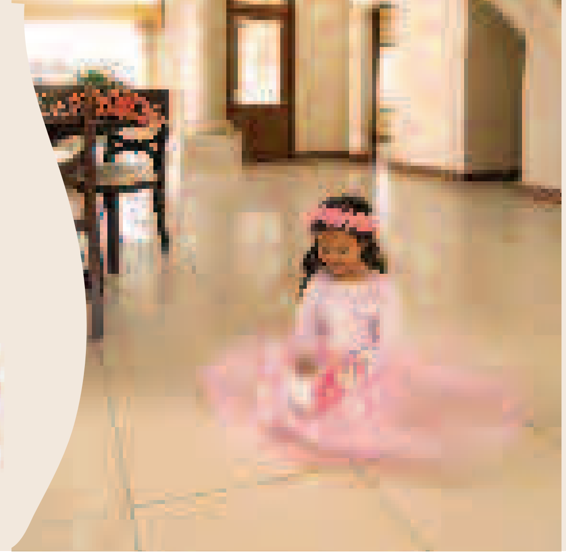
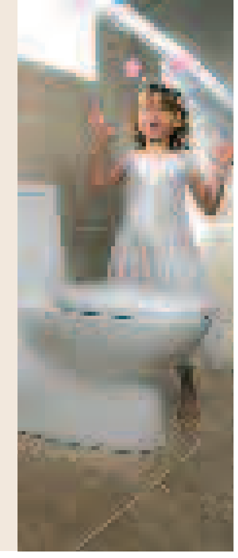
ITALTILE Limited

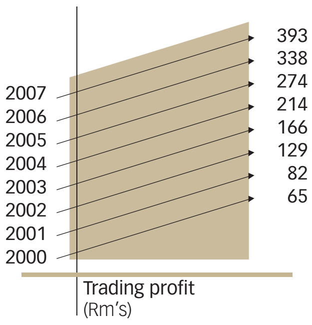
(ITALTILE)
Incorporated in the
Republic of South Africa
Share code: ITE
ISIN: ZAE000003679
Reg. No. 1955/000558/06
Vat. No. 4570231607

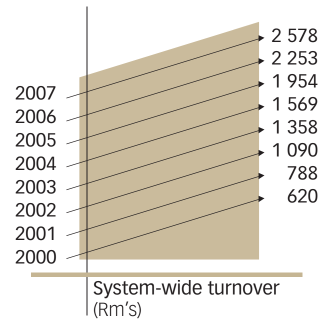
Preliminary Profit Announcement

Reviewed Group results for the year ended 30 June 2007









System-wide turnover analysis

for the year ended 30 June 2007

(Rand millions unless otherwise stated)	% increase	**30 June 2007**	30 June 2006
Group and franchised turnover			
– By Group-owned stores (reviewed)		**1 477**	1 285
– By franchise-owned stores (unaudited)		**1 101**	968
TOTAL	14	**2 578**	2 253

Abridged Group income statements

for the year ended 30 June 2007

(Rand millions unless otherwise stated)	% increase	**Reviewed year to 30 June 2007**	Audited year to 30 June 2006
Trading profit before depreciation		**427**	363
Depreciation		**(34)**	(21)
Loss on sale of property, plant and equipment		—	(4)
Trading profit	16	**393**	338
Investment income		**17**	16
Profit before interest paid		**410**	354
Interest paid		**(2)**	(2)
Profit before taxation	16	**408**	352
Taxation		**(131)**	(111)
Profit for the year	15	**277**	241
Attributable to:			
Equity holders of the parent		**270**	233
Minority interests		**7**	8
	15	**277**	241
Number of shares in issue (000's)		**18 121**	18 095
Earnings per share (cents)	16	**1 490**	1 290
Headline earnings per share (cents)	14	**1 490**	1 312
Diluted earnings per share (cents)	16	**1 476**	1 271
Diluted headline earnings per share (cents)	14	**1 477**	1 296
Dividends per share (cents)	16	**500**	430
RECONCILIATION OF HEADLINE EARNINGS			
Earnings attributable to ordinary shareholders		**270**	233
Loss on sale of property, plant and equipment		—	4
Headline earnings		**270**	237
RECONCILIATION OF SHARES IN ISSUE			
Total number of shares issued (000's)		**18 677**	18 677
Share Incentive Trust shares (000's)		**556**	582
Shares in issue to external parties (000's)		**18 121**	18 095

Segmental reporting

for the year ended 30 June 2007

(Rand million unless otherwise stated)	Retail	Franchising	Properties	Supply & support services	Group
Reviewed year to June 2007					
Revenue*	**1 272**	**87**	**115**	**226**	**1 700**
Segment results	**175**	**78**	**91**	**49**	**393**
Audited year to June 2006					
Revenue*	1 064	79	91	244	1 486
Segment results	146	71	80	41	338

**Revenue includes turnover, rentals and royalties*

Abridged Group balance sheets

for the year ended 30 June 2007

(Rand millions unless otherwise stated)	**Reviewed year to 30 June 2007**	Audited year to 30 June 2006
ASSETS		
Non-current assets	**771**	549
Fixed assets	**753**	537
Other long-term assets	**11**	9
Intangible assets	**4**	—
Deferred tax	**3**	3
Current assets	**573**	567
Inventories	**224**	150
Trade and other receivables	**91**	74
Cash and cash equivalents	**258**	343
Total assets	**1 344**	1 116
EQUITY AND LIABILITIES		
Capital and reserves	**976**	794
Stated capital	**27**	27
Non-distributable reserve	**28**	17
Treasury shares	**(54)**	(48)
Retained profit	**943**	768
Minority interest	**32**	30
Long-term liabilities	**11**	10
Current liabilities	**357**	312
Trade and other payables	**334**	289
Taxation	**23**	23
	1 344	1 116
Net asset value per share (cents)	**5 386**	4 388

Statement of changes in equity

for the year ended 30 June 2007

(Rand million unless otherwise stated) Group	Stated capital	Non-distributable reserve	Treasury shares	Minority interest	Retained profit	Total
Balance at 30 June 2005	27	13	(55)	29	649	663
Net profit for the year				8	233	241
Dividends paid				(3)	(114)	(117)
Currency translation difference		3				3
Share-based payment expense		1				1
Unallocated shares in share trust			10			10
Accumulated surplus in share trust			(3)			(3)
Purchase of additional share in subsidiary				(4)		(4)
Balance at 30 June 2006	27	17	(48)	30	768	794
Net profit for the year				7	270	277
Dividends paid				(4)	(95)	(99)
Currency translation difference		10				10
Share-based payment expense		1				1
Unallocated shares in share trust			(6)			(6)
Accumulated surplus in share trust						
Share capital increase				1		1
Purchase of additional share in subsidiary				(2)		(2)
	27	28	(54)	32	943	976

Cash flow statement

for the year ended 30 June 2007

(Rand million unless otherwise stated)	**Reviewed year to 30 June 2007**	Audited year to 30 June 2006
Cash flow from operating activities before working capital changes	**428**	364
Working capital changes	**(45)**	22
Financing, dividend and taxation	**(215)**	(219)
Cash flow from operating activities	**168**	167
Cash flow from investing activities	**(255)**	(121)
Cash flow from financing activities	**2**	(4)
Net movement in cash and cash equivalents	**(85)**	42
Cash and cash equivalents at beginning of period	**343**	301
Cash and cash equivalents at end of period	**258**	343

Notes

for the year ended 30 June 2007

– There are no material contingent liabilities or assets at 30 June 2007	
– Capital commitments at 30 June 2007	Rm
Contracted	23
Authorised, not contracted	138
	161

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

Commentary

RESULTS

Italtile increased turnover by 14% to R2,578 billion for the year ended 30 June 2007. The benefits of an ongoing focus on containing growth in overheads and maintaining margins in a highly competitive environment contributed to pretax profit of R408 million, representing an increase of 16% over the prior year.

The Group continues to explore mechanisms to enhance internal efficiencies, which supported the increase in operating margins to 15,2% in the year ended 30 June 2007 (2006: 15,0%). These included more efficient store design, improved handling and storage of stock and further consolidation of the supply chain. These initiatives served to counter lower margin pressures which would have resulted from a slant in the product mix towards traditionally lower margin bathware and entry level products.

The level of growth achieved by the Group in the year under review, given the economic climate and prevailing construction boom, is considered by the Board to have been less than optimal.

Key to the Group reclaiming its historical growth trend in both turnover and trading profit will be:

- The promotion of entrepreneurship within all components of the organisation. Each business unit must be run with a small business mentality attuned to its particular market needs.
- Ensuring that the in-store offering has the fashionable stock required by customers in an environment which is conducive to customer buying decisions to differentiate the Group from its competition.
- Optimal alignment of the Group's integrated supply chain with the Group's growth objectives. Efficient management of product within the supply chain, despite rapid growth, is essential.
- Renewed focus on the major product category which is tiles, while consolidating the gains made to date in bathware.

The Group reported headline earnings per share of 1 490 cents for the year ended 30 June 2007, from 1 312 cents in the previous year, reflecting an increase of 14%.

Inventory increased to R224 million as at 30 June 2007 (2006: R150 million), mainly as a result of the Group's investment in a broader products range and the temporary conversion of franchise stores into owned stores.

Italtile's cash generated from operating activities before working capital changes increased by 17,6% to R428 million (2006: R364 million). Due to the increase in inventory, cash generated from operations remained constant at R168 million (2006: R167 million). The bulk of the cash was utilised for further investments of R187 million into the property portfolio during the year, in support of future growth. Cash reserves of R258 million were reported for the year (2006: R343 million).

TRADING ENVIRONMENT

Strong economic growth in South Africa, with associated increase in per capita income, has resulted in greater demand for the Group's product, especially at the entry level where affordability is a key consideration.

The proliferation of new entrants into the market, supported by unsurpassed demand for tiles and bathware, has led to price cutting. In a market characterised by a wide selection of suppliers and an increasingly well-informed consumer base, product reliability and in-store service have gained significance in the buying decision.

The Group continues to invest in upgrading its existing stores and extending its product offering to provide an improved retail experience to its customers.

AFRICAN OPERATIONS

During the year, the Group opened two new CTM stores in South Africa, increasing its network to 68 in the country with a further 13 stores across Africa in Botswana, Lesotho, Namibia, Swaziland, Tanzania, Uganda and Kenya. The Italtile brand, which services the premium tile and bathware market trades from eight stores situated in Gauteng, the Western Cape, Durban, Port Elizabeth and Nelspruit.

ITALTILE

While the Italtile brand made progress in increasing the average selling price of tiles and its premium bathware range was entrenched, the brand did not achieve satisfactory growth. The Group did however make headway in shifting the brand into the super premium environment targeted at the emerging upper class. To this end, the services of an Italian designer were procured to fully align the showrooms with the upmarket brand offering. It remains a priority for Italtile to drive its transition into the upper end of the market and entrench its position as a pre-eminent supplier of tiles and bathware, which is viewed as a long-term sustainable growth strategy. We are on track with our plans in this regard.

CTM

The Group will continue with its ongoing evaluation of the suitability of store location relative to other retail activity. During the year four CTM stores were relocated to more favourable sites to allow a larger trading area and an improved retail experience. The relocation of further stores to more suitable sites will continue. Delays in obtaining regulatory approval for development, coupled with the rapid escalation in development and land prices, has retarded the Group's store roll-out given its requirement for prime sites and superior returns.

Increasing representation in the coastal areas remains a high priority for Italtile. During the year, together with a joint venture partner, the Group successfully secured a significant property in the Western Cape with development planned during the next financial year.

The Group made progress towards its imperative of extending its retail network into traditionally black residential areas with the launch of new CTM stores in Tembisa and Phuthaditjhaba, and relocation of the Roodepoort store to Dobsonville, Soweto, all of which are trading profitably. Increased representation into black areas remains a priority for the coming year.

Italtile views the sub equatorial African market as an extension of the South African market. The Group's direct involvement in what were previously franchised businesses will allow greater access to resources and greater levels of regional co-operation.

The "CTM Easy Style" card test launched in the first half of the year proved a viable enhancement to CTM's offering. It strengthens the Group's value proposition to first-time buyers, offering them the ability to purchase a better basket of affordable products through extended payment terms. Aggressive marketing was avoided until the Group was confident of meeting customer expectations. The Group is confident that active promotion of the card will improve its market coverage.

INTERNATIONAL OPERATIONS

Italtile's Australian operation, with its eight retail outlets in Queensland and New South Wales made a small contribution to Group profits. Following the less buoyant real estate market in New South Wales, consumer demand has softened in our industry resulting in the market being oversupplied and weakening retail prices. The operation is expected to continue to make a nominal contribution to Group profits.

PROPERTY PORTFOLIO

During the year, the Group continued to invest heavily in its property portfolio, which increased, in carrying value, by R187 million to R688 million. This was brought about mainly due to construction of new buildings and upgrades to existing sites, the benefit of which will be felt in the short to medium term. Densification of urban areas where the Group is already well represented necessitated the provision of additional trading space to existing stores in order to cater for product range extensions and greater customer traffic.

Similar levels of property investments are anticipated during the 2008 financial year. Although store upgrades will continue, the focus will move to investing for the future through acquiring sites for future store development.

The Group's property portfolio continued to deliver returns in the year under review, which were in line with those of its trading operations.

BLACK ECONOMIC EMPOWERMENT

The Group finalised a BEE transaction to sell 10,7% of the Group's ordinary share capital to a BEE consortium which includes Italtile's black staff. Implementation of the BEE transaction is subject to section 38 (2A) of the Companies Act coming into effect. The BEE transaction fulfils an important component of Italtile's BEE strategy which was initiated with enterprise development and the introduction of black-owned franchises, following which the Group met all its employment equity targets. With the achievement of these key elements of broad-based BEE, the Group is now well positioned to access segments of the market from which it was previously precluded.

EVENTS SUBSEQUENT TO THE BALANCE SHEET DATES

A special resolution was approved by the requisite majority on 12 July 2007 to give effect to a 44:1 sub-division of Italtile's share capital to enhance the tradeability of the shares in issue. At the date of this announcement, the special resolution had not yet been registered by the relevant government agency. Accordingly, all the share-related information in this announcement makes reference to the actual numbers of shares in issue prior to the approved subdivision of shares.

PROSPECTS

Group initiatives to enhance sales growth and take advantage of buoyant market conditions bodes well for the year ahead. Italtile will continue to focus on its core competencies, with the intent that its store network will remain largely franchised. While upgrading the existing retail footprint creates the platform for growth, it is our view that our new footprint will enhance the shopping experience for residential finishes and affirm our leadership position in this sector. The Group will continue to actively secure suitable sites which meet both its investment and retail criteria in order to roll out new stores.

Interest rates in South Africa are at risk of further increases in the short term, however the Group's activities are geared to benefit in both rising and decreasing interest rate environments. Buoyant consumer demand is not expected to change materially in the year ahead, with the recently launched National Credit Act having minimal impact on the Group which remains a largely cash-based retailer.

The Group will maintain its focus on rolling out the strategy to enhance its retail store network in line with changes in consumer behaviour.

Consolidating the benefits of the broader product range, introducing further operational efficiencies and enhancing the general shopping experience for its customers remain high priorities for the the year ahead.

The Board expects the Group to exceed the current level of earnings growth in the coming financial year.

BASIS OF PREPARATION

The preliminary profit announcement has been prepared in accordance with International Financial Reporting Standards (IFRS) and is prepared on the historical-cost basis, adjusted for the fair value of certain assets and liabilities.

DIVIDEND

The Board has declared a final ordinary dividend of 270 cents per share, which, together with the interim ordinary dividend of 230 cents, produces a total ordinary dividend declared for the year of 500 cents (2006: 430 cents), an improvement of 16,3%.

DIVIDEND ANNOUNCEMENT

The Board has declared a final ordinary dividend (number 81) of 270 cents per share to all shareholders recorded in the books of Italtile Limited. The last day to trade *cum* the dividend will be Friday, 31 August 2007. The shares of Italtile Limited will commence trading *ex* dividend from the commencement of business on Monday, 3 September 2007 and the record date will be Friday, 7 September 2007. Payment will be made on Monday, 10 September 2007. Share certificates may not be rematerialised or dematerialised between Monday, 3 September 2007 and Friday, 7 September 2007, both days inclusive.

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 opinion is available on request from the company secretary at the company's registered office or own address.

7 August 2007

Registered Office: The Italtile Building, cnr William Nicol Drive and Peter Place, Bryanston (PO Box 1689, Randburg 2125)
Transfer Secretaries: Computershare Investor Services 2004 (Pty) Limited
70 Marshall Street, Johannesburg 2001 (PO Box 61051, Marshalltown 2107)
Directors: G A M Ravazzotti (Chairman), G P E Ravazzotti (Chief Executive Officer),
P D Swatton** (Chief Financial Officer), J Couzis*, S I Gama, D H Rabin (Non-executive Directors)
(*Greek **British)

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

BASTION GRAPHICS