ITALTILE CAPITALISES ON GROWTH OPPORTUNITIES TO DELIVER IMPRESSIVE RESULTS

Johannesburg, Wednesday, 15 August 2012: Italtile Limited, South Africa's leading franchisor and retailer of imported and local ceramic tiles, sanitaryware, bathware, laminate flooring and other related products has delivered another consecutive set of strong results in subdued trading conditions. The Group is represented via a national network of high profile branded retail outlets comprising Italtile, CTM and TopT, each focused on a specific market segment catering to homeowners across the income spectrum. The retail operation is supported by a vertically integrated supply chain.

Chief Financial Officer, Peter Swatton, says, "Trading conditions remained muted with limited investment in the sector; typical of a downturn in the economy, some activity was evident in the renovations market while the new build segment remained largely stagnant. The industry continued to experience an influx of product from Chinese and European suppliers targeting new markets for growth opportunities, and volatility in the market was exacerbated by aggressive price positioning and margin pressure. Further fragmentation of the sector was witnessed as industry participants down-sized and consolidated as unsustainable margins impacted their businesses."

Swatton notes, "Competition remained extremely intense in the polished porcelain and entry-level tile market, and in the laminate board segment the price war continued unabated."

"In this environment," Swatton explains, "Italtile's satisfying results for the year under review are a reflection of the Group's success in leveraging growth opportunities in the business and in the market."

FINANCIAL HIGHLIGHTS

- System-wide turnover increased 16% to R3.52 billion (2011: R3.02 billion).
- Revenue from Group-owned stores grew 21% to R1.85 billion (2011: R1.52 billion).
- Trading profit grew 17% to R523 million (2011: R448 million). Margins reduced slightly, reflecting the Group's deliberate strategy

to absorb the impact of currency volatility and increased energy costs in the current competitive trading environment. Average selling prices were sub-inflationary and contained to certain product lines, in a continued effort to entrench the Group's everyday value proposition.

- Basic earnings per share and headline earnings per share both increased 18% to 41.1 cents per share and 41.0 cents per share respectively.
- Inventory levels rose to R339 million (2011: R241 million) in line with the tactic to ensure optimum stock levels and consistent availability of merchandise – a factor which played a significant role in the Group's improved results. Whilst stock volumes increased, stock turn improved proportionately as a function of the improved range matrix.
- Capital expenditure of R120 million (2011: R135 million) was incurred, predominantly related to improving the quality of the Group's property portfolio.
- Notwithstanding this outlay, cash and cash equivalents improved 9% to R917 million (2011: R839 million).
- Net asset value per share increased by 17% to 218 cents (2011: 186 cents).
- A final dividend of 7 cents per share (2011: 6 cents) has been declared, which together with the interim dividend of 7 cents, produces a total dividend for the year of 14 cents (2011: 12 cents) an increase of 17%.

Swatton says that central to the Group's growth were renewed efforts to hone basic retail principles. Key focus areas included:

- Greater sensitivity to evolving customer tastes and purchasing trends, and responding with:
    - A policy of the right stock at the right time featuring better ranges and improved stock management; beautified stores, and improved layouts, displays and pricing; and innovative technology and interactive web-based capability to increase accessibility to customers and appeal to younger markets. Intensified mentorship, management and leadership

programmes aimed at improving service levels and developing depth of talent also received priority attention.

He adds, "Other factors central to the Group's business model and responsible for the solid performance are the strong equity which the Group's brands enjoy amongst consumers; Italtile's robust balance sheet which facilitated higher levels of inventory to support increased turnover; and the Group's long-standing stable relationships with local and international suppliers which mitigated the effects of currency fluctuations and supply volatility."

OPERATIONAL REVIEW – SOUTH AFRICA

With a net increase of only three new stores, the Group's improved results were derived predominantly from organic growth in the business. Increased revenue and profitability and a gain in market share were achieved across the retail brands, Italtile Retail, CTM and TopT, as well as by the supply chain businesses.

The middle class market continued to provide robust growth opportunities, largely a function of the brands' better understanding and response to customer demands, and to attaining access to previously under-serviced rural and outlying areas. In terms of regional performance, strong growth was reported in Limpopo, Mpumalanga and Gauteng, with improved performances in Botswana, Namibia, North West and Free State provinces. The coastal regions continue to underperform their inland counterparts.

ITALTILE RETAIL: This brand is the leading fashion retailer of exclusive ranges of tiles, bathware and related products catering to upper-middle and premium-end consumers and the professional projects market. Italtile Retail grew sales growth by 26% and improved profitability. The brand gained market share across its offering, with particularly strong growth experienced in the bathware segment, including a range of water-wise products. In addition, new technology environmentally-conscious tiles now comprise almost 50% of the brand's offering and have firmly established Italtile as the foremost supplier in this niche category. Italtile Retail also succeeded in advancing management's stated goal to grow its

Commercial Projects base with the successful supply of a range of products to a prestigious Bank office block project in Menlyn, Pretoria.

CTM: This brand is a leading specialist retailer of tiles, laminate boards, taps, sanitaryware, bathroom furniture and accessories, targeting middle income DIY customers and small builders. CTM achieved solid growth across the merchandise categories and a further gain in market share in the emerging middle class segment. Overall sales grew by 16%, with tile sales volumes increasing by 8%, and bathware delivering 27% growth. The brand successfully cemented its ‘Big savings. More style.' positioning with a range of activities including store and signage revamps, improved layouts and clearer pricing in-store and the re-design of its tile range with greater focus on quality and flair. Strong competitive advantage was gained from implementation of an automated replenishment system which increased stock availability in the stores and facilitated the policy of ‘the right stock at the right time'.

TOP T: This brand is the Group's entry-level value offering strategically situated in close proximity to under-serviced rural and outlying markets, retailing tiles, laminate boards, taps, sanitaryware, hardware and accessories. TopT grew system-wide and like-on-like sales by 41% and 25% respectively. The brand improved its penetration of existing markets and gained market share through TopT's strategies to facilitate access to affordable products and build strong community relationships. The brand enhanced its market presence with the closure of three under-performing stores and opening of five new stores in more suitable locations, namely Zeerust, Pretoria West, Thembisa, Nelspruit and Witbank.

SUPPORT SERVICES: The Group's vertically integrated supply chain comprises: Cedar Point, an importer and distributor of tiling tools, laminate boards, cabinets and accessories; International Tap Distributors (ITD), an importer and distributor of taps and accessories; and Italtile's Distribution Centre, which sources imported tiles for the retail brands and provides warehousing and distribution facilities to the Group.

Cedar Point's results improved across its merchandise categories, delivering sales growth of 27%. ITD succeeded in gaining market share across its offering and improved on the solid performance reported in the prior year to deliver record sales and profits. Sales increased by 31%. The Group's Distribution Centre delivered a pleasing performance, growing revenue across its customer base by 46%.

AUSTRALIA: The Group's operation which comprises eight stores in Queensland and New South Wales, delivered a disappointing performance, with the business reporting a marginal loss for the period. Management's priority in the forthcoming period will be to contain overheads, and a strategic plan to restore profitability is being finalised at present.

OFFER TO CERAMIC INDUSTRIES LIMITED (CERAMIC): During the review period the Group advised shareholders that it wished to strengthen its relationship with key tile and sanitaryware supplier Ceramic Industries, through the acquisition of a 15% to 20% strategic shareholding in Ceramic. Swatton notes that the Group has completed its due diligence on Ceramic and is in the process of finalising its offer at R130 per Ceramic share. Further details regarding the proposed offer are expected to be announced in due course.

PROSPECTS: Swatton comments, "Competition in the Group's Southern African and Australian markets will remain intense."

"In the short term, instability in European markets presents opportunities to source high quality fashionable product at affordable prices, and Italtile will leverage this potential," he says.

The Group will continue to invest in technology, embracing greater use of web-based interaction and social media to ensure that its offering remains top of mind and within easy access of consumers.

Swatton notes, "Management's focus in the year ahead will be on capitalising on further growth opportunities within the existing supply chain and store network. This will require intensified emphasis on containing overheads and enhancing innovation, training and service."

"Italtile's South African business should continue to grow at current rates in the forthcoming period. Management is satisfied that there is capacity in the local market to increase consumption of the Group's merchandise, and accordingly, robust growth targets have been set for the year ahead. In contrast, expectations for the Australian market are more restrained," concludes Swatton.

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