	7	1 011

Properties	Associates	Consolidation	Total
–	–	(1 203)	3 701
–	–	–	3 701
–	–	(1 203)	–
–	–	(1 626)	–
–	–	102	1 383
(36)	–	–	(168)
11	–	–	11
165	–	3	968
3	–	(19)	30
(20)	–	19	(9)
148	–	3	990

GEOGRAPHICAL ANALYSIS

(Rand millions unless otherwise stated)

	South Africa	Rest of Africa	Australia	Inter- group entries	Group
Reviewed six months to 31 December 2019					
Turnover	4 645	316	238	(1 375)	3 824
Non-current assets	5 130	268	224	(1 009)	4 613
Reviewed six months to 31 December 2018					
Turnover	4 378	262	263	(1 202)	3 701
Non-current assets	4 713	208	223	(909)	4 235
Audited year to 30 June 2019					
Turnover	8 131	561	476	(2 193)	6 975
Non-current assets	4 915	232	235	(932)	4 450

1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICY

Basis of preparation

These reviewed interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. These results have been prepared under the supervision of Executive Director: Finance, Ms T T A Mhlanga.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2019, 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 six months ended 31 December 2019 and the financial position at 31 December 2019.

2. COMMITMENTS AND CONTINGENCIES

There are no material contingent assets or liabilities at 31 December 2019.

(Rand millions unless otherwise stated)

	31 December 2019	31 December 2018	30 June 2019
Capital commitments			
– Contracted	307	240	339
– Authorised but not contracted for	287	118	149
Total	594	358	488

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. CEDAR POINT TRADING 326 PROPRIETARY LIMITED

The Group has agreed to sell a 10% non-controlling interest in Cedar Point Trading 326 Proprietary Limited effective at the beginning of July 2019 to new business partners, at a cost of R15,9 million, reducing the Group's interest in this entity to 90%.

5. 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 of each allotment date in August every year from implementation date. As a result, 8 million of the Group's shares, net of forfeitures, were held by qualifying staff members at 31 December 2019 (2018: 8 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 fourth allotment of shares in the scheme, granted in 2016, vested on 31 August 2019. A total of 94 employees qualified for the vesting, of which five employees opted to receive the shares and the balance received the net value of the awards in cash. This resulted in a decrease in treasury shares of 909 106 (2018: 1 044 139) 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 R15 million (2018: R16 million) to the Group's income; R13 million (2018: R14 million) of this charge is a once-off accelerated expense for franchise staff.

6. EARNINGS PER SHARE

	Reviewed six months to 31 December 2019	Reviewed six months to 31 December 2018
Reconciliation of shares in issue (all figures in millions):		
– Total number of shares issued	1 322	1 295
– Shares held by Share Incentive Trust	(10)	(10)
– BEE treasury shares	(63)	(61)
– Shares held by Italtile Ceramics	(16)	(3)
Shares in issue to external parties	1 233	1 221
Reconciliation of share numbers used for earnings per share calculations (all figures in millions):		
Weighted average number of shares in issue	1 231	1 222
Dilution effect of share awards	6	5
Diluted weighted average number of shares	1 237	1 227
Reconciliation of headline earnings (Rand millions):		
– Profit attributable to equity shareholders	679	676
– Profit on sale of property, plant and equipment – after taxation	–	(8)
Headline earnings	679	668
Headline EPS (cents)	55,3	54,7
Adjusted headline EPS (cents)*	58,4	54,7
Diluted headline EPS (cents)	55,0	54,5
Adjusted diluted headline EPS (cents)*	58,1	54,5
Adjusted earnings per share (cents)*	58,4	55,4
Adjusted diluted earnings per share (cents)*	58,1	55,1

* Adjusted for once-off charge of R39 million related to the BBBEE Transaction.

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

7. DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	(Rand millions unless otherwise stated)	
	Reviewed six months to 31 December 2019	Reviewed six months to 31 December 2018
Turnover	3 824	3 701
Royalty income from franchising*	78	82
Other franchise income*	56	55
	3 958	3 838

Turnover represents net revenue from sale of goods, excluding value added tax and intercompany sales.

* Franchise income has been disaggregated from other operating income.

8. RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	(Rand millions unless otherwise stated)	
	Reviewed six months to 31 December 2019	Reviewed six months to 31 December 2018
Cash flows from operating activities:		
Profit before taxation (excluding associate earnings)	1 011	990
Adjusted for:		
BBBEE Transaction charge	39	–
Depreciation	157	146
Depreciation – IFRS 16 right-of-use asset	24	27
Finance costs – IFRS 16	12	4
Lease payment – IFRS 16	(33)	(26)
Profit on sale of property, plant and equipment	*	(11)
Interest received	(28)	(23)
Dividends received	(30)	(8)
Finance costs (excluding IFRS 16 finance costs)	25	5
Share-based payment expenses	33	49
Foreign currency translation difference	2	2
Executive retention plan prepayment	–	(36)
Working capital changes:		
Inventories	(107)	(40)
Trade and other receivables	(81)	43
Trade and other payables (including provisions)	(104)	(138)
Cash generated by operations	920	984

9. EVENTS AFTER REPORTING DATE

The directors are not aware of any matters or circumstances arising since the end of the reporting period which significantly affect the financial position at 31 December 2019 or the results of its operations or cash flow for the period then ended.

ITALTILE LIMITED

Share code: ITE

ISIN: ZAE000099123

Registration number: 1955/000558/06

Incorporated in the Republic of South Africa

("Italtile" or "the Group" or "the Company")

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2021

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Randburg
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Transfer secretaries

Computershare Investor Services Proprietary Limited

Company Secretary

E J Willis

Sponsor

Merchantec Capital

Auditor

PricewaterhouseCoopers Inc.

DIRECTORS

Executive directors

J N Potgieter (Chief Executive Officer), B G Wood (Executive Director: Retail),
T T A Mhlana (Executive Director: Finance)

Non-executive directors

G A M Ravazzotti (Non-executive Chairman), L R Langenhoven (Non-executive Deputy Chairman),
S M du Toit, S G Pretorius, N P Khoza, I Z Nyanga

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