2020

PRELIMINARY REVIEWED CONDENSED GROUP RESULTS

FOR THE YEAR ENDED 30 JUNE 2020 AND DIVIDEND DECLARATION

ITALTILE LIMITED

↓7%
System-wide turnover
R9,3 billion
2019: R10,0 billion

↓16%
Trading profit
R1 502 million
2019: R1 797 million

↓24%
Earnings per share
78,3 cents
2019: 102,6 cents

↓22%
Headline earnings per share
79,2 cents
2019: 101,8 cents

↓21%
Adjusted earnings per share*
81,5 cents
2019: 102,6 cents

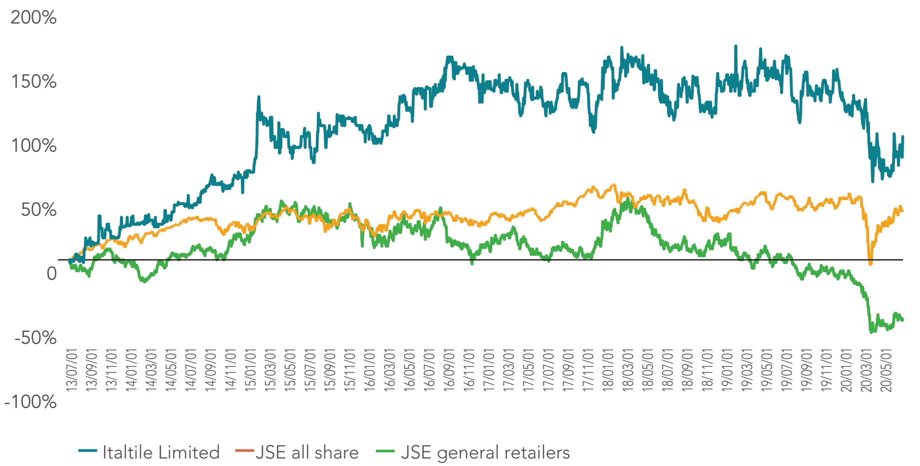
↓19%
Adjusted headline earnings per share*
82,3 cents
2019: 101,8 cents

↓20%
Ordinary dividend per share
33,0 cents
2019: 41,0 cents

↓28%
Cash
R860 million
2019: R1 201 million

** Adjusted for once-off R39 million IFRS 2 charge for a BBBEE transaction.*

Seven-year share price growth



ITALTILE LIVE BEAUTIFULLY
CTM Big savings, More style.
top T YOUR HOME FINISHING DESTINATION
EZEE TILE ADHESIVES AFRICA'S PREFERRED TILING SOLUTIONS
CERAMIC INDUSTRIES Tiles & Bathroomware Creators of style
U-LIGHT
ITD INTERNATIONAL TAP DISTRIBUTORS EXPERIENCE WATER'S INSPIRATION
CEDAR POINT TRADING
PIVICAL PANELS

COMMENTARY

Overview

Founded in 1969, Italtile Limited 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 198 stores, including six online webstores. The brand offering targets homeowners across the Living Standards Measure ("LSM") 4 to 10 categories.

The retail operation is strategically supported by a vertically integrated supply chain comprising key manufacturers and import operations and an extensive property portfolio. The manufacturers are Ceramic Industries Proprietary Limited ("Ceramic") and Ezee Tile Adhesive Manufacturers Proprietary Limited ("Ezee Tile"). The import operations are Cedar Point, International Tap Distributors ("ITD") and Durban Distribution Centre ("DC").

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 COVID-19 PANDEMIC

The safety of our customers and our people is of paramount importance and we implement rigorous COVID-19 risk mitigating protocols across our business to ensure we play our role in curbing the spread of the virus. Our internal audit department is tasked with ensuring compliance and accountability and we practice zero tolerance on non-compliance.

In terms of the progression of the pandemic and its impact on our operations, the third quarter of the year under review marked the commencement of the COVID-19 era with the imposition of the hard lockdown on 27 March 2020. The fourth quarter was a tumultuous period, featuring cessation of trading for five weeks in line with restrictions, followed by a limited, phased reopening and then a massive drive across our operations to ramp up as safely and quickly as possible to serve our customers, to save jobs and secure the sustainability of the business.

In these extraordinary times, our people have demonstrated energy, determination and resilience beyond our expectations. While we pride ourselves on a high-performance culture, the phenomenal response of our team has been unmatched. Their enthusiasm to revive the business after lockdown and their continued commitment to curbing the spread of the virus to ensure uninterrupted service to our customers has been key to this solid set of results.

Our goal throughout this period was to come through the crisis well and, in certain respects, better than before. The double-digit growth delivered in June and July, with a leaner team, less stock and healthy brands, is rewarding evidence of this. It must be noted though, that while the pandemic accelerated our efforts to continue to strengthen our business, the achievement of this goal was facilitated by the extensive groundwork undertaken over the past eighteen months.

I am also pleased to report that the pandemic has had no material impact on our debtors' book, which remains healthy, and furthermore that there has been no need to utilise the short-term contingency facility that we negotiated prior to the lockdown period.

The response from our customers since reopening has been resoundingly encouraging. I would like to extend my heartfelt thanks to them for their support and their endorsement of our stringent COVID-19-related health and safety protocols. We recognise that these vital measures add a degree of inconvenience to the shopping experience and have therefore been pleasantly surprised by their willing and cheerful compliance.

TRADING ENVIRONMENT AND OUR BUSINESS

Prior to the onset of the pandemic in late March, operating conditions in the country were already very challenging. Consumer and business confidence levels were alarmingly low, reflecting disillusionment with non-delivery of transformational structural reforms, ongoing policy uncertainty and unstable power supply. Country specific risks were exacerbated by the marked deterioration of the economy, evidenced by growing unemployment, ongoing retrenchments and sovereign credit downgrades, with South Africa finally tipping into recession in the second half of the review period. Inevitably in this unfavourable environment, negatively disposed homeowners with limited discretionary income deferred investment in their homes. With negligible public and private sector investment, the building and construction industry deteriorated further, manifested by the consolidation or failure of both large, listed construction companies and smaller independent building-related businesses.

Regrettably, with the advent of the pandemic, economic and social conditions worsened materially. The lockdown and subsequent restrictions, albeit successful at slowing the trajectory of the virus initially, had a severely negative impact on employment levels and household disposable income.

Notably, in our industry, enforced stay-at-home orders served to change consumers' lifestyles, as well as their priorities. With more time spent in the home, increased work-from-home opportunities and restrictions imposed on travel and leisure activities, some of the funds previously allocated to transport costs and recreational pastimes were re-allocated to home improvements, particularly in our middle and lower LSM markets. This bears out our long-standing experience that South Africans are proud homeowners and when finances permit, will continue to invest in their primary assets.

Trading through this period of 'new normal' has revealed three important trends:

1. *Customer behaviour has changed (possibly temporarily, but likely in the long-term too). Customers have become more risk averse and more decisive in their purchasing behaviour. They choose to shop in safe, familiar environments, where they can fill their order in one visit. They are also less inclined to spend time browsing or to travel between competitors researching comparable value offerings, preferring rather to conduct their research online. Having converted to this format, it is likely customers will adopt this as permanent behaviour.*

In this regard our business model has numerous advantages:

- the integrated supply chain provides a complete specialist one-stop solution to our customers;
- over the Group's 51-year trading history we have built a portfolio of trusted, market-leading retail brands that are strategically positioned to appeal across the demographic and income spectrum, uniquely targeting each segment; and
- our offering is supported by multi-channel platforms (in-store, webstores and social and digital). This enables customers the convenience of accessing our offering on the platform of their choice.

2. *The businesses that have thrived through this difficult time have been adaptable, agile and underpinned by balance sheet flexibility.*

   Our core values and basic disciplines stood us in good stead:

   - the culture of partnership with our franchisees and store operators has ensured that we all worked together to achieve the common goal of revitalising and growing our business; and
   - the strong cash generative nature of the business and engrained disciplines of cash management and cost leadership ensured robust reserves at a potentially testing time. Our ability to pay a final dividend and to reinstate our roughly R800 million capital expenditure programme exemplify this.

3. *Businesses need to be self-reliant to control their destiny*

   A further consequence of the pandemic for the industry is the continuing interruption in the supply of imported product. Initially when factories in international markets closed during lockdowns, supply was constrained. However, following the lockdown in this country, which resulted in considerable delays at the national ports, imported products arrived infrequently, irregularly and at higher cost due to unplanned demurrage, other incremental charges and the depreciation of the local currency over the last quarter. To date, the port delays have not been resolved.

   The Group benefited from its local integrated supply chain and manufacturing which negated the challenges regarding stock availability and pricing volatility that other operators experienced across the industry.

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 (the "BBBEE Transaction").

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 BEE Transaction.

RESULTS

The Group's results include the contribution of Ceramic Industries and Ezee Tile, in which the Group holds a 95,47% stake and 71,54% stake respectively. 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.

Despite the impact of the lockdown and related trading restrictions, the Group reported a solid set of results for the review period.

Total system-wide turnover of R9,3 billion (2019: R10,0 billion) was 7% lower than the prior comparable period. System-wide turnover is 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 R6,7 billion (2019: R7,0 billion).

Retail store turnover declined 3,9% compared with the previous corresponding period, with average selling price inflation estimated at 1,4% (2019: 2,7%). Like-for-like retail store turnover, (excluding sales of stores opened and closed during the period), decreased by 6,2%. Prior to the lockdown, up to 27 March, retail store sales were up 5,4% year on year. During the lockdown only marginal sales were recorded in April. In May and June, store sales grew 3,0% and 11,0% respectively. Encouragingly, sales growth of 14% was recorded in July 2020.

Supply chain sales decreased by 6,1% compared to the previous corresponding period. Prior to the lockdown, sales had decreased 1,4% year on year.

Manufacturing sales for the review period declined by 8,8% compared to the previous corresponding period, with average selling price inflation estimated at 1,0%. Prior to the lockdown, sales were flat year on year.

Trading profit decreased by 16% to R1 502 million (2019: R1 797 million). Like-for-like operating cost growth was contained at 6,4%.

Adjusted basic earnings per share (EPS) decreased by 21% to 81,5 cents (2019: 102,6 cents), while adjusted headline earnings per share (HEPS) declined by 19% to 82,3 cents (2019: 101,8 cents). EPS and HEPS were adjusted for the once-off charge of R39 million related to the BBBEE Transaction concluded with Yard SPV. The disparity between EPS and HEPS is attributable to net profits of R14 million realised on the disposal of local properties during the prior year versus R1 million in the current year, and an impairment of R16 million recorded on plant and equipment at the SAMCA floor tile factory.

Inventory value, including the consolidated inventory balances of Ceramic and Ezee Tile, was R895 million (2019: R858 million). Same store and warehouse stockholding decreased by 3,0% compared to the prior corresponding period.

Capital expenditure of R614 million was incurred during the period (2019: R622 million). This includes investments made across the Group's retail properties and manufacturing plants.

In light of the BBBEE Transaction with Yard SPV and the Group's cash reserves being in excess of operational requirements, a special cash dividend of 23,0 cents per ordinary share was declared in October 2019. This special dividend, the third for three consecutive financial years, was declared out of income reserves, reflecting the Group's strong cash generating ability.

The Group's cash balance declined to R860 million (2019: R1 201 million). Material cash flows for the review period include:
» capital expenditure of R614 million;
» tax payments of R416 million;
» own share purchases totalling R243 million; and
» total dividend payments of R1 481 million.

The Group's net asset value per share (NAV) was 458,0 cents (2019: 480,0 cents). The decrease in NAV is attributable to:
» the special dividends paid;
» the increase in the weighted average number of shares; and
» the implementation of IFRS 16 *Leases*.

GROUP PERFORMANCE

In line with our long-standing philosophy that growth will be derived from the internal levers within our control, the key focus areas for our management team continued to be sales, cost leadership, productivity improvements and performance culture. The lockdown, however, provided a pivotal opportunity to critically and impartially evaluate our achievements in terms of these key focus areas and to re-orientate our operations to survive and thrive in the demanding new environment. We established that:
» with renewed energy and improved productivity, we are able to do more with less without compromising the essence of our offering; and
» the business's ability to recover quickly is based on our narrow focus and consistent investment in the shopping experience and unwavering efforts to better execute retail excellence principles.

PRIMARY FOCUS AREAS

At the end of 2019, we identified our areas of focus for 2020 and the strategic imperatives that we would employ to attain our targets and goals. The commentary which follows serves as a scorecard of the progress achieved.

Focus on sales growth, particularly in the tile category

It is pleasing to report that sales volume growth in the tile category was achieved in every month for the first nine months of the review period, across all three brands. This is a significant accomplishment given that this merchandise category contributes approximately half of our total retail turnover.

In the last quarter, however, with the onset of the pandemic and the implementation of the lockdown, the business generated practically no sales in South Africa and only negligible sales in some of our rest of Africa markets from 27 March to 30 April. From 2 May, with the easing of restrictions, tile sales were flat for the month compared to the prior year.

Rewardingly, with further easing of restrictions, sales resumed strongly in June with tile volume growth once again reported across all three brands. This trend has continued post-year end, into July and August.

The growth in tile sales has been underpinned by notable improvements in the range, with a keener focus on aligning latest fashion with specific customer profiles, as well as better presentation in-store. We are confident that further growth opportunities exist in terms of pre-retailing and execution in store.

Continue to prioritise the shopping experience through retail excellence principles

We intensified our drive on retail excellence and a noteworthy step change was achieved across our customer touchpoints. Key improvements were made in range and presentation, as well as the look-and-feel of both our in-store and webstore offerings. Our efforts were rewarded with a gain in market share across our retail brands. Furthermore, we recorded improved satisfaction scores across the measures we employ to analyse customer sentiment.

Advance the store roll out and revamp programme

The target of opening 10 to 15 new stores was achieved; these stores include one Italtile Retail, three CTMs, five TopTs and four U-light stores. Four additional stores were scheduled to open in the last quarter, but were postponed due to the logistical challenges posed by the pandemic. Fifteen stores were revamped during the review period, somewhat constrained by lockdown restrictions on construction. Significantly, in the revamped CTM stores, pleasing sales growth in the bathroomware category was experienced, justifying the investment incurred.

Continue to develop disruptive marketing campaigns

On an individual brand basis, good use was made of strategic marketing campaigns across both traditional and new social media platforms. This intervention played a key role in growing sales in the constrained disposable income environment.

Our Proudly South African positioning, demonstrated in our campaigns, continues to find favour with customers who support our goal of 'making local and buying local', aimed at creating jobs and growing the economy. This endorsement has been very evident during the pandemic which has fostered a strong 'we're in this together' sentiment in this country.

Roll out the U-Light offering, contingent on the success of the pilot venture

While launching a new brand in the context of adverse market dynamics is challenging, progress was made in establishing a footprint for the Group's new lighting offering. Four additional U-Light stores were opened in the review period, bringing the network to six stores (including the webstore). Momentum was gained in the first half of the review period, however, the onset of the pandemic interrupted import supply, which had a major impact on stock availability and sales.

Leverage improvements made in the HR function to develop and optimise a people pipeline

Building depth of talent and developing and upskilling our people are key management priorities. In the current testing environment, it is imperative that we have the right people and the right size team to optimise productivity returns and improve our competitive posture.

During the review period, we made good progress with strengthening our existing human capital resource, specifically at senior management level. Business unit leaders are equity shareholders in their business, which is a reflection of our confidence in them. We also achieved good progress with improving the calibre of our store operators across the brands.

An independent evaluation is conducted annually to assess the quality of engagement with our employees. It is pleasing to report that the engagement score has consistently improved over the past three years, from 73% and 74% in the two prior years, to 77% in the current year, our best score to date.

Improve the Group's BBBEE status from level 6 to level 5

The Group has continued to improve its BBBEE rating over the past four years based on sustained management focus to transform the business through a range of meaningful interventions. The rating has improved from non-compliant in 2016, to level 4 in the review period (exceeding the target of level 5). This improvement was advanced with the conclusion of an empowerment deal with Yard SPV; significantly improved scoring on procurement criteria; and generally enhanced administration and management of BBBEE credentials.

Entrench working capital and cash management as core disciplines

Expense control and cost leadership are engrained in the business and in the COVID-19 era these disciplines are particularly vital to ensure flexibility.

Despite substantial cash outflows of R2,8 billion as detailed on page 5, cash reserves at the close of the period were R860 million. It is also pleasing to note that the short-term additional contingency facility raised in the review period was not utilised.

Prioritise better stockturn and product mix

Managing stock levels to facilitate balance sheet flexibility was a major focus during the review period. It is rewarding to report that total inventory levels net of provisions were only 4% higher year on year. This is a significant achievement, given that the Group converted 19 TopT and nine CTM franchised stores to Group owned; we launched the U-Light business (five stores) which added new inventory; no material sales were made for almost six weeks during the lockdown; and massive supply chain disruptions were experienced due to the pandemic, which resulted in stock landing out of sequence with our planned schedules. Importantly, the mix and quality of our stock on hand is good, with a high ratio of business-critical items.

Focus on improving manufacturing efficiencies and reducing waste

Both of our manufacturing businesses, Ceramic Industries and Ezee Tile, delivered stellar performances under very difficult circumstances based on enhanced production efficiencies and improved cost management in their operations.

Despite higher input costs across the board, Ceramic managed to withhold price increases to support price sensitive customers. The business was also successful in improving yields and reducing waste, which is particularly creditable given reduced volumes attributable to trading restrictions over the last quarter. Notably, Ceramic suffered a direct loss of R34 million as a consequence of load-shedding during the period.

The remedial measures implemented at Ezee Tile enabled the business to turn around the disappointing performance recorded in the previous year. Prior to the lockdown, Ezee Tile was on track to report higher volumes and sales and improved profits and margins. With the resumption of trading in June, the business did well to ramp up production and finish the quarter strongly.

Bed down supply chain integration, reduce inefficiencies and leverage opportunities in the logistics and distribution functions

The first phase of a five-year supply chain programme designed to achieve improved costs, efficiencies and load planning has been concluded. The three DCs commissioned in the prior year, as combined hubs for both imported stock and the Cedar Point operations, are functioning successfully and have achieved the targeted improvements.

In addition, a combined transport management system ("TMS") has been introduced, which, through effective logistics and distribution planning, provides a crucial link between the manufacturing and retail operations. The introduction of this model will further improve efficiencies and service levels to the stores and result in savings for the Group.

Drive overall productivity to become more competitive

The Group's ongoing productivity drive was accelerated with the onset of the pandemic. By driving up the output and returns on all our resources and assets we will continue to achieve our goal of 'doing more with less'. Aligned with rigorous productivity measures, we have developed a blueprint for our operations which optimises stockholding and headcount relative to key performance indicators, without compromising the essence of the business.

We will also continue to advance the productivity drive through building the joint venture partnership model which affords the Group better visibility of performance and higher return on investment.

DIVISIONAL REVIEW

Retail brands and webstores

Our three major retail brands, CTM, Italtile Retail and TopT, all gained market share, while our fledgling U-Light brand established a solid footprint in its first year of operation. The health and equity of our major brands improved, reflected by the good scores achieved across all customer satisfaction measures which we conduct to assess the appeal of the shopping experience in our stores.

In terms of key metrics, as a consequence of the lockdown and subsequent trading restrictions, Italtile Retail and CTM's year on year sales and profits declined. In contrast, and in line with the annual December holiday trend, TopT's sales were buoyed by the migration of a big portion of its customer base from urban areas back to primary rural family homes. Once lockdown restrictions eased, sales in these rural areas made a material contribution to TopT's higher year on year growth.

The Group's webstores have been established for several years and sales have grown consistently since their launch. The operating experience gained and general improvements made over time stood the business in good stead during the lockdown and subsequent restrictions, as online traffic escalated strongly during the last quarter, a trend which has continued post-year end. Particularly noteworthy was the increase in online activity in rural areas, illustrating the improved access of new customers to non-traditional shopping platforms.

Through the Group's bespoke online customer relationship management ("CRM") platform, Salesforce, an extensive, credible customer database has been developed, which will afford the brands unique ability to capitalise on personalised customer marketing opportunities.

CTM

CTM continued to benefit from the successful repositioning of the brand over the past 18 months – centred on the ethos, Sithi Wena (you deserve a beautiful home), and our sustained focus on embedding retail excellence disciplines.

Among the key achievements reported during the period, these include:

- improved productivity levels through entrenching an accountable-with-consequences culture;
- a solid gain in market share in the bathroomware category;
- continued enhancement of the webstore shopping experience with the launch of a

multi-surface tile visualiser – one of the first in the world – which enables customers to digitally view our tiles in their own rooms and match wall and floor tile offerings in lifelike reality;

- expansion of the store footprint into the rest of Africa with one new store in Botswana and two stores in Kenya; and
- further development of the people pipeline, specifically at store operator level, through our Operator Training Programme in partnership with the University of Stellenbosch.

CTM is represented by a total of 72 stores in South Africa and 22 in the rest of Africa region. Three stores were opened during the review period.

ITALTILE RETAIL

Despite pleasing improvements achieved across the operations, this business unit's results were negatively impacted by the downturn in investment by the higher-end LSM market and the deferral or cancellation of commercial developments, reflecting pessimistic sentiment and the ongoing flight of capital. Generally, throughout the year, the retail business performed substantially better than the professional projects segment.

It is encouraging to note that after the easing of trading restrictions, which permitted building contractors to resume work, there has been an uptick in activity in the brand's retail market segment.

The following highlights were recorded for the period:

- retained market leadership in terms of range and availability of large-format floor and wall tiles, as well as patchwork-look tiles, and further enhancement and expansion of the local porcelain tile product offering;
- development of the omnichannel experience, including a significant upgrade of the webstore platform, with specific focus on mobile accessibility;
- substantial investment in upgrading the showroom lighting nationally resulted in enhanced display illumination and a concomitant energy saving with the introduction of LED lighting;
- expansion into the rest of Africa region, with the opening of one store in Gaborone, Botswana;
- continued improvement of the in-store shopping experience, including upgraded point of sale displays on sanitaryware and improved merchandising; and
- entry into the vinyl floor market, with good traction achieved.

One new store was opened during the review period, bringing the total network to 14 stores.

TOPT

This brand continues to exceed management's expectations, delivering higher revenue and profit growth, despite the lockdown and subsequent trading restrictions. In line with the December holiday trend, sales were materially buoyed by customers migrating during the lockdown from urban areas back to primary rural family homes and investing in their key assets.

Additional achievements reported during the period include:

- better implementation of the business-critical framework to ensure consistent stockholding and range across all stores to improve the complete solution offering;
- introduction of a Franchise Partner Development Programme in collaboration with an international business school to address succession planning in the business;
- increased participation in regional community projects to raise brand awareness and build customer relationships;

- improved social media content to engage and establish active interaction with our customers online; and
- advanced the programme to convert under-performing franchised stores to company-owned or joint venture stores. This is in line with the strategy to afford the Group better visibility of performance and higher return on investment.

The onset of the pandemic severely restricted the brand's store roll-out programme, limiting new stores to five during the period. Three marginal stores were closed. The brand is represented by a total network of 84 stores.

U-LIGHT

Management is satisfied with the progress made in establishing a footprint for the Group's new lighting offering. Momentum was gained in the first half of the review period, with the business on track to break-even for the full year. Unfortunately, the onset of the pandemic interrupted import supply, which had a major impact on stock availability, resulting in weaker than anticipated sales in TopT as well as in the five bespoke U-Light stores.

In the year under review the following accomplishments were recorded:

- development of the range for U-Light and launch of the TopT lighting range (a new merchandise category for the TopT brand);
- built market awareness through various channels and launched the first phase of the webstore; and
- gained market share in a new market segment for the Group.

Four U-Light stores, each comprising a slightly different format and targeting a different market segment, and a webstore were opened in the reporting period, bringing the network to six stores (including the webstore). A franchise pilot will be explored in the next six months.

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, ITD, and Durban DC.

Manufacturers

Ceramic Industries

Despite reduced volumes produced due to lockdown restrictions, the tile factories made significant headway in enhancing yields and reducing waste. Improved efficiencies, intensified cost management and range rationalisation were key drivers during the period.

The Betta Sanitaryware and Baths operations delivered an improved performance. The restructured management team has improved the quality of processes and planning, which augurs well for continued growth in the business. Construction of the warehouse facility was temporarily deferred in light of the pandemic and will continue once favourable conditions resume.

Notably, Ceramic suffered a direct loss of R34 million as a result of load-shedding during the review period; consequently, the resumption of load-shedding in July 2020 is cause for concern regarding future impact on profitability.

The Australian operation delivered solid results for the year and, despite the pandemic, reported improved sales and profits in the final quarter. As the only local manufacturer of tiles in Australia, it is likely the business benefited from growing anti-China sentiment in the country.

Ceramic has a long-standing reputation for international standard, industry-leading technology, with operations that rank among the most energy efficient in the world. The continued focus on environmental sustainability will be furthered with the launch of EcoTec tiles – designed specifically to reduce carbon footprint. The tiles are made from locally sourced materials and require 10% fewer natural resources. Both recycled heat and water are used in the manufacturing process. When compared to imported tiles, the EcoTec manufacturing process emits 30% less CO_2, requires 25% less packaging and affords 25% more volume per load, contributing to a significant carbon reduction.

Management is confident that the affordable, global-standard range will find favour in the market.

Ezee Tile

While year on year sales were lower due to trading restrictions, the improved production efficiencies and enhanced cost management achieved during the review period resulted in higher margins and profits for the year.

Good progress was also recorded as follows:

- the new factories in Lusaka and Harare were stabilised and market share secured in Zambia and Zimbabwe;
- enhanced operational efficiencies through the introduction of improved KPIs and measurement systems;
- turned around the Mokopane factory through securing cost-effective supply of raw materials and increased production capacity and efficiency;
- successfully relocated to a new site in Cape Town; and
- Launched European quality tile adhesive "XXL" for extra large format tiles.

Importers

Cedar Point

During the review period, Cedar Point:

- concluded the successful commissioning and bedding down of the new Durban DC warehouse facility which services the KwaZulu-Natal and Eastern Cape regions;
- achieved good progress in improving the range and replacing some import supply with local product; and
- reduced distribution costs by integrating into the new TMS, with further opportunities to cut costs.

At year end, Cedar Point insourced the Vereeniging DC, which had previously been managed by an external third party. Bedding down management of the facility has been a challenging project and is work in progress.

International Tap Distributors

This business delivered a very pleasing performance for the year, reporting:

- double-digit profit growth;
- improved working capital management and cost controls;
- increased stock turn and substantially reduced slow-moving and obsolete stock;
- higher margins and average selling price ("ASP") through an improved range offering and better buying; and
- further enhanced efficiencies in the robotic warehouse, which reduced downtime during the year and achieved a new record for single-day pickings.

Management continues to explore opportunities to identify new local suppliers to integrate into the division's supply chain.

Durban DC

A good performance was reported by this division, which exceeded sales budgets despite the weak sales environment.

Key achievements include:

- rationalisation of the tile ranges for CTM and TopT and continued improvement in stockholding levels and stock turn;
- enhancement of the procurement process with the introduction of new suppliers in India as well as locally, the latter a tactical strategy that has reduced costs and inefficiencies associated with importing;
- relocation to the new Durban facility, which has delivered the envisaged efficiencies and benefits; and
- particularly notable was the implementation of the TMS, which will improve logistics efficiencies and reduce costs.

ACQUISITION OF A MINORITY SHAREHOLDING IN EASYLIFE KITCHENS ("ELK")

The Group acquired a 25,1% stake in ELK, effective 1 February 2020, and may consider increasing this shareholding in time. The acquisition consideration was R18 million. The rationale for the transaction is in line with the Group's goal to provide customers with complete specialist solutions in home finishing. The relationship with ELK affords a range of strategic synergies: in the short term the Group enjoys good opportunity to showcase its product through cross-merchandising in existing ELK stores. Over the medium term the business may manufacture furniture for the Group, and in the longer term, consideration will be given to locating ELK stores on existing Group sites, with the intention of establishing specialist one-stop destinations for customers seeking a total solution to their home finishing requirements.

PROPERTY INVESTMENT

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 Group's manufacturing operations comprise well-maintained state-of-the-art factories which are supplied with high quality raw materials sourced from productive quarries in close proximity to the plants. The portfolio is continuously evaluated and enhanced to ensure optimal returns.

The Group's sustainability agenda is promoted through the use of cost-effective, energy efficient practices in the construction of new buildings and the renovation of older buildings. Optimal use of natural light, solar technology, new-generation lighting, water-saving taps, rain water harvesting, and environmentally sensitive building materials is prioritised. Our factories at Ceramic Industries use latest technology in their operations and rank among the most energy efficient in the world. Concurrently during use and at the end of productive life, the quarries we mine are rehabilitated.

As at 30 June 2020, the portfolio's estimated market value was R4,3 billion, comprising a retail portfolio valued at R3,3 billion (2019: R3,0 billion) and a manufacturing portfolio valued at R1,0 billion (2019: R0,8 billion). During the period, capital expenditure of R274 million was incurred across the retail portfolio on an ongoing store upgrade programme and the acquisition of five retail properties, while R180 million was invested across the manufacturing operations on plant, warehouse and equipment upgrades.

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 third allotment of shares, granted in 2015, vested on 31 August 2019. A total of 94 employees qualified, of which 89 employees opted to receive cash and the balance received the net value of the awards in shares. Cash payments after tax averaged R128 170 per individual (aggregate cash 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 review 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 30 June 2020, there were 437 participants in the scheme, holding 9,4 million Italtile shares.

DIRECTORATE

Resignation and appointment of executive directors

With effect from 30 June 2020, Ms Tsundzukani Mhlanga resigned as Executive Director: Finance and Administration. She has been succeeded by Mr Brandon Wood as Chief Financial Officer ("CFO"). The Board would like to thank Ms Mhlanga for her valuable contribution and wishes her well in her future endeavours.

Mr Wood's appointment follows an extensive recruitment process conducted by the Group´s Nominations Committee. He is extremely well qualified for the position, having previously served as CFO from 2013 to 2018, whereafter he held the positions of Executive Director: Commercial and Supply Chain and subsequently Executive Director: Retail.

In light of the Board's stated goal to streamline the Group's overhead cost structure, accelerated by the current COVID-19 era, the position of Executive Director: Retail will fall away.

Resignation and appointment of independent non-executive directors

With effect from 25 March 2020, Ms Zizipho Nyanga resigned as an independent non-executive director and a member of the Audit and Risk Committee. The Board would like to thank Ms Nyanga for her service and wishes her well for the future.

Mr Isaac Malevu was appointed as an independent non-executive director and member of the Audit and Risk Committee with effect from 25 March 2020. Mr Malevu, CA(SA), is currently the Chief Financial Officer for Client Coverage in the Corporate Investment Banking division within the Standard Bank Group Limited. Prior to that he was audit partner at Ernst & Young Inc. Mr Malevu has in excess of 20 years of international experience and thought leadership in a range of specialist areas including finance, treasury, corporate strategy, risk management and corporate governance. His appointment reflects the Group´s continuing commitment to enhancing the diversity of the Board and the expertise available to the business.

The Board welcomes Mr Malevu and looks forward to his contribution.

PROSPECTS

The consequences of the pandemic will be evident for the foreseeable future. Given the weak underlying structural fundamentals, the economy is likely to struggle to recover, even after all risk-adjusted restrictions have been lifted. Unemployment and personal indebtedness will continue to rise and disposable income will remain severely constrained. In light of the economic uncertainty and possible health risks, consumer confidence and spend will be fragile. We anticipate that semblances of traditional consumer behaviour will only resume once the pandemic subsides substantially.

Our clear challenge will be to continue to optimise on improvements made in our business to extract growth and gain market share.

- We are better structured operationally to reduce overhead costs across the business.
- The heightened emphasis on the joint venture store model will afford improved profitability and oversight.
- We will entrench and grow our market leadership through our high-profile, trusted brands and continue to invest in new and upgraded stores and manufacturing plants.
- Technological innovation will remain a key driver of growth.

In terms of the forthcoming financial year and the external environment, we anticipate the first six months will be very difficult while lockdowns persist. We are optimistic that the second six months commencing 1 January 2021, will be more robust, particularly since the comparison will be against five months of trading in FY2020. Our expectation is that the Group will deliver positive sales and profit growth in the first half of the new financial year and comparatively stronger sales and profits in the second half.

GROUP OUTLOOK

The following focus areas, aligned with management's KPIs, have been identified for the year ahead.

Strategic plan

- Open 10 to 15 new stores in the forthcoming financial year and advance the revamp programme to enhance the property portfolio's returns and the shopping experience for customers.
- Improve stock turn and product mix through better utilisation of the integrated supply chain; intensified implementation of the business optimisation programme; and enhanced use of analytics.
- Employ tactical disruptive marketing campaigns on a range of platforms to appeal to new customers.
- Grow the contribution of U-Light to the business through building on the existing lighting offering in TopT stores; expand the company-owned business model with a pilot franchise component; and develop an integrated import supply chain capability.
- Leverage the use of cutting-edge technology to improve the Group's competitive advantage across all trading platforms.
- Cautiously expand the Group's existing retail and manufacturing footprint in the rest of Africa and continue to investigate opportunities to enter new markets in the region.
- Progress to the second phase of the five-year logistics and distribution programme designed to extract optimal efficiencies and reduce costs.

Productivity

- Drive productivity as a core discipline to improve the competitive posture of the business.

Financial performance

- Margin pressure will increase in the next financial year, and cost leadership and intensified productivity measures across the stores, manufacturing and logistics businesses will be crucial to ensure we remain competitive.
- Maintain efficient working capital management.
- Plan and commence execution of the R800 million capex programme over the next 12 to 18 months.

Human capital

- Continue to invest in leadership development to build a pipeline of talent. Use our core values to inculcate a high performance, accountable-with-consequences culture. Where opportunities exist, convert non-performing franchise stores to joint ventures which will facilitate a recalibration of team composition and performance culture.

Customer satisfaction and operational excellence

- Entrench retail excellence disciplines aimed at enhancing the customer shopping experience and continue to improve on customer sentiment scores.

Environment, governance and social ("ESG") priorities

Progress the journey to improve the Group's current ESG sustainability credentials as well as the disclosure of developments in this regard.

Environment

- Reduce the Group's carbon footprint and consumption of non-renewable resources through initiatives including wider use of solar energy in the stores and factories, rainwater harvesting and water recycling in the factories.

Social impact

- Ensure that our community social initiatives are meaningful and sustainable and measure their impact on an ongoing basis.
- Drive our Proudly South African campaign in our stores and prioritise selling local products manufactured by local people.

Governance

- Continue to entrench the implementation of good corporate governance principles across all of the Group's business units.

SUBSEQUENT EVENTS

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

ORDINARY CASH DIVIDEND

The Board has declared a final gross ordinary cash dividend of 10,0 cents per share (2019: 19,0 cents per share), which together with the interim gross ordinary cash dividend of 23,0 cents per share (2019: 22,0 cents per share), produces a total gross ordinary cash dividend declared for the year ended 30 June 2020 of 33,0 cents per share (2019: 41,0 cents per share), a decrease of 20%.

The dividend cover remains at two and a half times.

DIVIDEND ANNOUNCEMENT

The Board has declared a final gross ordinary cash dividend (number 108) for the year ended 30 June 2020 of 10,0 cents per ordinary share, to all shareholders recorded in the books of Italtile as at the record date of Friday, 18 September 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 ordinary dividend amount is 10,0 cents per share for shareholders exempt from the dividends tax.

- The net local ordinary dividend amount is 8,0 cents per share for shareholders liable to pay the dividends tax.
- The local ordinary dividend withholding tax amount is 2,0 cents per share for shareholders liable to pay the dividends tax.
- Italtile's income tax reference number is 9050182717.
- The Group has 1 321 654 148 shares in issue including 9 824 614 shares held by the Italtile Share Incentive Trust, 63 772 861 shares held as BEE treasury shares and 17 621 666 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, 15 September 2020. The shares will commence trading ex-dividend from the commencement of business on Wednesday, 16 September 2020 and the record date will be Friday, 18 September 2020. The dividend will be paid on Monday, 21 September 2020. Share certificates may not be rematerialised or dematerialised between Wednesday, 16 September 2020 and Friday, 18 September 2020, both days inclusive.

This full long form announcement is available at https://senspdf.jse.co.za/documents/2020/jse/isse/ite/ye20.pdf and on Italtile's website at https://www.italtile.com. The short form announcement was published on SENS on 25 August 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

B G Wood
Chief Financial Officer

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

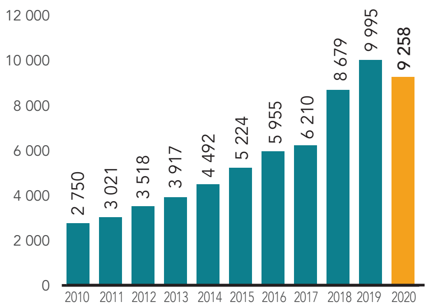
These condensed consolidated financial statements for the year ended 30 June 2020 have been reviewed by PricewaterhouseCoopers Inc., who expressed an unmodified review conclusion. A copy of the auditor's review report is available for inspection at the Company's registered office together with the financial statements identified in the auditor's report.

The auditor's report 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 the auditor's engagement, they should obtain a copy of the auditor's unmodified review opinion together with the accompanying financial information from the issuers registered office.

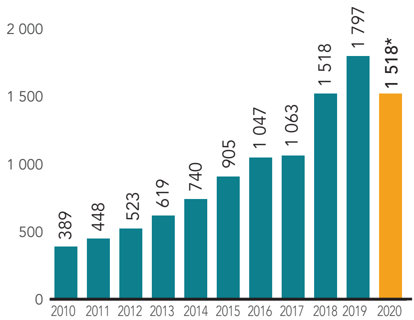
Johannesburg

24 August 2020

System-wide turnover (Rm)



Trading profit (Rm)



** Excludes once-off impairment charge of R16 million.*

SYSTEM-WIDE TURNOVER ANALYSIS

FOR THE YEAR ENDED 30 JUNE 2020

(Rand millions unless otherwise stated)

	% decrease	**Reviewed year to 30 June 2020**	Audited year to 30 June 2019
Group and franchised turnover			
– By Group-owned stores and entities	(4)	**6 690**	6 975
– By franchise-owned stores (unaudited)	(15)	**2 568**	3 020
Total	(7)	**9 258**	9 995

STORE NETWORK

AT 30 JUNE 2020

	2020			**2019**		
Region	Franchise	Other	Total	Franchise	Other	Total
South Africa						
– Italtile	**–**	**13***	**13***	–	13*	13*
– CTM	**32**	**40***	**72***	38	34*	72*
– TopT#	**34**	**49***	**83***	66	16*	82*
– U-Light	**–**	**6***	**6***	–	1	1
Rest of Africa						
– Italtile	**–**	**1**	**1**	–	–	–
– CTM	**4**	**18***	**22***	5	15*	20*
– TopT	**1**	**–**	**1**	1	–	1
	71	**127***	**198***	110	79*	189*

** Includes webstore.*

 # Three stores were closed during the year.

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

(Rand millions unless otherwise stated)

	% decrease	**Reviewed year to 30 June 2020**	Audited year to 30 June 2019
Turnover	(4)	**6 690**	6 975
Cost of sales		**(4 145)**	(4 361)
Gross profit	(3)	**2 545**	2 614
Other operating income		**438**	511
Operating expenses		**(1 466)**	(1 342)
Impairment of plant and equipment		**(16)**	–
Profit on sale of property, plant and equipment		**1**	14
Trading profit	(16)	**1 502**	1 797
Finance income		**74**	71
Finance cost		**(81)**	(52)
BBBEE transaction charge		**(39)**	–
Profit from associates – after tax		**1**	3
Profit before taxation	(20)	**1 457**	1 819
Taxation		**(434)**	(500)
Profit for the year	(22)	**1 023**	1 319
Other comprehensive income			
Items that may be re-classified subsequently to profit or loss:			
Foreign currency translation difference		**54**	(16)
Total comprehensive income for the period	(17)	**1 077**	1 303
Profit attributable to:			
– Equity shareholders		**964**	1 253
– Non-controlling interests		**59**	66
	(22)	**1 023**	1 319
Total comprehensive income attributable to:			
– Equity shareholders		**1 018**	1 237
– Non-controlling interests		**59**	66
	(17)	**1 077**	1 303
Earnings per share (all figures in cents):			
– Earnings per share	(24)	**78,3**	102,6
– Diluted earnings per share	(24)	**78,0**	102,2

CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

(Rand millions unless otherwise stated)

	Reviewed year to 30 June 2020	Audited year to 30 June 2019
ASSETS		
Non-current assets	**4 812**	4 472
Property, plant and equipment	**4 248**	3 942
Right-of-use assets	**349**	303
Investments in associates	**49**	26
Long-term financial assets	**133**	160
Goodwill	**19**	19
Deferred taxation	**14**	22
Current assets	**2 610**	2 953
Inventories	**896**	857
Trade and other receivables	**778**	850
Cash and cash equivalents	**860**	1 201
Taxation receivable	**76**	45
Total assets	**7 422**	7 425
EQUITY AND LIABILITIES		
Share capital and reserves	**5 634**	5 858
Stated capital	**4 314**	4 010
Non-distributable reserves	**26**	(28)
Treasury shares	**(735)**	(497)
Share option reserve	**280**	220
Retained earnings	**1 448**	1 902
Non-controlling interests	**301**	251
Non-current liabilities	**1 009**	923
Interest-bearing loans	**500**	500
Lease liabilities	**309**	257
Deferred taxation	**200**	166
Current liabilities	**779**	644
Trade and other payables	**617**	464
Provisions	**98**	121
Interest-bearing loans	**2**	3
Lease liabilities	**39**	44
Taxation payable	**23**	12
Total equity and liabilities	**7 422**	7 425

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

(Rand millions unless otherwise stated)

	Stated capital	Non-distributable reserves	Treasury shares	Share option reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 30 June 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					1 253	1 253	66	1 319
Other comprehensive income for the year		(16)				(16)		(16)
Total comprehensive income for the year	–	(16)	–	–	1 253	1 237	66	1 303
Purchase of own shares			(46)			(46)		(46)
Dividends paid					(899)	(899)	(42)	(941)
Transactions with non-controlling interests					(6)	(6)	(19)	(25)
Share incentive costs (including vesting)			26	37	8	71		71
Balance at 30 June 2019	4 010	(28)	(497)	220	1 902	5 607	251	5 858
Profit for the year					964	964		964
Other comprehensive income for the year		54				54		54
Total comprehensive income for the year	–	54	–	–	964	1 018	59	1 077
Issue of shares	304					304		304
Purchase of own shares			(243)			(243)		(243)
Dividends paid					(1 448)	(1 448)	(33)	(1 481)
BBBEE transaction charge				39		39		39
Transactions with non-controlling interests					7	7	24	31
Share incentive costs (including vesting)			5	21	23	49		49
Balance at 30 June 2020	4 314	26	(735)	280	1 448	5 333	301	5 634

CONDENSED GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2020

(Rand millions unless otherwise stated)	Reviewed year to 30 June 2020	Audited year to 30 June 2019 (restated*)
Cash generated by operations (note 10)	**2 159**	2 182*
Finance income	**74**	71
Finance costs	**(55)**	(31)
Lease liability finance costs	**(26)**	(21)*
Dividends paid	**(1 481)**	(941)
Taxation	**(416)**	(539)
Cash flow from operating activities	**255**	721*
Additions to property, plant and equipment	**(614)**	(622)
Proceeds on disposal of property, plant and equipment	**36**	95
Decrease/(increase) in long-term financial assets	**6**	(38)
Purchase of interest in subsidiaries and associates	**(22)**	(28)
Cash flow from investing activities	**(594)**	(593)
Proceeds of share issue	**304**	–
(Decrease)/increase in loans and borrowings	**(1)**	503
Acquisition of non-controlling interest	**–**	(16)
Treasury share movements	**(243)**	(46)
Lease liability payments	**(62)**	(47)*
Cash flow from financing activities	**(2)**	394*
Net movement in cash and cash equivalents for the year	**(341)**	522
Cash and cash equivalents at the beginning of the year	**1 201**	679
Cash and cash equivalents at the end of the year	**860**	1 201

** Cash flows related to IFRS 16 have been restated in order to be comparable to current period disclosures.*

SEGMENTAL REPORT

FOR THE YEAR ENDED 30 JUNE 2020

(Rand millions unless otherwise stated)

Reviewed year to 30 June 2020	Retail	Manu-facturing	Supply and Support Services
Turnover	**3 442**	**3 736**	**1 835**
– From external customers*	**3 442**	**2 790**	**458**
– Intersegment	**–**	**946**	**1 377**
Turnover from franchise stores (unaudited)**	**2 568**	**–**	**–**
Achieved gross margin	**1 209**	**920**	**199**
Depreciation	**(45)**	**(214)**	**(20)**
Impairment of plant and equipment	**–**	**(16)**	**–**
Profit on sale of property, plant and equipment	**#**	**#**	**#**
Trading profit	**296**	**458**	**209##**
Finance income	**8**	**40**	**60**
Finance costs	**#**	**(4)**	**(47)**
Income from associates	**–**	**–**	**–**
BBBEE transaction charge	**–**	**–**	**(39)**
Profit before taxation	**304**	**494**	**183**

* *Turnover from external customers includes sales to franchise stores.*

** *Franchise stores are not controlled by the Group.*

Less than R1 million.

Includes franchise income of R87 million disclosed in note 9.

Includes royalty income of R129 million disclosed in note 9.

(Rand millions unless otherwise stated)

Audited year to 30 June 2019	Retail	Manu-facturing	Supply and Support Services
Turnover	3 185	4 082	1 901
– From external customers*	3 185	3 122	668
– Intersegment	–	960	1 233
Turnover from franchise stores (unaudited)**	3 020	–	–
Achieved gross margin	1 155	1 043	186
Depreciation	(60)	(192)	(20)
Profit on sale of property, plant and equipment	–	1	1
Trading profit	333	607	264##
Finance income	9	29	47
Finance costs	–	(5)	(13)
Income from associates	–	–	–
Profit before taxation	342	631	298

* *Turnover from external customers includes sales to franchise stores.*

** *Franchise stores are not controlled by the Group.*

Less than R1 million.

Includes franchise income of R94 million disclosed in note 9.

Includes royalty income of R152 million disclosed in note 9.

Franchising	Properties	Associates	Consolidation	Total
–	–	–	(2 323)	6 690
–	–	–	–	6 690
–	–	–	(2 323)	–
–	–	–	(2 568)	–
–	–	–	178	2 506
(2)	(80)	–	–	(361)
–	–	–	–	(16)
–	#	–	–	1
248###	287	–	4	1 502
#	18	–	(52)	74
–	(82)	–	52	(81)
–	–	1	–	1
–	–	–	–	(39)
248	223	1	4	1 457

Franchising	Properties	Associates	Consolidation	Total
–	–	–	(2 193)	6 975
–	–	–	–	6 975
–	–	–	(2 193)	–
–	–	–	(3 020)	–
–	–	–	188	2 572
#	(72)	–	–	(344)
–	12	–	–	14
281###	308	–	4	1 797
#	13	–	(27)	71
–	(61)	–	27	(52)
–	–	3	–	3
281	260	3	4	1 819

GEOGRAPHICAL ANALYSIS

FOR THE YEAR ENDED 30 JUNE 2020

(Rand millions unless otherwise stated)

	South Africa	Rest of Africa	Australia	Consolidation	Group
Reviewed year to 30 June 2020					
Turnover	**7 802**	**726**	**485**	**(2 323)**	**6 690**
Non-current assets	**5 431**	**343**	**247**	**(1 209)**	**4 812**
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

NOTES

1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICY

Basis of preparation

The preliminary condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports and the requirements of the Companies Act of South Africa. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements. These results have been prepared under the supervision of the Chief Financial Officer, Mr B G Wood.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of these preliminary reviewed 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 International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("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 2020 and the financial position at 30 June 2020.

2. COMMITMENTS AND CONTINGENCIES

There are no material contingent assets or liabilities at 30 June 2020.

(Rand millions)

Capital commitments	30 June 2020	30 June 2019
– Contracted	**358**	339
– Authorised but not contracted for	**355**	149
Total	**713**	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

The Group sold a 10% non-controlling stake 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. EASYLIFE KITCHENS

Effective 1 February 2020, the Group acquired a 25,1% stake in Easylife Kitchens Management Proprietary Limited for a consideration of R18 million. This investment is accounted for as an associate investment from the effective date of acquisition.

6. 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, 9 million of the Group's shares net of forfeitures were held by qualifying staff members at 30 June 2020 (2019: 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 retain 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 (2019: 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 R25 million (2019: R18 million) to the Group's income; R13 million (2019: R9 million) of this charge is a once-off accelerated expense for franchise staff.

7. IMPAIRMENT OF PLANT AND EQUIPMENT

During the period under review, a decision was made by the Group to perform an upgrade of the manufacturing equipment and machinery at its SAMCA floor tile factory. The upgrade will result in the replacement of a significant portion of the equipment and machinery at the factory. Efforts have been made to identify possible repurposing or move of affected components to other factories, as well as to dispose of those components which could not be used elsewhere.

In anticipation of the upgrade, all operations at the factory were ceased towards the end of the period under review. Equipment and machinery with a carrying amount of R16 million as at 30 June 2020 has been impaired as a result, as these components have been deemed to have negligible recoverable amounts as they cannot be reused elsewhere or sold to third parties.

8. EARNINGS PER SHARE

	Reviewed year to 30 June 2020	Audited year to 30 June 2019
Reconciliation of shares in issue (all figures in millions):		
– Total number of share issued	**1 322**	1 295
– Shares held by Share Incentive Trust	**(10)**	(12)
– BBBEE treasury shares	**(64)**	(62)
– Shares held by Italtile Ceramics Proprietary Limited	**(18)**	–
Shares in issue to external parties	**1 230**	1 221
Reconciliation of share numbers used for earnings per share calculations (all figures in millions):		
Weighted average number of shares	**1 231**	1 222
Dilution effect of share awards	**5**	4
Diluted weighted average number of shares	**1 236**	1 226
Reconciliation of headline earnings (Rand millions):		
– Profit attributable to equity shareholders	**964**	1 253
– Profit on sale of property, plant and equipment – after taxation	**(1)**	(10)
– Impairment of plant and equipment – after taxation	**11**	–
Headline earnings	**974**	1 243
Per share figures		
Adjusted EPS (cents)*	**81,5**	102,6
Adjusted diluted EPS (cents)*	**81,1**	102,0
Headline EPS (cents)	**79,2**	101,8
Adjusted headline EPS (cents)*	**82,3**	101,8
Diluted headline EPS (cents)	**78,8**	101,3
Adjusted diluted headline EPS (cents)*	**82,0**	101,3
Dividends per share (cents)	**33,0**	41,0
Net asset value per share (cents)	**458**	480

** 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.

9. DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

(Rand millions unless otherwise stated)

	Reviewed year to 30 June 2020	Audited year to 30 June 2019
Turnover#	**6 690**	6 975
Royalty income from franchising*	**129**	152
Other franchise income*	**87**	94
	6 906	7 221

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

* *Franchise income has been disaggregated from other operating income.*

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

(Rand millions unless otherwise stated)

	Reviewed year to 30 June 2020	Audited year to 30 June 2019 (restated*)
Cash flows from operating activities:		
Profit before taxation	**1 457**	1 819
Adjusted for:		
Income from associates	**(1)**	(3)
BBBEE transaction charge	**39**	–
Depreciation	**299**	282
Depreciation – IFRS 16 right-of-use asset	**62**	58
Finance cost – IFRS 16	**26**	21
Lease payment – IFRS 16	**–**	–*
Profit on sale of property, plant and equipment	**(1)**	(14)
Impairment of plant and equipment	**16**	–
Finance income	**(74)**	(71)
Finance costs (excluding IFRS 16 finance costs)	**55**	31
Share-based payment expenses	**84**	76
Foreign currency translation difference	**9**	5
Executive Retention Plan repayment	**–**	(36)
Working capital changes:		
Inventory	**(39)**	(51)
Trade and other receivables	**89**	128
Trade and other payables (including provisions)	**137**	(63)
Cash generated by operations	**2 158**	2 182*

* *Cash flows related to IFRS 16 have been restated in order to be comparable to current period disclosures.*

11. COVID-19

During the fourth quarter of the period under review, trading in our operations ceased for a five-week period as a result of the national lockdown brought about by the COVID-19 pandemic. During this time, the Group incurred losses as it was unable to trade and profits remained suppressed thereafter as activities resumed incrementally with the phased relaxation of regulated restrictions. During the final month of the period under review, much improved trading results and profit growth were achieved. To date, the pandemic has not had a materially adverse effect on collection of receivable balances due to the Group, no material impairments directly attributable to the pandemic have been recorded, and the Group remains a robust going concern with positive prospects for growth.

12. TRANSACTION WITH YARD SPV

During the period under review, 26,4 million shares were issued to a wholly owned subsidiary of Yard Investment Holdings Proprietary Limited for a net consideration of R304 million. The transaction took place in accordance with the Group's strategic intent to improve its BBBEE credentials and resulted in a once-off charge of R39 million calculated in accordance with IFRS 2 Share-based Payment.

13. 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 30 June 2020 or the results of its operations or cash flow for the period then ended.

ADMINISTRATION

ITALTILE LIMITED

Share code: ITE
ISIN: ZAE 000099123
Registration number: 1955/000558/06
Incorporated in the Republic of South Africa
("Italtile" or "the Group" of "the Company")

Registered office

The Italtile Building
Corner of William Nicol Drive and Peter Place
Bryanston
2021

Postal address

PO Box 1689
Randburg
2125

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 (Chief Financial Officer)

Non-executive directors

G A M Ravazzotti (Chairman), L R Langenhoven (Deputy Chairman),
S M du Toit (Lead Independent Director), S G Pretorius, N P Khoza, I N Malevu

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