ITALTILE DELIVERS DOUBLE-DIGIT GROWTH DESPITE SLOWER CONSUMER SPENDING

Johannesburg; 14 February 2013: Italtile Limited is South Africa's leading franchisor and retailer of imported and local ceramic tiles, sanitaryware, bathroomware, laminate flooring, décor and other related products. The Group's brand portfolio consists of Italtile Retail, CTM and TopT. The local retail network comprises 90 stores nationwide; the Group also has 17 CTM stores in eight other African countries and eight CTM stores in Australia. The retail operation is supported by a strategic property portfolio and vertically integrated supply chain.

Chief Financial Officer, Peter Swatton, says, "The Group has delivered creditable results in an industry which experienced a persistent lack of private and public sector investment, borne out by the paucity of new build activity, sluggish renovations segment and statistics which indicate a reduction in tile consumption across the market.'

"This decline in market size, together with intensified competition amongst industry participants challenged retailers to greater innovation; the Group's four decades of experience served to benefit the business in delivering solid growth,' he notes.

Booth comments, "Whilst the middle income market appeared less resilient than top and bottom-end earners, consumers across the spectrum were price sensitive and acutely conscious of value-for-money offerings.'

TRADING ENVIRONMENT: Consumer spending slowed appreciably as increased utility costs and higher fuel and food prices served to constrain discretionary spend. Economic uncertainty, lack of job security, high levels of unemployment and indebtedness, and tighter lending criteria in the unsecured lending market also fostered the spending slowdown evidenced by markedly reduced footfall in certain of the Group's regions.

Swatton comments, "As a result of these macro-economic factors, some of our traditionally robust rural markets failed to deliver historical growth levels, resulting in a less buoyant December trading period than expected.' He adds, "The Group's traditional core market, namely inland suburban communities, delivered good growth, whilst the coastal regions lagged their counterparts.'

Despite consumers remaining price sensitive, the demand for high quality, stylish product in keeping with international trends continued to grow. Economic instability in European markets provided good buying opportunities, but the steady depreciation of the Rand over the period served to partially negate the benefits of importing product.

FINANCIAL HIGHLIGHTS

- System wide turnover improved 10% to R2.04 billion (2011: R1.84 billion). During the latter part of the period five new stores were opened including one CTM and four TopT stores; however, given their negligible contribution to turnover, the Group's increased revenue is largely derived from same-store organic growth.
- Revenue from Group-owned stores grew 14% to R1.08 billion (2011: R946 million), while franchised stores increased turnover by 6% to R956 million (2011: R898 million).
- Reported trading profit rose 15% to R312 million (2011: R271 million), reflecting tight cost control; additionally, after several consecutive years of absorbing pricing pressure and sacrificing margins in the context of substantially higher input costs, modest inflation-linked price increases were implemented in the retail network.
- Basic earnings per share and headline earnings per share increased 12% and 13% respectively to 24.2 cents per share and 24.3 cents per share.
- The Group's cash and cash equivalent reserves were R453 million (2011: R904 million), reflecting the investment of R529 million incurred to acquire a strategic stake in Ceramic Industries Limited and capital expenditure of R95 million invested primarily in enhancing the quality of the property portfolio.
- Net asset value per share increased by 15% to 236 cents (2011: 205 cents).
- An interim dividend of 8.0 cents per share (2011: 7.0 cents) has been declared, a 14% increase.

Key to the Group's growth was:

- A refined and improved product range across the Group's brands ensuring a better product value / quality mix;
- The deliberate strategy to up-sell ‘complete solutions' of products rather than individual commodities, which served to increase the size and value of the average consumer basket. The enhancement of stores with greater focus on ‘lifestyle' displays also promoted this strategy;
- Continued growth in the bathroomware division across the Group which delivered an average 9% increase in sales volumes;
- Consolidation and expansion by each of the brands in their specialist areas: Italtile Retail continued to grow its presence in the up-market projects sector and entrenched its leadership in the environmentally-friendly product niche; CTM made further inroads into the middle and lower top-end of the market with continued pioneering and introduction of highly fashionable inkjet technology tile products (wood and stone look-alike) and imported Spanish product; and TopT grew brand awareness with the opening of four new stores and continued to grow market share with its opportunistic product range, including ceiling tiles and paint.
- Investment in CTM's electronic media brand campaigns continued to raise the profile and increase sales volumes of core ranges including Elf flooring, Tivoli taps and Kilimanjaro tiles;
- The Group's deliberate tactic to promote its policy of the right stock at the right time through an increased inventory and improved range continued to have positive benefits by delivering enhanced customer service. Prudent inventory management ensured the continued decline in stock losses and consistently improved stock turn; and
- Significant progress was achieved in improving the Group's interactive web-based capability and increasing web traffic to the CTM site. During the period, CTM's customers were able to view the product range and ascertain availability online, in real-time, and develop a quote; this service will be extended when the brand's online store becomes fully functional in the second half of the calendar year enabling customers to view and purchase products online and arrange delivery via the internet. This offering will have appeal for a new generation of younger tech-savvy consumers and

will significantly increase convenience for small business builders. This innovation is expected to provide an important competitive advantage.

SUPPORT SERVICES: The Group's integrated supply chain comprises ITD (an importer and supplier of taps, accessories and other brassware), Cedar Point (an importer and supplier of laminate flooring, bathroom cabinets and tile décor) and Distribution Centre (an importer of porcelain tiles).

Notwithstanding the truck drivers' strike which impacted negatively on delivery to stores, the supply chain continued to add value to the brands through ensuring consistent availability of an improved range and price blend for customers.

Highlights during the period include accreditation by the SABS of ITD's Amalfi range and Cedar Point's centralisation of décor supply, which has improved the offering and service.

REST OF AFRICA: Italtile has been represented in Africa north of our borders for 12 years via the Group's CTM brand which comprises 17 stores in eight African countries. During the period a further new store was opened in Nairobi. Management is cognisant of the strong demand for the Group's products in the region, particularly in East Africa, but experience gained has proved that further expansion will continue to be restricted by logistical and infrastructural constraints.

AUSTRALIA: The Australian operation comprises only a very small component of the Group's total business, being limited to eight CTM stores in Queensland and New South Wales.

Trading conditions remained difficult in the review period, reflected by a marginal loss reported by the business for the six months. Management has implemented a comprehensive strategic programme to restore the operation to profitability, and further roll out of the store network has been postponed until the benefits of this business model transformation are evident. This operation's ability to compete effectively in the current economic climate will determine whether it remains a viable prospect.

PROPERTY PORTFOLIO: The Group's property portfolio comprises premium sites offering strategic support to the retail brands; it has an estimated market value in excess of R1.4 billion. Investment of R80 million (2011: R71 million) was made in acquiring new and extending existing properties; in addition capital expenditure of R15 million (2011: R17.6 million) was incurred on improving existing properties.

PROSPECTS: Management is of the opinion that in the current macro-economic environment, trading conditions will remain difficult for the foreseeable future.

Swatton says, "There are strong indications that consumers will continue to be pressured by constrained disposable income and will prioritise essential spending over discretionary spending in the face of economic uncertainty. In this regard, the Group's consumers in the lower LSM sector are expected to prove least resilient. It is anticipated that above-inflation income growth and the low interest rate environment will support consumer spending in the Group's mid to upper LSM target markets, but probably not at levels achieved over recent years."

Notwithstanding this subdued economic context, the Group remains confident that growth opportunities exist for innovative retailers.

"Management's focus will be on leveraging improvements in the business and supply chain to capitalise on capacity in the local market to increase Italtile's market share," Swatton concludes.

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