ITALTILE Limited

Preliminary profit announcement and reviewed Group results for the year ended 30 June 2012

OVERVIEW FOR THE YEAR ENDED 30 JUNE 2012

Italtile Limited is South Africa's leading franchisor and retailer of imported and local ceramic tiles, sanitaryware, bathware, laminate flooring and other related products. 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.

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.

KEY TO THE GROUP'S GROWTH

- Renewed emphasis on basic retail principles aimed at delivering an unsurpassed shopping experience to customers. 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;
  - Innovative technology and interactive web-based capability to increase accessibility to customers and appeal to younger markets;
  - Refined warehouse and logistics systems; and
  - Intensified mentorship, management and leadership programmes aimed at improving service levels and developing depth of talent.

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;
- The robust balance sheet which facilitated higher levels of inventory to support increased turnover; and
- Long-standing stable relationships with local and international suppliers which mitigated the effects of currency fluctuations and supply volatility.

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 enhanced 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).

TRADING ENVIRONMENT

Reflecting similar trading conditions to those experienced in recent years, the building industry remained subdued 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. 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.

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

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, comprising International Tap Distributors, Cedar Point and the Group's Distribution Centre.

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 compared to 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.

Key achievements for the period include:

- Sales growth of 26% and improved profitability;
- A gain in market share across the brand's 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; and
- Advancement of management's stated goal to grow Italtile's Commercial Projects base with the successful completion of a prestigious Bank office block in Menlyn, Pretoria. A range of Italtile products including tiles, sanitaryware and brassware is showcased in this project. The building has a 4-star Green rating and serves as an excellent reference for architects and other professional contractors.

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.

Key achievements for the period include:

- 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;
- Success in cementing CTM's 'Big savings. More style.' positioning with a range of activities including store and signage revamps, improved layouts and clearer pricing in-store;
- Re-design of the tile range with greater focus on quality and flair. The introduction of ink-jet technology in tile manufacturing has significantly improved the stylishness of products;
- Development of intuitive 'solutions' of suites of products to simplify purchasing decisions;
- Strong competitive advantage was gained from the 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'; and
- In light of increased inventory volumes, warehouse and stock movement efficiencies were implemented, which combined with improved barcode scanning technology resulted in improved inventory management, and in turn a better customer shopping experience.

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.

Key achievements for the period include:

- System-wide and like-on-like sales growth of 41% and 25% respectively;
- Improved penetration of existing markets and a gain in market share achieved through TopT's strategies to facilitate access to affordable products and build strong community relationships;
- Enhanced 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; and
- Greater attention was paid to improving the shopping experience through an enhanced product range, an intensified focus on innovation and retail flair in-store, and increased skills and product training amongst staff. As a result of these initiatives, TopT's market appeal was extended from its traditional entry-level consumers to include cost-conscious middle class bargain hunters.

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. Sales increased by 27%, although margins were impacted by the unfavourable exchange rate and intensified competition in the laminate board market.

Notwithstanding the aggressively competitive trading environment, 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%. These results are attributable to improved stock management and range, and warehouse efficiencies.

The Group's Distribution Centre delivered a pleasing performance, growing revenue across its customer base by 46%. The rand value of tile sales to the CTM store network improved by 40%, equating to an increase in square metre sales of 42%. Margins were slightly lower than forecast as a function of absorbing some of the impact of rand weakness and the sharp increase in diesel prices to ensure that the Group retained its price leadership in the keenly contested imported tile segment.

Rest of Africa Opportunities to expand into the region, particularly East Africa, are reviewed on a regular basis since there is strong demand for the Group's products in those territories. Expansion is however hampered by logistical and infrastructural constraints and the lack of suitable partners.

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.

Widespread flooding in Queensland badly impacted the local economy; additionally Government funding and reconstruction work has to date failed to provide the anticipated stimulus needed by the industry.

Intensified market competition and an oversupply of cheap Chinese tiles served to squeeze margins in the price-driven lower end of the market. In response, management has elected to reposition its focus and increase its range of European products which should restore margins and add flair to the offering.

Management's priority in the forthcoming period will be to contain overheads, and a strategic plan to restore profitability is being finalised at present.

Global Property investment This portfolio comprises strategically located high profile destination sites which underpin the market presence of the Group's retail brands. The portfolio has an estimated current market value of R1,5 billion. Investment of R124 million was made in properties in South Africa and Australia.

The property division reported returns in line with the Group's retail trading operations.

EVENTS SUBSEQUENT TO THE STATEMENT OF FINANCIAL POSITION DATE

Black Economic Empowerment ('BEE') On 2 July 2012, shareholders were advised that Italtile's BEE structure had been revised, with the exit of BEE shareholder, Arrow Creek, and the subsequent acquisition of that entity's 24,6 million shares by the Foundation Trust, a registered public benefit organisation, in accordance with the Group's policy that the former Arrow Creek shareholding continue to be held by a BEE entity. The general meeting approving the transaction was held on 14 August 2012. Eighty five per cent of all distributions made by the Trust will be for the benefit of black people.

Offer to Ceramic Industries Limited ('Ceramic') Italtile and Ceramic shareholders were advised on 28 May 2012 that Italtile had expressed an interest in making an offer to Ceramic shareholders other than Rallen (Pty) Limited ("Rallen"), the majority shareholder of both Italtile and Ceramic, to acquire between 15% and 20% of the issued share capital of Ceramic for a cash consideration of R130 per Ceramic share. Ceramic shareholders were advised that, should Italtile succeed, this would lead to a proposal to delist Ceramic from the JSE.

Shareholders were subsequently advised on 29 June 2012 that Italtile had completed a due diligence exercise on Ceramic to its satisfaction and confirmed that the price per Ceramic share at which the Offer would be extended would remain at R130 per Ceramic share.

Shareholders were further advised on 31 July 2012 that the Italtile Board of directors and a committee of Ceramic directors (independent of Italtile and Rallen) were in the process of finalising the documents and amendments to trust deeds and agreements that are required to satisfy Italtile's pre-conditions to making the Proposed Offer.

PROSPECTS

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.

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.

Management's focus in the year ahead will be on capitalising on 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.

Basis of preparation of accounting The Preliminary Profit Announcement has been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards and the AC 500 standards as issued by the Financial Reporting Standards Council and contains the information required by International Accounting Standard 34, Interim Financial Reporting. These results have been prepared under the supervision of Chief Financial Officer, Mr PD Swatton CA(SA).

Dividend The Group has maintained its dividend cover of three times. The Board has declared a final dividend of 7 cents per share (2011: 6 cents), which together with the interim dividend of 7 cents, produces a total dividend declared for the year of 14 cents (2011: 12 cents) an increase of 17%. The dividend will be subject to the new dividend tax that was introduced with effect from 1 April 2012. Supplementary tax information in relation to dividends, as required by paragraphs 11.17 (a) (i) to (x) and 11.17 (c) of the JSE Listings Requirements will be supplied in due course.

Dividend announcement The Board has declared a final dividend (no 92) of 7 cents per ordinary share to all shareholders recorded in the books of Italtile Limited at the close of business on Friday, 31 August 2012. The last day to trade CUM dividend in order to participate in the dividend will be Friday, 24 August 2012. The shares will commence trading EX dividend from the commencement of business on Monday, 27 August 2012 and the record date will be Friday, 31 August 2012. The dividend will be paid on Monday, 3 September 2012. Share certificates may not be rematerialised or dematerialised between Monday, 27 August 2012 and Friday, 31 August 2012, both days inclusive.

For and on behalf of the Board

G A M Ravazzotti	**P D Swatton**	Johannesburg
Executive Chairman	Chief Financial Officer	15 August 2012

The results have been reviewed by Ernst & Young Inc. and their review opinion is available on request from the company secretary at the company's registered office.

System-wide turnover analysis

For the year ended 30 June 2012 *(Rand millions unless otherwise stated)*	% increase	Reviewed year to 30 June 2012	Audited year to 30 June 2011
Group and franchised turnover			
– By Group-owned stores and entities		1 845	1 521
– By franchise-owned stores (unaudited)		1 673	1 500
Total	16	3 518	3 021

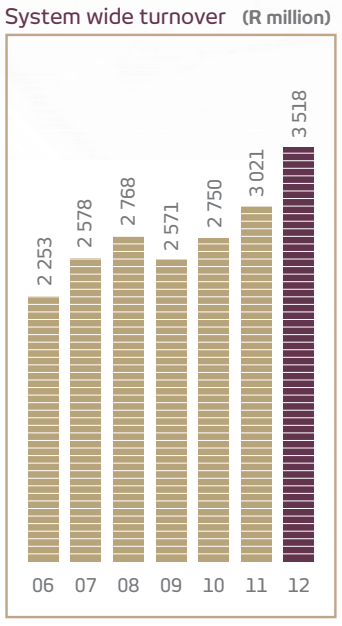
Abridged Group statements of comprehensive income

For the year ended 30 June 2012 *(Rand millions unless otherwise stated)*	% increase	Reviewed year to 30 June 2012	Audited year to 30 June 2011
Revenue		2 113	1 755
Turnover		1 845	1 521
Cost of sales		(1 113)	(895)
Gross profit	17	732	626
Other operating income		228	206
Operating expenses		(438)	(386)
Profit on sale of property, plant and equipment		1	2
Trading profit	17	523	448
Financial revenue		46	37
Financial cost		(24)	(24)
Income from associates		5	8
Profit before taxation	17	550	469
Taxation		(155)	(130)
Profit for the year	17	395	339
Other comprehensive income:			
Currency translation difference		31	7
Aircraft revaluation		–	(6)
Total comprehensive income for the year	25	426	340
Profit attributable to:			
– Equity shareholders		378	321
– Non-controlling interests		17	18
	17	395	339
Total comprehensive income attributable to:			
– Equity shareholders		409	322
– Non-controlling interests		17	18
	25	426	340
Earnings per share: (all figures in cents)			
– Earnings per share	18	41,1	34,9
– Headline earnings per share	18	41,0	34,6
– Diluted earnings per share	18	41,0	34,8
– Diluted headline earnings per share	18	40,8	34,5
– Dividends per share	17	14,0	12,0

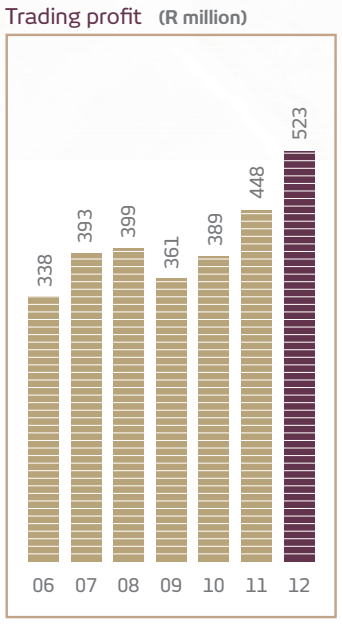
Abridged Group statements of financial position

As at 30 June 2012 *(Rand millions unless otherwise stated)*	Reviewed year to 30 June 2012	Audited year to 30 June 2011
ASSETS		
Non-current assets	1 223	1 070
Property, plant and equipment	1 154	1 006
Investments	4	4
Investments in associates	24	22
Long-term assets	24	24
Goodwill	6	6
Deferred taxation	11	8
Current assets	1 400	1 226
Inventories	339	241
Trade and other receivables	126	135
Cash and cash equivalents	917	839
Taxation receivable	18	11
TOTAL ASSETS	2 623	2 296
EQUITY AND LIABILITIES		
Share capital and reserves	2 008	1 707
Stated capital	818	818
Non-distributable reserves	82	51
Treasury shares	(478)	(478)
Share option reserve	9	5
Retained earnings	1 500	1 241
Non-controlling interests	77	70
Non-current liabilities	323	327
Interest bearing loans	315	321
Deferred taxation	8	6
Current liabilities	292	262
Trade and other payables	224	217
Provisions	39	31
Interest bearing loans	26	10
Taxation payable	3	4
TOTAL EQUITY AND LIABILITIES	2 623	2 296
Net asset value per share (cents)	218	186

System wide turnover (R million)



Trading profit (R million)



Group statement of changes in equity

(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 2010	818	50	(470)	3	1 021	1 422	61	1 483
Total comprehensive income for the year		1			321	322	18	340
Dividends paid					(101)	(101)	(8)	(109)
Purchase of shares by Share Trust			(8)			(8)		(8)
Transactions with non-controlling interests						–	(1)	(1)
Share incentive costs				11		11		11
Settlement of share incentive costs				(9)		(9)		(9)
Balance at 30 June 2011	818	51	(478)	5	1 241	1 422	70	1 707
Total comprehensive income for the year		31			378	409	17	426
Dividends paid					(119)	(119)	(12)	(131)
Transactions with non-controlling interests						–	2	2
Share incentive costs				4		4		4
Balance at 30 June 2012	818	82	(478)	9	1 500	1 931	77	2 008

Segmental report

For the year ended 30 June 2012 *(Rand millions unless otherwise stated)*	Retail	Franchising	Properties	Supply and support services	Inter-group eliminations	Group
Reviewed year to June 2012						
Turnover	1 451	–	–	939	(545)	1 845
Gross margin	535	–	–	105	–	640
Other income*	20	207	192	111	(210)	320
Overheads	(467)	(94)	(44)	(42)	210	(437)
Trading profit	88	113	148	174	–	523
Audited year to June 2011						
Turnover	1 190	–	–	684	(353)	1 521
Gross margin	452	–	–	88	–	540
Other income*	15	174	160	108	(171)	286
Overheads	(390)	(87)	(33)	(39)	171	(378)
Trading profit	77	87	127	157	–	448

*Other income includes franchise fees, rentals, royalties and rebates received, as well as profit or loss on disposal of property, plant and equipment.

Abridged Group statement of cash flows

For the year ended 30 June 2012 *(Rand millions unless otherwise stated)*	Reviewed year to 30 June 2012	Audited year to 30 June 2011
Cash flow from operating activities	226	254
Cash flow from investing activities	(148)	(107)
Cash flow from financing activities	–	(19)
Net movement in cash and cash equivalents for the year	78	128
Cash and cash equivalents at beginning of the year	839	711
Cash and cash equivalents at the end of the year	917	839

Notes

1. Commitments and contingencies

Legal proceedings have been instituted against Majuba Aviation (Proprietary) Limited, a subsidiary company of the Group providing aircraft charter services, by the family of one of the passengers who passed away on board when the aircraft chartered by the Group from Majuba Aviation crashed on 08 February 2011. Majuba Aviation has in place adequate passenger liability insurance; accordingly no material effect on the financial position of the Group is anticipated.

There are no material contingent assets or liabilities at 30 June 2012 in addition to the above.

Capital commitments at 30 June 2012:	Rm
– Contracted	62
– Authorised, not contracted	64
Total	126

2. Changes in accounting policy

The accounting policies adopted and methods of computation are consistent with those of the previous financial year except for the adoption of new and amended IFRS and IFRIC interpretations which became effective during the current financial year. The application of these standards and interpretations did not have a significant impact on the Group's reported results and cash flows for the year ended 30 June 2012 and the financial position at 30 June 2012.

3. Business combination

In March 2012 the Group elected to convert interest bearing amounts advanced to the Australian property holding company to equity. The decision to capitalise the loans is consistent with the Group's policy on property investment.

The fair value of net assets acquired and accounted for from the effective date comprise the following:

Land and buildings	50
Sundry receivables	1
Sundry payables	(1)
Commercial bills	(6)
Cash and bank	3
Cost of business acquired	47
Less amounts previously advanced and cash acquired	(11)
Net cash outflow in 2012	36

From the effective date of the business combination, the company has made a negligible contribution to Group earnings.

	Reviewed year to 30 June 2012	Audited year to 30 June 2011
4. Earnings per share		
Reconciliation of shares in issue: (all figures in millions)		
– Total number of shares issued	1 033	1 033
– Shares held by Share Incentive Trust	26	26
– BEE treasury shares	88	88
Shares in issue to external parties	919	919
Reconciliation of headline earnings: (Rand millions)		
– Profit attributable to equity shareholders	378	321
– Profit on sale of property, plant and equipment	(1)	(2)
Headline earnings	377	319
Share numbers used for earnings per share calculations: (all figures in millions)		
– Weighted average number of shares	919	920
– Diluted weighted average number of shares	923	922

Store network

As at 30 June 2012 Region	2012 Franchise	2012 Other	2012 Total	2011 Franchise	2011 Other	2011 Total
South Africa						
– Italtile	–	8	8	1	6	7
– CTM	42	22	64	41	23	64
– TopT	7	8	15	6	7	13
Rest of Africa	13	4	17	13	3	16
Australia	–	8	8	–	8	8
	62	50	112	61	47	108

Refer to Italtile's corporate website: **www.italtile.com**

CTM · topT CASH & CARRY · ITALTILE LIVE BEAUTIFULLY

BASTION GRAPHICS

Share code: ITE **ISIN:** ZAE000099123 **Registration number:** 1955/000558/06 Incorporated in the Republic of South Africa ("Italtile" or "the Group") **Registered office:** The Italtile Building, cnr William Nicol Drive and Peter Place, Bryanston (PO Box 1689, Randburg 2125) **Transfer secretaries:** Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg 2001. (PO Box 61051, Marshalltown 2107) **Executive directors:** G A M Ravazzotti (Executive Chairman), P D Swatton* (Chief Financial Officer), P Langenhoven# **Non-executive directors:** S M Du Toit, S I Gama, S G Pretorius, A Zannoni** (*British **Italian #Australian) **Company secretary:** E J Willis **Sponsor:** KPMG Services (Pty) Limited.