ITALTILE Limited

PRELIMINARY PROFIT ANNOUNCEMENT AND REVIEWED GROUP RESULTS FOR THE YEAR ENDED 30 JUNE 2010

Commentary

Results Trading conditions remained difficult in the year under review, and whilst the latter months of the period indicated that the country was slowly emerging from recession, economic recovery was restrained and consumers' response measured.

The Group has reported a 7% growth in system-wide turnover to R2,75 billion (2009: R2,57 billion). Since no new mainstream stores were opened in the reporting period and price inflation was restricted to 1%, this growth is attributable to improvements in the quality of the business resulting from efficiencies implemented at store level and in the supply chain.

Reported trading profit increased by 8% to R389 million (2009: R361 million). Group operating margin remained constant.

Inventory management at store level and in the supply chain remained a key priority. Stock-turn across the brands continued to improve in line with the trend of the past two years. Management is satisfied that current inventories of R232 million will support the Group's trading activities in the forthcoming period.

Cash reserves increased from R667 million to R711 million in the review period, and will be used to fund future expansion.

The tangible net asset value per share has decreased by 5% to 161 cents (2009: 169 cents).

Trading environment The aggressively competitive environment featured further rationalisation of industry peers, a reduction in the number of contractors in the lower end of the market, and continued stagnation in construction activity in the niche premium end segment.

In this context, the Group benefited from its resilient business model and diverse customer base which enables it to take advantage of both the renovation and new build markets as those sectors enter alternate cycles. Whilst the new build sector declined during the review period, the Group capitalised on the small improvement experienced in the renovations market.

Italtile's 40 year legacy and high profile brands served it well in the uncertain economic climate where customers sought reliable, trustworthy suppliers.

Operational review The three fundamentals underpinning the Group's strategy to own its customers are: an unwavering focus on customer service, an unrivalled in-store shopping experience and dynamism in enhancing in-house efficiencies. Accordingly, improvements were aimed at the calibre of staff and store operators, the quality of merchandise and range and the Group's overall value offering.

Italtile Trading conditions in this brand's market segment remained challenging. While the renovations sector started to show modest signs of recovery in the second half of the year, new build projects in the previously buoyant affluent end of the market stagnated. In this environment, no new stores were added to the existing network of seven, however, Italtile succeeded in growing market share as a result of inroads made into the projects sector and upper end of the middle income market. The rationalisation of competitors also assisted the brand in extending its lead in its niche segment.

In the year under review, management's focus was on enhancing store layouts and product range, particularly in the bath shop component of the business.

In a first-to-market coup, Italtile has introduced the 'Earth' range, internationally accredited environmentally-friendly tiles, which are set to revolutionise the industry. Manufactured using cutting edge digital ink jet printer technology, the product is indistinguishable from natural stone, affording manufacturers greater flexibility in terms of product and volumes and providing the end user with an aesthetically superior, ecologically sustainable product.

Italtile's Cape Town store will be relocated in the last quarter of 2010, and two new stores are planned for 2011 in Boksburg and Windhoek.

CTM Retail trends demonstrate that faced with reduced discretionary spend, consumers gravitate to well known, respected brands that offer value. CTM's reputable, high profile value proposition was perfectly positioned to capitalise on that trend. In-house brand building campaigns communicating style and value also afforded CTM strategic advantage over its competitors.

The onerous economic environment continued to restrict growth in the new build sector, favouring the renovations market. CTM's appeal for small builders and the DIY market benefited strongly from this trend.

Robust growth continued to be experienced in the entry level and rural markets, with steady growth achieved in the middle income segments. The inland regions outpaced the coastal areas. Despite extremely competitive trading conditions, the brand succeeded in growing market share.

Top T Top T is the Group's embryonic no frills value brand, offering "tiles, taps, toilets and tubs at factory prices," as well as a limited hardware range. The network comprises eleven stores situated in small outlying markets and under-serviced rural areas. While three new stores were opened during the year, they did not contribute to the Group's operating profit. Management is of the opinion that the brand offers growth potential over the long term but until the business model has been optimally developed, expansion will be conservative.

Supply Chain Pivotal to the Group's vertically integrated supply chain model are the International Tap Distributors ("ITD") and Cedar Point businesses. The former supplies taps and accessories, whilst the latter distributes laminated boards, cabinets, tools and décor.

Improvements in internal efficiencies, service and enhanced range management enabled these divisions to grow revenue and gain market share in the reporting period.

Additional growth opportunities for ITD and Cedar Point will be leveraged off CTM's brand building campaigns and promotions which are scheduled throughout the year.

Africa The Group has 14 CTM stores in the sub-equatorial region. Trading conditions in neighbouring Namibia and Botswana were difficult given the recessionary environment linked to the South African economy. The Group's strategy in terms of expansion into Africa is conservative, based on building existing relationships to entrench the brand's presence and extend the network. Opportunities to establish New Master Franchise licenses are being evaluated in Zambia and Malawi. A new store is currently under construction in Nairobi, Kenya and should commence trading in mid 2011.

Australia Notwithstanding difficult trading conditions, the Group's CTM Australia operation grew revenue, making a sound contribution to Group profits. It is anticipated that this performance is sustainable, and consequently, the planned strategy is to expand the existing nine store network to 15 stores by the end of June 2013, pending availability of suitable properties.

Property portfolio The strategic advantage of supporting the Group's brands with high profile destination sites ensures that this portfolio contains high quality investments that deliver a rate of return in line with the Group's trading operations. The property portfolio has an estimated market value of R1,3 billion (2009: R1,1 billion).

At present, construction costs favour the development of new sites, and the Group is currently erecting new properties in Cape Town, Mossel Bay, Newcastle, Secunda and Gabarone.

Directorate Mr Gary Morolo resigned his position as non-executive director of Italtile with effect from 12 May 2010. The Board thanks him for his valued contribution.

Prospects Difficult trading conditions are expected to remain a challenge in the year ahead. Intensified competition is anticipated and greater innovation will be required to continue growing the Group's market share. Management's priorities will be to leverage further efficiencies, and continue to improve the Group's service offering and in-store shopping experience.

The Group's business is healthy and its brands are well positioned to capitalise on growth opportunities as the economy improves.

Basis of preparation of accounting policies 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, and contains the information required by International Accounting Standard 34, Interim Financial Reporting. The results have been prepared on the historical cost basis, adjusted for the fair value of certain assets and liabilities. Intra-group transaction analysis has been introduced in the segmental report in order to improve disclosure and make the report more meaningful.

Ordinary dividend The Group has maintained its cover of three times. The Board has declared a final dividend of 5 cents per share (2009: 5 cents), which together with the ordinary dividend of 6 cents, produces a total ordinary dividend declared for the year of 11 cents (2009: 11 cents).

Ordinary dividend announcement The Board has declared a final dividend (number 88) of 5 cents per share to all shareholders recorded in the books of Italtile Limited. The last day to trade *cum* the dividend will be Friday, 3 September 2010. The shares of Italtile will commence trading *ex* dividend from the commencement of business on Monday, 6 September 2010 and the record date will be Friday, 10 September 2010. Payments will be made on Monday, 13 September 2010. Share certificates may not be rematerialised or dematerialised between Monday, 6 September 2010 and Friday, 10 September 2010, both days inclusive.

Special cash dividend A special cash dividend of 60 cents per ordinary share was declared in the interim announcement of 18 February 2010.

For and on behalf of the Board

G P E Ravazzotti — Chief Executive Officer

P D Swatton — Chief Financial Officer

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

Johannesburg — 16 August 2010

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

System-wide turnover analysis

for the year ended 30 June 2010

(Rand millions unless otherwise stated)	% increase	Reviewed year to 30 June 2010	Audited year to 30 June 2009
Group and franchised turnover			
– By Group-owned stores		1 354	1 303
– By franchise-owned stores (unaudited)		1 396	1 268
TOTAL	7	2 750	2 571

Abridged Group statements of comprehensive income

for the year ended 30 June 2010

(Rand millions unless otherwise stated)	% increase	Reviewed year to 30 June 2010	Audited year to 30 June 2009
Trading profit before depreciation		429	403
Depreciation		(39)	(41)
Loss on sale of property, plant and equipment		(1)	(1)
Trading profit	8	389	361
Investment income		42	48
Profit before interest paid		431	409
Interest paid		(27)	(40)
Profit before taxation	10	404	369
Taxation		(123)	(109)
Profit for the year	8	281	260
Other comprehensive income:			
Currency translation difference		2	(12)
Total comprehensive income for the year	14	283	248
Attributable to:			
Owners of the parent		275	245
Non-controlling interests		8	3
	14	283	248
Number of shares in issue (000's)*		921 041	795 984
Earnings per share (cents)	2	33,0	32,3
Headline earnings per share (cents)	2	33,1	32,4
Diluted earnings per share (cents)	2	32,9	32,3
Diluted headline earnings per share (cents)	2	33,0	32,4
Adjusted headline earnings per share (cents)[note 2]	6	29,8	28,1
Dividends per share (cents)		11,0	11,0
RECONCILIATION OF HEADLINE EARNINGS			
Earnings attributable to ordinary shareholders		271	257
Loss on sale of property, plant and equipment		1	1
Headline earnings		272	258
***RECONCILIATION OF SHARES IN ISSUE**			
Total number of shares issued (000's)		1 033 332	909 800
Share Incentive Trust shares (000's)		24 291	25 816
BEE treasury shares (000's)		88 000	88 000
Shares in issue to external parties (000's)		921 041	795 984

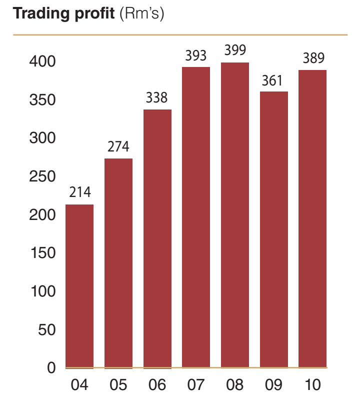
Segmental reporting

for the year ended 30 June 2010

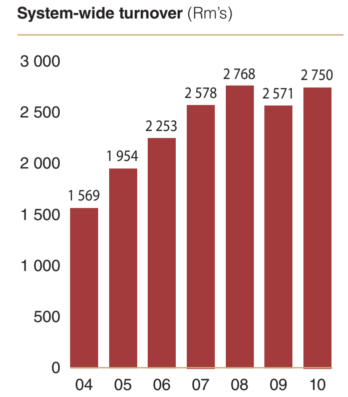
(Rand millions unless otherwise stated)	Retail	Fran-chising	Proper-ties	Supply and support services	Inter group trans-actions	Group
Reviewed year to June 2010						
Turnover	1 111	—	—	549	(306)	1 354
Gross margin	423	—	—	76	—	499
Other income*	11	166	146	94	(157)	260
Overheads	(364)	(84)	(31)	(48)	157	(370)
Trading profit	70	82	115	122	—	389
Audited year to June 2009						
Turnover	1 067	—	—	495	(259)	1 303
Gross margin	402	—	—	63	—	465
Other income*	10	154	138	103	(148)	257
Overheads	(364)	(72)	(29)	(44)	148	(361)
Trading profit	48	82	109	122	—	361

Other income includes franchise fees, rentals, royalties and rebates received.

Trading profit (Rm's)



System-wide turnover (Rm's)



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 (Chairman), G P E Ravazzotti (Chief Executive Officer), P D Swatton* (Chief Financial Officer).

Non-executive directors: S M Du Toit, S I Gama, A Zannoni** (*British **Italian)

Company secretary: E J Willis **Sponsor:** BJM Corporate Finance (Pty) Limited

Abridged Group statements of financial position

as at 30 June 2010

(Rand millions unless otherwise stated)	Reviewed year to 30 June 2010	Audited year to 30 June 2009
ASSETS		
Non-current assets	989	937
Property, plant and equipment	952	914
Other long-term assets	27	16
Goodwill	6	6
Deferred tax	4	1
Current assets	1 072	994
Inventories	232	191
Trade and other receivables	110	136
Cash and cash equivalents	711	667
Taxation	19	—
Total assets	2 061	1 931
EQUITY AND LIABILITIES		
Capital and reserves	1 483	1 346
Stated capital	818	417
Non-distributable reserve	53	78
Treasury shares	(470)	(473)
Retained profit	1 021	1 284
Outside shareholders' interest	61	40
Long-term liabilities	342	341
Current liabilities	236	244
Trade and other payables	236	238
Taxation	—	6
	2 061	1 931
Net asset value per share (cents)	161	169
Adjusted net asset value per share (cents)[note 2]	161	146

Statement of changes in equity

for the year ended 30 June 2010

(Rand millions unless otherwise stated) Group	Stated capital	Non-distri-butable reserve	Treasury shares	Retained profit	Total	Non-controlling interests	Total equity
Balance at 30 June 2008	417	80	(473)	1 134	1 158	25	1 183
Total comprehensive income for the period		(12)		257	245	3	248
Dividends paid				(107)	(107)	(4)	(111)
Unallocated shares in share trust			2		2		2
Accumulated surplus in share trust			(2)		(2)		(2)
Disposal of interest in subsidiary		10			10	16	26
Balance at 30 June 2009	417	78	(473)	1 284	1 306	40	1 346
Total comprehensive income for the period		2		273	275	8	283
Dividends paid				(566)	(566)	(3)	(569)
Share issue in lieu of dividend	401				401		401
Share option costs		3			3		3
Transfer of share option reserve		(30)		30	—		—
Unallocated shares in share Trust			3		3		3
Disposal of interest in subsidiary						16	16
Balance at 30 June 2010	818	53	(470)	1 021	1 422	61	1 483

Cash flow statement

for the year ended 30 June 2010

(Rand millions unless otherwise stated)	Reviewed year to 30 June 2010	Audited year to 30 June 2009
Cash flow from operating activities	(283)	228
Cash flow from investing activities	(72)	(71)
Cash flow from financing activities	399	229
Net movement in cash and cash equivalents	44	386
Cash and cash equivalents at beginning of year	667	281
Cash and cash equivalents at end of year	711	667

Notes

1. **Commitments and contingencies**
   There are no material contingent liabilities or assets at 30 June 2010

	Rm
– Capital commitments at 30 June 2010	
– Contracted	77
– Authorised, not contracted	63
	140

2. **Share issue in lieu of dividend**
   As announced on 31 March 2010, as a consequence of the special dividend declaration on 18 February 2010, 123 532 370 shares were issued in lieu of dividend at the option of shareholders. This has impacted on the comparability of certain figures, in particular earnings per share and net asset value per share. As a result, adjusted headline earnings and net asset value per share figures have been presented for comparative purposes (assuming the share issue in lieu of dividend took place at the beginning of the 2009 financial year).

3. **Changes in accounting policies**
   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 2010 and the financial position at 30 June 2010. The following standards will however have an impact on disclosures presented in the annual financial statements for the year ended 30 June 2010:
   – IFRS 8, Operating Segments; and IAS 1 Revised, Presentation of Financial Statements.

In terms of the Articles of Association, the company's borrowing facilities are unlimited.

Store network

at 30 June 2010

Region	2010 Franchise	2010 Other	2010 Total	2009 Franchise	2009 Other	2009 Total
South Africa						
Italtile	2	5	7	2	5	7
CTM	40	23	63	40	23	63
Top T	3	8	11	4	4	8
Africa (excluding South Africa)	12	2	14	12	2	14
Australia	—	9	9	—	9	9
Total	57	47	104	58	43	101

CTM   top T   ITALTILE The style. The passion.