ITALTILE REPORTS DOUBLE-DIGIT ORGANIC GROWTH IN CHALLENGING MARKET

Johannesburg; Thursday, 21 August 2014: Italtile Limited is a franchisor and retailer of local and imported tiles, sanitaryware, bathware, laminated flooring and other related home-finishing products in South Africa. The Group's national branded retail store network comprises 115 CTM, Italtile Retail and TopT stores and has appeal for homeowners in the LSM categories 4 to 10. The brands are strategically supported by a property investment portfolio and vertically integrated supply chain.

Italtile CEO, Nick Booth, says, "The Group has reported pleasing double digit growth, including in previously under-performing regions, as a result of intensified focus on a range of key areas including investment in people and processes, innovation in products and technology, and enhancement of efficiencies and cost containment. As a result of these initiatives the Group improved profitability and retained market share; we also made good progress in standardising performance consistency and our offering across the brands to enhance in-store satisfaction for customers."

TRADING ENVIRONMENT: In the construction sector the renovations market was slightly more buoyant than the new-build segment, which remained subdued in the context of negative sentiment and restrained public and private sector investment.

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."

"The devaluation of the currency over the period had a significant impact on industry participants and trading behaviour, harming independent opportunistic traders and restricting access to new entrants. Other consequences of this currency volatility and aggressive price competition were stock shortages and range gaps both in price and fashion, as operators attempted to cut costs further," he adds.

Booth says, "The Group's business model, strategically underpinned by its integrated supply chain, and strong cash reserves, was pivotal to its continued growth in this testing environment. Our stated policy of ensuring the right stock at the right time, place and price, together with an uncompromising focus on quality, ensured that Italtile entrenched its position as a leading retailer in the sector."

FINANCIAL HIGHLIGHTS – CONTINUING OPERATIONS

(Following the disposal of non-core businesses the information below refers to continuing operations only)

- System-wide turnover for the period rose 17% to R4.46 billion (2013: R3.82 billion).
- Due to the deliberate strategy to capture costs in the supply chain, the Group was able to maintain competitive pricing in its stores.
- Trading profit grew 23% to R751 million (2013: R611 million) and was impacted by an IFRS2 charge of R17 million, of which R11 million is a once-off charge, related to an equity-settled staff share incentive scheme implemented during the period, and an impairment of R20 million (2013: R5 million) recorded on the Group's property portfolio in Australia, a reflection of continued adverse economic conditions in that country.
- Earnings per share and headline earnings per share grew 19% and 24% respectively. Headline earnings have been adjusted for the impairment on the Group's property in Australia as well as after tax profits realised on the sale of Allmuss Zambia (a property holding company in Zambia) and other properties, totalling R8 million.
- Inventory levels increased to R408 million (2013: R335 million), primarily due to stocking up new stores which were added to the Group store network and an extension of the Cedar Point range. One of the Group's key competitive advantages is the consistent availability of an extensive range of fashionable merchandise. Stock control is therefore prioritised to ensure that stock turn continuously improves to enhance product life-cycles and provides for the addition of new ranges.
- Capital expenditure of R166 million (2013: R168 million) was incurred primarily to enhance the Group's property investment portfolio through the acquisition of four new properties and an ongoing store upgrade programme across the network. This investment, together with the net special dividend of R467 million

paid during the period, resulted in net cash reserves of R249 million at the end of the period.

- A final gross cash dividend of 10.0 cents per share (2013: 8.0 cents per share), has been declared which together with the interim gross cash dividend of 9.0 cents per share (2013: 8.0 cents per share), produces a total gross cash dividend for the year of 19.0 cents per share (2013: 16.0 cents per share), an increase of 19%.

OPERATIONAL REVIEW

ITALTILE RETAIL: This business improved sales and profitability and accomplished good progress in a range of key focus areas. Whilst growth was achieved across the merchandise categories, notably strong sales were reported in the Bath Shop. In addition, the Commercial Projects division delivered strong growth in the brand's non-residential business in Gauteng. Intensive cost containment ensured that margins remained firm in the context of currency devaluation and the brand's deliberate decision to broaden its range to appeal to the middle-income market; market share gained in this segment endorses this strategy.

CTM: Most of the brand's trading regions recorded double digit growth for the full review period. Particularly noteworthy was the improvement reported by the coastal markets, which have lagged growth in the inland regions for several years. During the period the brand retained its market share across the merchandise categories and made progress in improving tile sales volumes, which had underperformed management's expectations in the prior year. The average product basket size improved, as did sales of complete product solutions and higher value items. In the context of Rand weakness, the brand derived competitive advantage from the strength of its supply chain which ensured uninterrupted supply of well-priced imported product across the merchandise categories, and also guaranteed consistent availability of good quality local tile products.

TOPT continued to gain traction in its markets, reporting strong sales for the year. The brand made progress in building on its growing reputation as a one-stop home-finishing supplier, and its ability to ensure consistent availability of good quality, affordable merchandise gave it a competitive edge in a market characterised by less formalised, independent traders.

During the period the brand fine-tuned its pay-off line to "Every price a LOW price", reinforcing TopT's positioning as the low cost leader in the industry. New product categories continued to be added to the mix in response to consumer demand, and the introduction of a private label paint range was also well received.

SUPPORT SERVICES: The supply chain businesses, **INTERNATIONAL TAP DISTRIBUTORS, DISTRIBUTION CENTRE** and **CEDAR POINT**, reported increased turnover for the period reflecting improved sales through the Group's retail brands. Whilst average price increases rose across their industries in the context of Rand weakness, these operations implemented a deliberate strategy to support the Group's competitive value offering in-store by absorbing higher input costs.

INVESTMENT IN ASSOCIATES

CERAMIC INDUSTRIES LIMITED ("CERAMIC"): The 20% strategic investment in its largest supplier of tiles, sanitaryware and baths once again delivered tactical advantages in supporting the Group's growth programme. In the context of the weaker Rand, this relationship with Ceramic served to enable consistent supply of local high quality, affordable products. The all-round improved performance reported across this business resulted in a 70% growth in profitability and an increase in contribution to Group profit of R24 million for the full year (2013: R9 million).

GLOBAL PROPERTY INVESTMENT: This division's mandate is centred on providing an optimal shopping experience for customers, which it achieves through ensuring that branded stores are situated on highly visible, accessible sites and by continuously evaluating and enhancing the quality of its properties to ensure an aesthetically pleasing, well-maintained shopping environment. This portfolio has a market value of approximately R1.9 billion. During the year capital expenditure of R96 million (2013: R114 million) was incurred on new properties and improvements across the brand footprint.

STAFF SHARE SCHEME: During the reporting period an equity-settled staff share scheme was implemented, consistent with the Group's ethos of promoting partnership with its employees and incentivising them to participate in the growth and profitability of the business.

PROSPECTS: "We anticipate current trading conditions to persist for the foreseeable future but remain optimistic that there are sufficient opportunities to leverage in the business and the industry to enable the Group to continue to deliver a satisfactory performance for all stakeholders," says Booth.

He elaborates, "We have a clear strategy in place for growing each of the three retail brands. In addition, improvements in the supply chain related to procurement and stock management will drive efficiencies and cost containment."

"Italtile's reputation for innovation in the industry will be pursued through continuous research into new markets, cutting edge merchandise, and systems and equipment to improve the customer shopping experience," he concludes.

Nick Booth
Chief Executive Officer,
Italtile Ltd
Tel: 011 510 9050

Del-Maree English
Investor Communications
Mobile: 083 395 8608