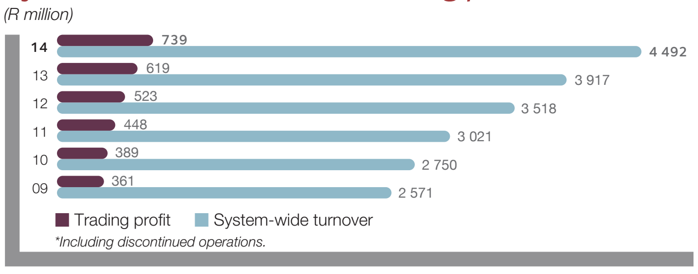
ITALTILE Limited

The style. The passion.

Preliminary profit announcement, reviewed Group results for the year ended 30 June 2014 and dividend declaration

System-wide turnover and trading profit*

(R million)



*Including discontinued operations.

System-wide turnover analysis

For the year ended 30 June 2014 (Rand millions unless otherwise stated)	% increase	Reviewed year to 30 June 2014	Audited year to 30 June 2013
Group and franchised turnover *(continuing operations)*			
– By Group-owned stores and entities		2 714	2 047
– By franchise-owned stores (unaudited)		1 747	1 776
Total	17	4 461	3 823

Condensed Group statement of comprehensive income

For the year ended 30 June 2014 (Rand millions unless otherwise stated)	% increase	Reviewed year to 30 June 2014	Audited year to 30 June 2013
Continuing operations			
Turnover		2 714	2 047
Cost of sales		(1 657)	(1 241)
Gross profit	31	1 057	806
Other operating income		245	241
Operating expenses		(560)	(451)
Profit on sale of property, plant and equipment		9	15
Trading profit	23	751	611
Financial revenue		11	26
Financial cost		(20)	(17)
Income from associates after taxation		29	11
Profit before taxation from continuing operations	22	771	631
Taxation		(227)	(168)
Profit for the year from continuing operations	17	544	463
Discontinued operations			
(Loss)/profit after taxation for the year from discontinued operations		(20)	1
Profit for the year	13	524	464
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation difference		12	13
Total comprehensive income for the year	12	536	477
Profit attributable to:			
– Equity shareholders		509	444
– Non-controlling interests		15	20
	13	524	464
Total comprehensive income attributable to:			
– Equity shareholders		521	457
– Non-controlling interests		15	20
	12	536	477
Earnings per share: (all figures in cents)			
– Earnings per share	14	55,3	48,3
– Headline earnings per share	22	57,6	47,4
– Diluted earnings per share	13	54,7	48,2
– Diluted headline earnings per share	21	57,1	47,3
Earnings per share for continuing operations (all figures in cents):			
– Earnings per share	19	57,4	48,2
– Headline earnings per share	24	58,7	47,3
– Diluted earnings per share	18	56,9	48,1
– Diluted headline earnings per share	23	58,1	47,2
– Dividends per share (excluding special cash dividend)	19	19,0	16,0

Condensed Group statement of financial position

As at 30 June 2014 (Rand millions unless otherwise stated)	Reviewed year to 30 June 2014	Audited year to 30 June 2013
ASSETS		
Non-current assets	1 856	1 850
Property, plant and equipment	1 296	1 246
Investments	–	4
Investments in associates	522	553
Long-term assets	14	24
Goodwill	6	6
Deferred taxation	18	17
Current assets	857	777
Inventories	408	335
Trade and other receivables	169	121
Cash and cash equivalents	249	303
Taxation receivable	31	18
Assets classified as held for sale	–	26
TOTAL ASSETS	2 713	2 653
EQUITY AND LIABILITIES		
Share capital and reserves	2 230	2 303
Stated capital	818	818
Non-distributable reserves	102	93
Treasury shares	(472)	(474)
Share option reserve	55	36
Retained earnings	1 676	1 774
Non-controlling interests	51	54
Discontinued operations reserves	–	2
Non-current liabilities	12	53
Interest-bearing loans	–	44
Deferred taxation	12	9
Current liabilities	471	297
Trade and other payables	261	252
Provisions	43	43
Interest-bearing loans	165	–
Taxation	2	2
TOTAL EQUITY AND LIABILITIES	2 713	2 653
Net asset value per share (cents)	242	251

Store network

At 30 June 2014 Region	2014 Franchise	2014 Other	2014 Total	2013 Franchise	2013 Other	2013 Total
South Africa						
– Italtile	–	8	8	–	7	7
– CTM	31	36*	67	39	27	66
– TopT	18	6	24	11	8	19
Rest of Africa	11	5	16	12	5	17
Australia	–	–	–	–	7	7
	60	55	115	62	54	116

*Includes CTM webstore.

Group statement of changes in equity

For the year ended 30 June 2014 (Rand millions)	Stated capital	Non-distributable reserves	Treasury shares	Share option reserve	Retained earnings	Discontinued operations	Total	Non-controlling interest	Total equity
Balance at 30 June 2012	818	82	(478)	9	1 500	–	1 931	77	2 008
Profit for the year					444		444	20	464
Other comprehensive income for the year		13					13		13
Total comprehensive income for the year	–	13	–	–	444	–	457	20	477
Dividends paid					(141)		(141)	(4)	(145)
Discontinued operations		(2)				2	–		–
Transactions with non-controlling interests							–	(39)	(39)
Reinstatement of BEE share incentive reserve				30	(30)		–		–
Share incentive costs			4	(3)	1		2		2
Balance at 30 June 2013	818	93	(474)	36	1 774	2	2 249	54	2 303
Profit for the year					509		509	15	524
Other comprehensive income for the year		12					12		12
Total comprehensive income for the year	–	12	–	–	509	–	521	15	536
Transfer of reserves		(9)			9		–		–
Dividends paid					(618)		(618)	(13)	(631)
Discontinued operations		6				(2)	4	5	9
Transactions with non-controlling interests							–	(10)	(10)
Share incentive costs			2	19	2		23		23
Balance at 30 June 2014	818	102	(472)	55	1 676	–	2 179	51	2 230

Segmental report

For the year ended 30 June 2014 (Rand millions)	Retail	Franchising	Properties	Supply and support services	Inter-group eliminations	Group	Discontinued operations
Reviewed year to June 2014							
Turnover	2 249	–	–	1 337	(872)	2 714	31
Gross margin	812	–	–	127	(20)	919	11
Other income*	35	250	255	178	(326)	392	–
Overheads	(648)	(102)	(76)	(60)	326	(560)	(23)
Trading profit	199	148	179	245	(20)	751	(12)

Geographical analysis	South Africa	Rest of Africa	Other	Inter-group entities	Group	Discontinued operations
Revenue	3 994	233	78	(1 198)	3 106	31
Non-current assets	2 303	87	143	(694)	1 838	–

For the year ended 30 June 2013 (Rand millions)	Retail	Franchising	Properties	Supply and support services	Inter-group eliminations	Group	Discontinued operations
Audited year to June 2013							
Turnover	1 597	–	–	1 072	(622)	2 047	94
Gross margin	585	–	–	116	–	701	36
Other income*	29	211	231	135	(245)	361	–
Overheads	(485)	(92)	(61)	(58)	245	(451)	(35)
Trading profit	129	119	170	193	–	611	1

Geographical analysis	South Africa	Rest of Africa	Other	Inter-group entities	Group	Discontinued operations
Revenue	3 042	174	59	(867)	2 408	94
Non-current assets	2 313	95	172	(747)	1 833	8

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

Condensed Group statement of cash flows

For the year ended 30 June 2014 (Rand millions)	Reviewed year to 30 June 2014	Audited year to 30 June 2013
Cash flow from operating activities	(127)	376
Cash flow from investing activities	(50)	(694)
Cash flow from financing activities	123	(296)
Net movement in cash and cash equivalents for the year	(54)	(614)
Cash and cash equivalents at the beginning of the year	303	917
Cash and cash equivalents at the end of the year	249	303

Notes

1. Commitments and contingencies

As previously disclosed, legal proceedings have been instituted against Majuba Aviation Proprietary Limited, a subsidiary company of the Group providing aircraft charter services, for which there is insurance cover.

There are no material contingent assets or liabilities at 30 June 2014 in addition to the above.

Capital commitments at 30 June 2014 total R175 million (contracted: R68 million; authorised and not contracted: R107 million).

2. Changes in accounting policies

The accounting policies adopted and methods of computation are in terms of International Financial Reporting Standards ("IFRS") and 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 2014 and the financial position at 30 June 2014, but will result in additional disclosures.

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 material difference between their fair value and carrying value due to the short-term nature of these items. There were no transfers into or out of Level 3 during the period.

4. Sale of non-controlling interests in Cedar Point Trading 326 Proprietary Limited

As previously reported, the Group sold a 20% stake in Cedar Point Trading 326 Proprietary Limited to two new business partners during the period. This stake was sold at a cost of R14 million, and reduces the Group's interest in this entity to 80%.

5. Purchase of non-controlling interests in TopT Ceramics Proprietary Limited

Subsequent to the financial year end, the Group acquired the 20% non-controlling stake held by the previous business partner of TopT Ceramics Proprietary Limited at a cost of R11 million. The Group is currently in the process of identifying new business partners for this business.

6. Discontinued operations

The Group disposed of the following non-core businesses (date of disposal disclosed in brackets):

- Cladding Finance Proprietary Limited – the entity used to extend and manage credit to the contractors market (30 September 2013);
- The seven store CTM retail operation in Australia (31 October 2013); and
- Allmuss Properties Zambia Limited – a property holding company (31 December 2013).

The results of these businesses have thus been recorded as discontinued operations in these results.

Cladding Finance Proprietary Limited and Allmuss Properties Zambia Limited's contribution to Group earnings is immaterial, although R4 million profit was realised on the sale of the latter. The sale of the Australian retail operations was concluded via a management buyout, and was preceded by fixed asset impairment and other rationalisation costs totalling R9 million. A further consequence of the sale of the Australia retail operations was the derecognition of deferred assets totalling R8 million, also included in the discontinued operations results.

7. Staff share scheme

During the year, the Group implemented a share incentive scheme for all employees of the Group and its franchisees in South Africa that had been in the employ of the Group and/or franchise network for a period of three uninterrupted years as at 31 August 2013. As a result 13 million of the Group's shares were held by qualifying staff members at 30 June 2014 (the shares were previously held by the Italtile Empowerment Trust). The allotment is funded by the Group and the shares are restricted instruments which will vest with employees following a further three years of employment. Until vesting, the shares will continue to be accounted for as treasury shares, although they do have an impact on the diluted weighted average number of 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 R17 million to the Group's income (R11 million thereof being a once-off charge for franchisee staff).

8. Impairment of Australian property

Given the continued restrained economic conditions in Australia, the Group has recorded a further R20 million impairment (2013: R5 million) on Australian property.

	Reviewed year to 30 June 2014	Audited year to 30 June 2013
9. 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	(24)	(26)
– BEE treasury shares	(88)	(88)
Shares in issue to external parties	921	919
Share numbers used for earnings per share calculations (all figures in millions):		
– Weighted average number of shares	921	919
– Diluted weighted average number of shares	929	921

	Total operations Reviewed year to 30 June 2014	Total operations Audited year to 30 June 2013	Continuing operations Reviewed year to 30 June 2014	Continuing operations Audited year to 30 June 2013
Reconciliation of headline earnings: (Rand millions):				
– Profit attributable to equity shareholders	509	444	529	443
– Profit on sale of property, plant and equipment	(8)	(13)	(8)	(13)
– Impairment of Australian property, plant and equipment	29	5	20	5
Headline earnings	530	436	541	435

ITALTILE LIVE BEAUTIFULLY

CTM

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OVERVIEW FOR THE YEAR ENDED 30 JUNE 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.

At the end of the prior financial year, a range of key focus areas were identified, including investment in people and processes, innovation in products and technology, and enhancement of efficiencies and cost containment, to ensure that the Group improved profitability and retained market share. In this regard, good progress has been achieved. As a result of these initiatives and the commitment to improvement by the people of Italtile, pleasing double digit growth was reported, including in previously under-performing regions. The Group also entrenched its focus on standardising and promoting performance consistency of the offering across the brands to enhance in-store satisfaction for customers.

TRADING ENVIRONMENT

During the review period the ratio of household debt to disposable income continued to rise, serving to constrain consumer discretionary spend further in an economy which has recorded deteriorating growth over several years. In the construction sector the renovations market was slightly more buoyant than the new-build market, which remained subdued in the context of negative sentiment and restrained public and private sector investment.

Whilst the middle income market appeared less resilient than the 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 the industry 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.

The strength of Italtile's well-established business model, underpinned by its integrated supply chain and cash reserves were critical to its continued growth in this testing environment. The Group's 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 (disclosed in the Notes section), the financial information presented below refers to continuing operations only.

- ➢ System-wide turnover for the period rose 17% to R4,46 billion (2013: R3,82 billion).
- ➢ Due to a deliberate strategy to capture costs in the supply chain, competitive pricing in the stores was maintained.
- ➢ Trading profit grew 23% to R751 million (2013: R611 million) and was impacted by an IFRS 2 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 owned 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 a priority challenge for management 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.

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; the gain in market share in this segment endorses this strategy.

CTM CTM performed better in the second six months of the year than the first six months, and 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.

Top T 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.

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).

Ezeetile The Group holds an effective 46% strategic stake in this business, a national manufacturer of grout, adhesive and related products. Wide-ranging enhanced business processes and systems were implemented in the operation over the past year, and whilst improved efficiencies have resulted, the restructuring remains to be completely bedded down before the full benefits of the programme will be realised. The business reported growth for the period, contributing R5 million (2013: R3 million) to Group profits.

GLOBAL PROPERTY INVESTMENT

Significant strategic advantage is afforded to the retail operations by the Group's property investment portfolio. 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.

DIRECTORATE: BOARD APPOINTMENTS AND CHANGE IN FUNCTION

With effect from 1 July 2014, Mr Nick Booth assumed the position of Chief Executive Officer ("CEO") of the Group. Mr Giovanni Ravazzotti, who served as interim CEO pending Mr Booth's appointment, resumed his role as Chairman, while Mr Brand Pretorius, who served as interim Chairman in Mr Ravazzotti's stead, resumed his position as independent non-executive director. With effect from 1 August 2014, Mr Jan Potgieter was appointed Chief Operating Officer and executive director to the Board. With effect from 20 August 2014, Ms Ndumi Medupe has been appointed to the Board as a non-executive director. Ms Medupe, CA(SA) is a founder and director of Indyebo Consulting (Pty) Limited. The Board welcomes Ms Medupe and looks forward to her contribution. These appointments reflect the Board's commitment to enhancing management depth and succession planning across the Group.

PROSPECTS

Management anticipates that current trading conditions will persist for the foreseeable future. However, the Group remains optimistic that there are sufficient opportunities to leverage in the business and the industry to enable it to continue to deliver a satisfactory performance in the interests of all stakeholders.

In this regard, a clear strategy is 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. Enhanced recruitment and training will be another key focus area in the forthcoming period.

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 customer shopping experience.

BASIS OF PREPARATION

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 SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, and contains the information required by International Accounting Standard 34, Interim Financial Reporting, the 2008 Companies Act and the JSE Listing Requirements. These results have been prepared under the supervision of Chief Financial Officer, Mr B G Wood CA(SA).

CASH DIVIDEND

The Group has maintained its dividend cover of three times. The Board has declared a final gross cash dividend of 10,0 cents per share (2013: 8,0 cents per share), 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 declared for the year ended 30 June 2014 of 19,0 cents per share (2013: 16,0 cents per share), an increase of 19%.

DIVIDEND ANNOUNCEMENT

The Board has declared a final gross cash dividend (number 96) for the year ended 30 June 2014 of 10,0 cents per ordinary share to all shareholders recorded in the books of Italtile Limited.

In accordance with paragraphs 11.17 (a) (i) to (x) and 11.17 (a) (i) to (x) and 11.17 (c) of the JSE Listings Requirements, the following additional information is provided:

- ➢ The dividend has been declared out of income reserves.
- ➢ The local dividend tax rate is 15% (fifteen percent).
- ➢ There are Secondary Tax on Companies ("STC") credits to be utilised to the amount of R1 million or 0,08026 cents per share.
- ➢ The Gross local dividend amount is 10,0 cents per share for shareholders exempt from the Dividends Tax.
- ➢ The net local dividend amount is 8,51204 cents per share for shareholders liable to pay the Dividends Tax.
- ➢ The local dividend withholding tax amount is 1,48796 cents per share for shareholders liable to pay the Dividends Tax.
- ➢ Italtile's income tax reference number is 9050182717.
- ➢ The Group has 1 033 332 822 shares in issue including 24 376 224 shares held by the Share Incentive Trust and 88 000 000 shares held as BEE treasury shares.

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 Friday, 5 September 2014. The shares will commence trading ex dividend from the commencement of business on Monday, 8 September 2014 and the record date will be Friday, 12 September 2014. The dividend will be paid on Monday, 15 September 2014. Share certificates may not be rematerialised or dematerialised between Monday, 8 September 2014 and Friday, 12 September 2014, both days inclusive.

For and on behalf of the Board

N Booth — Chief Executive Officer

B Wood — Chief Financial Officer

The preliminary profit announcement has been reviewed by Ernst & Young Inc. ("EY"). EY's unqualified review opinion does not necessarily report on all of the information contained in this preliminary profit announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of auditors' engagement, they should obtain a copy of EY's unqualified review opinion together with the accompanying financial information from the company secretary at the company's registered office.

Johannesburg
20 August 2014

Share code: ITE **ISIN:** ZAE000099123 **Registration number:** 1955/000558/06
Incorporated in the Republic of South Africa ("Italtile" or "the Group" or "the company")
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: N Booth (Chief Executive Officer), B G Wood (Chief Financial Officer), J Potgieter (Chief Operating Officer), P Langenhoven#
Non-executive directors: G A M Ravazzotti (Chairman), S G Pretorius, S M Du Toit, S I Gama, P D Swatton*, A Zannoni**, N Medupe
(*British **Italian #Australian)
Company secretary: E J Willis **Sponsor:** Merchantec Capital

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BASTION GRAPHICS