ITALTILE Limited

Share code: ITE ISIN: ZAE000099123 Reg. no.: 1955/000558/06
Incorporated in the Republic of South Africa ("Italtile" or "the Group")

Reviewed Group results for the six months ended 31 December 2011

The style. The passion.

Commentary

Overview for the six months ended 31 December 2011

Italtile Limited has delivered another consecutive set of solid results, attributable to continued improvements made in the business and the strong equity which the Group's brands enjoy amongst consumers. These results are also a reflection of growth opportunities which exist in the market for discerning retailers. The Group gained market share across its brand portfolio, comprising Italtile Retail, CTM and TopT.

Key to the Group's growth was:

- An improved product matrix and rationalised ranges across the brands which proved beneficial in delivering enhanced customer service.
- A 24% increase in sales in the bathware component of the Group's business, consistent with management's stated strategy to grow this segment's contribution in line with revenue contribution from tiles.
- The measured tactic to ensure that stores were abundantly stocked to meet customers' expectations of range and product availability. The Group's strong balance sheet supported this initiative and achieved a significant competitive advantage for the business in a market place featuring fragmentation and inconsistency of supply.
- Prudent stock management, which ensured that despite an increase in inventories to R269 million (2010: R228 million), the improved product balance afforded a better stock turn.
- A deliberate strategy to entrench Italtile's position as the price and range leader in the market, by absorbing input cost increases, and adopting an aggressive pricing strategy, wherever possible passing savings onto consumers. During the period, domestic demand in China softened resulting in a large supply of well-priced product available for import. The Group increased its stock volumes and range substantially based on strong demand from price-sensitive consumers seeking diversity from local product.
- Rigorous cost containment and improved in-store and supply chain efficiencies which ensured that margin pressure was restricted, reflecting a nominal decline of 1% in total margins across the Group.
- Continued success in pioneering new product categories and ranges. Notably, imported tile sales grew by 38% against the prior comparative period whilst local tile sales increased only 3%. This is a function of importing product to meet demand for large format glazed porcelain patterned tiles which are not manufactured in this country.

Financial highlights

- Like-on-like system-wide turnover increased 16% to R1,84 billion (2010: R1,59 billion)
- Revenue from Group-owned stores grew 23% to R946 million (2010: R771 million), while franchised stores increased turnover by 10% to R898 million (2010: R814 million)
- Real organic growth equates to 15% given price inflation of 1% and no net increase in the total store number
- Reported trading profit grew 17% to R271 million (2010: R231 million)
- Basic earnings per share and headline earnings per share increased 21% and 22% respectively to 21,7 cents per share and 21,4 cents per share
- Capital expenditure of R106 million (2010: R63 million) was incurred, predominantly related to the property portfolio
- The Group's strong cash generating ability is reflected in the increase in reserves to R904 million (2010: R820 million)
- Net asset value per share increased by 18% to 205 cents (2010: 174 cents).

Trading environment

Trading conditions remained subdued in the building and construction industry in general and the new build sector in particular. Typical to a downturn in the economy, the renovations market remained relatively stable, as consumers sought to strengthen their assets by investing in existing properties. Financial institutions' lending criteria remained onerous and consumers' improved management of limited disposable income was evident in the increase in cash purchases relative to credit card payments.

The Rand lost some 19% of its value in the period, however, Italtile's large-scale buying power afforded the business an important advantage in securing well-priced product from all of its markets.

Operational review

Italtile Retail

Italtile Retail is represented by eight stores nationwide, all of them Group-owned. This brand services the upper-middle to premium-end of the market and is recognised as the leading fashion retailer of exclusive ranges of porcelain and ceramic tiles, bathware and related products. During the period one new store was opened in Boksburg, Gauteng. This New Generation store, built according to best practice green principles, is the brand's flagship offering and provides the benchmark for future stores.

This division continued to successfully broaden its retail customer base in line with its 'exclusive, yet inclusive' ethos, and also made further inroads into the commercial projects sector.

Strong growth was once again delivered in the bathware segment of the business and the brand further entrenched its niche role as the leading supplier of environmentally conscious new-technology products.

CTM

This brand targets the middle income market and is the country's biggest specialist tile and bathroom retailer. CTM is represented by 64 stores nationwide, 41 of which are franchised. The balance, which service the larger urban markets are Group-owned.

CTM delivered a pleasing performance in a fiercely competitive environment, growing sales by 14% and containing costs. As forecast by management, the price war continued in the porcelain and ceramic tile arena, and extended into the laminate floor segment. In order to entrench its low price high value offering, the division supported an aggressive price position, absorbing cost increases and reducing average tile prices by 1%.

During the reporting period CTM's in-house brand building campaign centred on the Tivoli tap range, which contributed to a significant increase in this division's brassware sales.

The ongoing aim to improve the shopping experience by enhancing in-store efficiencies was advanced with the further roll-out of mobile point-of-sales technology and the implementation of comprehensive automated replenishment systems which assisted in optimising stock levels, reducing administration processes and affording customers improved service.

TopT

This entry-level brand is represented by 13 stores, situated predominantly in previously under-serviced emerging market areas. Demand continued to grow for TopT's offering which includes a range of floor coverings, sanitary ware, brassware and paint, and the brand succeeded in gaining further market share.

Key to this improved performance was the brand's enhanced, flexible product range, proximity to and strong association with the communities in which it trades (reinforced by localised advertising campaigns), and favourable supply chain relationships.

TopT's business model will continue to evolve as opportunities present themselves and roll-out of the network will proceed cautiously in line with demand.

Support services

Central to robust sales growth attained in the Group's bathware business component was the pivotal role played by supply chain partners, International Tap Distributors (ITD) and Cedar Point, in improving their product ranges and service.

The Group's Distribution Centre imported aggressively during the review period in order to ensure consistent supply and favourable pricing of new ranges of product not available locally. Total Rand sales to the Group increased by 38%. Imported tile sales volumes through the store network grew to almost 2,3 million m^2, an improvement of 23%.

Rest of Africa

The Group is represented by 15 CTM stores in seven African countries. A further store is scheduled to open in Nairobi in March 2012.

Strong demand for the Group's products is evident in East Africa, but opportunities to grow this business continue to be hampered by logistical and infrastructural constraints.

Australia

The Australian operation consists of eight CTM stores located in Queensland and New South Wales, and comprises only a small component of the Group's total business.

Trading conditions remained challenging in this market. Negligible economic growth, limited government investment in the sector and continued high levels of personal debt prevailed, impacting negatively on the building and construction industry. In addition, the strength of the Australian dollar favoured imports, intensifying competition in the market. In this environment the Group's operation fell short of management's expectations. Whilst investment in real estate was made during the reporting period, management is cognisant that the expressed intention to increase the store network to 15 by 2013 will be difficult to achieve in the current economic climate.

Property portfolio

Italtile's property portfolio has an estimated current market value in excess of R1,3 billion, comprising high profile destination sites strategically selected to underpin the Group's retail brands. The portfolio delivered returns in line with the trading operations.

During the reporting period, investment of R71 million was made in acquiring properties in both South Africa and Australia, while capital expenditure of R17,6 million was incurred on alterations and extensions of existing properties. Cash reserves remain strong, affording a flexible investment strategy should opportunities arise.

Prospects

Despite indications that the economic environment is likely to remain restrained over the forthcoming six months, the Group is satisfied that growth is sustainable. This outlook is based on management's conviction that the market continues to afford expansion opportunities to determined retailers.

Key focus will remain on improving the in-store shopping experience through enhanced innovation and service, intensified cost containment and inventory and range management.

Basis of preparation

The reviewed interim financial results have been prepared in accordance with and containing the information required by IAS 34: Interim Financial Reporting as well as the AC 500 Standards, and have been prepared under the supervision of the Chief Financial Officer, Mr P D Swatton CA(SA).

Dividend

The Group has maintained its dividend cover of three times. The Board has declared an interim dividend of 7,0 cents per share (2010: 6,0 cents), a 17% increase.

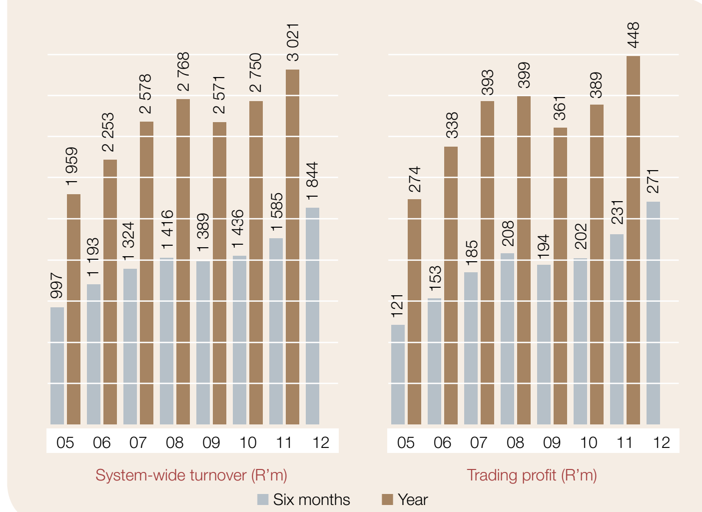
Dividend announcement

The Board has declared an interim dividend (number 91) of 7,0 cents per ordinary share to all shareholders recorded in the books of Italtile Limited. The implementation of new legislation in respect of dividends tax will be effective from 01 April 2012. In this regard and in order to maximise Secondary Tax on Companies' (STC) credits prior to the implementation of this legislation, the cash dividend timetable is structured as follows: the last day to trade cum dividend in order to participate in the dividend will be Thursday, 15 March 2012. The shares will commence trading ex dividend from the commencement of business on Friday, 16 March 2012 and the record date will be Friday, 23 March 2012. The dividend will be paid on Monday, 26 March 2012. Share certificates may not be rematerialised or dematerialised between Thursday, 15 March 2012 and Friday, 23 March 2012, both days inclusive.

For and on behalf of the board

G A M Ravazzotti — Executive Chairman
P D Swatton — Chief Financial Officer
14 February 2012

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



System wide turnover analysis

For the period ended 31 December 2011 (Rand millions unless otherwise stated)

	% increase	**Reviewed six months to 31 December 2011**	Reviewed six months to 31 December 2010	Audited year to 30 June 2011
Group and franchised turnover				
– By Group owned stores and entities		**946**	771	1 521
– By franchise owned stores (unaudited)		**898**	814	1 500
Total	16	**1 844**	1 585	3 021

Abridged Group statements of comprehensive income

For the period ended 31 December 2011 (Rand millions unless otherwise stated)

	% increase	**Reviewed six months to 31 December 2011**	Reviewed six months to 31 December 2010	Audited year to 30 June 2011
Turnover		**946**	771	1 521
Cost of sales		**(615)**	(486)	(895)
Gross profit	16	**331**	285	626
Other operating income		**162**	146	206
Operating expenses		**(224)**	(203)	(386)
Profit on sale of property, plant and equipment		**2**	3	2
Trading profit	17	**271**	231	448
Financial revenue		**24**	19	37
Financial cost		**(12)**	(12)	(24)
Income from associates		**4**	4	8
Profit before taxation	19	**287**	242	469
Taxation		**(77)**	(66)	(130)
Profit for the period	19	**210**	176	339
Other comprehensive income:				
Currency translation difference		**21**	1	7
Aircraft revaluation		**—**	—	(6)
Total comprehensive income for the period	31	**231**	177	340
Profit attributable to:				
– Equity shareholders		**199**	165	321
– Non-controlling interests		**11**	11	18
	19	**210**	176	339
Total comprehensive income attributable to:				
– Equity shareholders		**220**	166	322
– Non-controlling interests		**11**	11	18
	31	**231**	177	340
Earnings per share:				
– Earnings per share (cents)	21	**21,7**	17,9	34,9
– Headline earnings per share (cents)	22	**21,4**	17,6	34,6
– Diluted earnings per share (cents)	21	**21,6**	17,9	34,8
– Diluted headline earnings per share (cents)	22	**21,3**	17,5	34,5
– Dividends per share (cents)	17	**7,0**	6,0	12,0

Abridged Group statements of financial position

As at 31 December 2011 (Rand millions unless otherwise stated)

	Reviewed six months to 31 December 2011	Reviewed six months to 31 December 2010	Audited year to 30 June 2011
ASSETS			
Non-current assets	**1 180**	1 026	1 070
Property, plant and equipment	**1 110**	984	1 006
Investments	**4**	4	4
Investments in associates	**26**	8	22
Long-term assets	**24**	18	24
Goodwill	**6**	6	6
Deferred taxation	**10**	6	8
Current assets	**1 325**	1 180	1 226
Inventories	**269**	228	241
Trade and other receivables	**139**	128	135
Cash and cash equivalents	**904**	820	839
Taxation receivable	**13**	4	11
Total assets	**2 505**	2 206	2 296
EQUITY AND LIABILITIES			
Share capital and reserves	**1 883**	1 603	1 707
Stated capital	**818**	818	818
Non-distributable reserves	**72**	50	51
Treasury shares	**(478)**	(478)	(478)
Share option reserve	**7**	5	5
Retained earnings	**1 385**	1 140	1 241
Non-controlling interests	**79**	68	70
Non-current liabilities	**320**	46	327
Interest bearing loans	**313**	43	321
Deferred taxation	**7**	3	6
Current liabilities	**302**	557	262
Trade and other payables	**238**	218	217
Provisions	**36**	39	31
Interest bearing loans	**22**	300	10
Taxation	**6**	—	4
TOTAL EQUITY AND LIABILITIES	**2 505**	2 206	2 296
Net asset value per share (cents)	**205**	174	186

Abridged Group cash flow statement

For the period ended 31 December 2011 (Rand millions unless otherwise stated)

	Reviewed six months to 31 December 2011	Reviewed six months to 31 December 2010	Audited year to 30 June 2011
Cash flow from operating activities	**164**	166	254
Cash flow from investing activities	**(99)**	(50)	(107)
Cash flow from financing activities	**—**	(7)	(19)
Net movement in cash and cash equivalents for the period	**65**	109	128
Cash and cash equivalents at the beginning of the period	**839**	711	711
Cash and cash equivalents at the end of the period	**904**	820	839

Group statement of changes in equity

For the period ended 31 December 2011 (Rand millions unless otherwise stated)

	Stated capital	Non-distributable reserve	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 period		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**	**1 637**	**70**	**1 707**
Total comprehensive income for the period		21			199	220	11	231
Dividends paid					(55)	(55)	(4)	(59)
Transactions with non-controlling interests						—	2	2
Share incentive costs				2		2		2
Balance at 31 December 2011	818	72	(478)	7	1 385	1 804	79	1 883

Segmental report

For the period ended 31 December 2011 (Rand millions unless otherwise stated)

	Retail	Franchising	Properties	Supply and support services	Inter group transactions	Group
Reviewed period to December 2011						
Turnover	741	—	—	456	(251)	946
Gross margin	273	—	—	58	—	331
Other income*	10	110	103	60	(119)	164
Operating expenses	(228)	(10)	(21)	(84)	119	(224)
Trading profit	55	100	82	34	—	271
Reviewed period to December 2010						
Turnover	623	—	—	350	(202)	771
Gross margin	237	—	—	48	—	285
Other income*	10	94	88	51	(94)	149
Operating expenses	(198)	(10)	(18)	(71)	94	(203)
Trading profit	49	84	70	28	—	231

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

Notes

1. Commitments and contingencies

There are no material contingent assets or liabilities at 31 December 2011.

Capital commitments at 31 December 2011:	**R'm**
– Contracted	**26**
– Authorised, not contracted	**55**
Total	**81**

2. Changes in accounting policy

The accounting policies and methods of computation used in the preparation of the reviewed interim financial results are in terms of International Financial Reporting Standards and 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 six months ended 31 December 2011 and the financial position at 31 December 2011.

3. Earnings per share	**Reviewed six months to 31 December 2011**	Reviewed six months to 31 December 2010	Audited year to 30 June 2011
Reconciliation of shares in issue (all figures in millions):			
– Total number of shares issued	**1 033**	1 033	1 033
– Share Incentive Trust shares	**26**	26	26
– BEE treasury shares	**88**	88	88
Shares in issue to external parties	**919**	919	919
Share numbers used for earnings per share calculations (all figures in millions):			
– Weighted average number of shares	**919**	921	920
– Diluted weighted average number of shares	**922**	923	922
Reconciliation of headline earnings (Rand millions):			
– Profit attributable to equity shareholders	**199**	165	320
– Profit on sale of property, plant and equipment	**(2)**	(3)	(2)
Headline earnings	**197**	162	318

Store network

At 31 December 2011

	2011			2010		
Region	**Franchise**	**Other**	**Total**	Franchise	Other	Total
South Africa						
– Italtile	**—**	**8**	**8**	1	6	7
– CTM	**41**	**23**	**64**	44	21	65
– TopT	**8**	**5**	**13**	5	8	13
Rest of Africa	**12**	**3**	**15**	12	3	15
Australia	**—**	**8**	**8**	—	8	8
	61	**47**	**108**	62	46	108

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)

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)

Company Secretary: E J Willis

Sponsor: BDO Corporate Finance

BASTION GAPHICS