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

ITALTILE Limited

Preliminary Profit Announcement

Reviewed Group Results for the year ended 30 June 2006

Commentary

RESULTS

Italtile Limited has delivered its 15th consecutive year of real earnings growth to exceed the R2 billion system-wide turnover milestone for the year ended 30 June 2006.

The group continues to build on its transition from niche specialist tile merchant, and is now the leading multifaceted retailer of tiles and bathware in South Africa. Italtile's brand portfolio comprises CTM and Italtile, positioned to appeal across the consumer spectrum from the value-driven volume end to the exclusive premium-end sector. The group trades through 98 stores across Africa and Australia.

System-wide turnover improved 15% to R2,253 billion (2005: R1,954 billion), a noteworthy achievement given deflationary price increases and organic growth from existing stores in the absence of new store growth. The contribution from group-owned stores (including joint venture franchises) increased 25% to R1,285 billion (2005: R1,032 billion), whilst revenue generated from franchise stores grew 5% to R968 million (2005: R922 million). The discrepancy in the relative segmental contributions is a reflection of migration of stores between portfolios rather than an accurate reflection of actual performance.

Trading profit for the review period rose 23% to R338 million (2005: R274 million). Earnings per share and headline earnings per share increased 20% and 23% respectively to 1 290 cents (2005: 1 073 cents) and 1 312 cents (2005: 1 069 cents).

Illustrative of the group's strong cash-generating capability and prudent working capital management, Italtile concluded the year with increased cash reserves of R343 million (2005: R301 million). Inventory reduced marginally despite growth across the business.

The group's improved results are ascribed to the robust trading environment favoured by a positive macro-economic climate and an expanded customer base as greater numbers entered the mainstream residential and renovation markets. The widespread appeal of the group's brands and high degree of customer loyalty served to entrench the group's leadership status in the market.

Extensive upgrades across the store network, an enhanced, extended tile and sanitaryware range coupled with stable product prices drove volume growth in the year under review.

Improved profitability is attributable to prudent pricing and product mix which caters for the trend displayed by increasingly discerning consumers to purchase higher value items across the range with improved exposure to the product.

Whilst the group delivered a sound performance in line with its retail sector peers, management is of the opinion that the business is capable of significantly enhancing this performance by improving on its own core competencies and further optimising on positive trading conditions.

In this regard the business model is being critically reviewed and re-engineered to extract further value from the various component entities: supply chain management, franchising, trading operations and property portfolio.

TRADING ENVIRONMENT

The proliferation of new entrants in the marketplace has had the effect of creating a price frontier, promoting lowest prices at all cost, with inevitable pressure brought to bear on independent participants. Italtile benefited from its established presence in the marketplace and long-standing relationships with suppliers.

Equally, this competitive environment promoted consolidation in the supply chain, with further consolidation likely. It is possible that this trend will manifest in the retail chain in due course.

Whilst the economy is beginning to feature inflationary trends, the group is satisfied that the business traditionally trades better in difficult times and with its core offering aimed at home improvement and enhancements, is well positioned to take advantage of the renovation market should the property buyers' market continue its downward trend.

AFRICAN OPERATIONS

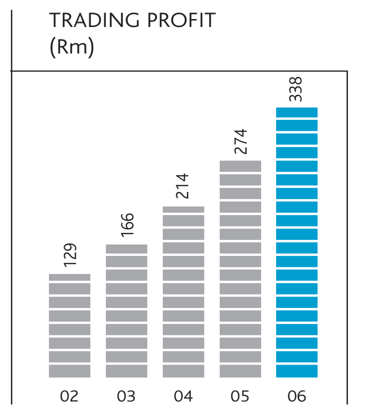
Italtile and CTM

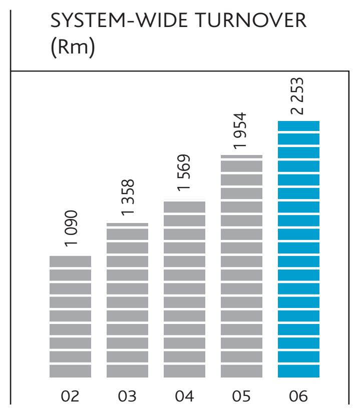
The group's store network comprises 66 CTM stores and 8 Italtile stores nationwide and a further 16 CTM stores across Africa in Botswana, Namibia, Swaziland, Lesotho, Malawi, Uganda, Tanzania and Zambia.

Whilst both divisions reported solid growth, the bathware component outperformed the tile business in terms of rate of growth and market share improvement. The continued sanitaryware shortage in the market was exacerbated by further capacity constraint resulting from the destruction by fire of the production plant of one of the group's suppliers. The bathware sector has been identified by Italtile as an important growth market. Selling prices in the sanitaryware sector continued their four-year deflationary trend. Tile prices grew at approximately 2%.

An extensive renovation programme was undertaken across a large number of stores, aimed at enhancing the retail experience and supporting the group's positioning as a destination retailer. The favourable response from consumers supports the roll-out of this initiative across the network.

Advancing the strategy to extend the group's range of home enhancement solutions, a laminated flooring offering was introduced to select CTM stores in the Gauteng area. Response to the product line has been gratifying, substantiating the decision to extend the offering nationwide.





Facilitating access to the group's products is critical to expansion plans. Italtile's pilot store in an exclusively black residential area opened in Botshabelo during the review period, and has traded positively since then. Additional stores are currently under construction in Thembisa and Phuthaditjhaba.

Whilst improved results were achieved across the group's businesses, management intends to dramatically escalate that performance by focusing on a range of growth and enhancement imperatives:

- Attention will be paid to expanding the group's presence along the country's coastal areas. The inland regions have traditionally been recognised as Italtile's dominant markets, and will remain so, but with growing urbanisation in KwaZulu-Natal and the Western Cape, the group recognises the opportunities presented through enhancing its current profile in those provinces.
- A comprehensive campaign is being undertaken to attract a resource of superior calibre franchisees. The response has been rewarding and will assist management in its endeavour to promote entrepreneurship and empowerment through mentorship. Innovation, responsiveness and exceptional service are critical to growing market share in a competitive environment. Management's objective will be to up-skill and optimise talents to achieve and exceed those goals.
- Improved logistics and accessibility to the right product at the right price underpin the group's trading philosophy. In support of this strategy, two major initiatives were implemented during the review period: backward integration of the group's supply chain and introduction of a world-class logistics system aimed at reducing costs and inefficiencies and facilitating just-in-time deliveries. The incorporation of these components has taken longer than anticipated, and served to reveal areas of underperformance which required re-engineering. Management is satisfied that the group is now better positioned to achieve cost and best practice benchmarks, improving its competitive advantage in the market.
- In addition, the group's brands underwent critical analysis with a view to ensuring they retain integrity and continue to deliver on their core offerings. Future sales promotions will be built around optimal alignment of message and product. In this regard new communications campaigns will be introduced to reinforce those key messages.

INTERNATIONAL OPERATIONS

The group currently trades out of eight stores across Queensland and New South Wales, and a new store will be opened on the Gold Coast during the forthcoming financial year. The majority of the stores are modelled on the company's new generation formula, developed specifically for Australian market needs, and combine an extensive product range and upmarket showroom facilities. The operation is expected to continue to make a nominal contribution to profits.

PROPERTY PORTFOLIO

Italtile's combined South African and Australian portfolio was boosted by further investment of R83 million during the review period, bringing the carrying value to some R496 million.

In addition to the strong returns achieved from this portfolio, which are in line with Italtile's trading operations, the group derives important strategic advantage by supporting its brands with high-profile prime sites that enhance Italtile's positioning as a destination retailer.

The group's stated intention to aggressively expand its store network has been substantially hampered by the prevailing onerous regulatory environment. Despite having identified and acquired a number of sites for expansion, the excessive lead time before such sites are approved for development has served to restrict the group's rollout plans. Further exacerbating this situation is existing price pressure on land and construction costs, the latter due to the prevailing shortage of skilled contractors.

Despite these constraints Italtile anticipates opening a further nine stores within the forthcoming financial year.

BLACK ECONOMIC EMPOWERMENT

Significant progress has been achieved with regard to the group's planned Black Economic Empowerment initiative. The leading and support partners (which includes staff and franchisees) have been identified and funding arrangements are currently being concluded. Whilst certain structuring formalities still require to be resolved, the Board hopes to be in a position to announce the substance of the deal before the end of the current calendar year.

DIRECTORATE

In line with the group's long-term management succession plan, Mr Gianpaolo Ravazzotti assumed the position of Chief Executive Officer of Italtile on 1 July 2006, replacing Mr Gianni Ravazzotti, who resumed his former role as Group Executive Chairman. To facilitate the re-entry of Mr Gianni Ravazzotti as Chairman, the incumbent, Mr Derek Rabin, relinquished his position and resumed his role as Non-executive Director of the group. Christian Trumpelmann, Chief Operating Officer of CTM and an Executive Director, elected to take up a franchising opportunity within the group and resigned his positions on 1 April 2006.

The Board wishes to thank these directors for their contribution and continued commitment to the group in their new positions.

PROSPECTS

Despite prevailing sentiment regarding a downturn in the economy, management is confident that significant opportunities exist for innovative retailers in the home enhancement industry.

Continued stimulation of the economy by government and the sustained growth of the emerging middle class will remain critical growth drivers.

Proposed raw material price increases will result in a degree of price inflation after a sustained period of deflation. This environment will certainly pressure opportunistic entrants in the industry and inevitably result in a degree of consolidation.

The group will direct its energy at revitalising the business model to capitalise on opportunities presented. Core competencies will be honed and particular emphasis will be placed on improving logistics and product offering. Entrepreneurship, skills upgrade and enhanced service will be paramount in growing the group's market leadership.

The current level of growth in earnings will be maintained over the forthcoming period.

BASIS OF PREPARATION

In terms of the listing requirements of the JSE Limited, the group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as from 1 July 2005. Previously the group reported in terms of South African Statements of Generally Accepted Accounting Practice. The balance sheet and income statement at June 2005 have been restated accordingly. The effect of the transition from South African Statements of Generally Accepted Accounting Practice to IFRS on the group's financial position, financial performance and cash flows are summarised in the IFRS table. As IFRS are implemented internationally, evolving practices with regard to the interpretation and application of standards under IFRS could impact future reported results and disclosure.

IFRS2 – SHARE BASED PAYMENTS

The group has elected not to apply the provisions of IFRS2 to share options granted before 7 November 2002. The fair value of share options granted after that date has been charged against income over the relevant option vesting periods adjusted for expected levels of vesting.

IAS16 – PROPERTY, PLANT AND EQUIPMENT

The useful lives and residual values of the group's major assets have been reassessed and where applicable the depreciation charge has been adjusted.

DIVIDEND

A further reduction in dividend cover from 4 times to 3 times has been implemented, based on the group's strong balance sheet, proven cash generating ability, and the imperative to favourably position the group to effect its planned black economic empowerment partnership.

Consequently the Board has declared a final ordinary dividend of 290 cents per share, which together with the interim ordinary dividend of 140 cents produces a total ordinary dividend declared for the year of 430 cents (2005: 270 cents), an improvement of 59%.

DIVIDEND ANNOUNCEMENT

The Board has declared a final ordinary dividend (number 80) of 290 cents per share to all shareholders recorded in the books of Italtile Limited. The last day to trade *cum* the dividend will be Friday, 25 August 2006. The shares of Italtile Limited will commence trading *ex* dividend from the commencement of business on Monday, 28 August 2006 and the record date will be Friday, 1 September 2006. Payment will be made on Monday, 4 September 2006. Share certificates may not be rematerialised or dematerialised between Monday, 28 August 2006 and Friday, 1 September 2006, both days inclusive.

For and on behalf of the Board

G A M Ravazzotti
Chief Executive Officer

P D Swatton
Chief Financial Officer

7 August 2006

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

System-wide turnover analysis

For the year ended 30 June 2006 (Rand million unless otherwise stated)	% increase	30 June 2006	30 June 2005
Group and franchised turnover			
– By group-owned stores		**1 285**	1 032
– By franchise-owned stores (Unaudited)		**968**	922
TOTAL	15	**2 253**	1 954

Abridged group income statements

For the year ended 30 June 2006 (Rand million unless otherwise stated)	% increase	Reviewed year to 30 June 2006	Audited year to 30 June 2005
Trading profit before depreciation		**363**	293
Depreciation		**(21)**	(20)
(Loss)/profit on sale of property, plant and equipment		**(4)**	1
Trading profit	23	**338**	274
Investment income		**16**	12
Profit before interest paid		**354**	286
Interest paid		**(2)**	(1)
Profit before taxation	23	**352**	285
Taxation		**(111)**	(88)
Profit for the year	22	**241**	197
Attributable to:			
Equity holders of the parent		**233**	191
Minority interests		**8**	6
	22	**241**	197
Number of shares in issue (000's)		**18 095**	17 771
Earnings per share (cents)	20	**1 290**	1 073
Headline earnings per share (cents)	23	**1 312**	1 069
Diluted earnings per share (cents)	21	**1 271**	1 047
Dividends per share (cents)		**430**	270
Special dividend (cents)			330
RECONCILIATION OF HEADLINE EARNINGS			
Earnings attributable to ordinary shareholders		**233**	191
Loss/(profit) on sale of fixed assets		**4**	(1)
Headline earnings		**237**	190
RECONCILIATION OF SHARES IN ISSUE			
Total number of shares issued (000's)		**18 677**	18 677
Share Incentive Trust shares (000's)		**(582)**	(906)
Shares in issue to external parties (000's)		**18 095**	17 771

Segmental reporting

For the year ended 30 June 2006 (Rand million unless otherwise stated)	Retail	Franchising	Properties	Supply and support services	Inter-group	Group
Reviewed year to June 2006						
Revenue	1 064	129	99	549	(385)	1 456
Segment results	68	66	80	124		338
Audited year to June 2005						
Revenue	904	111	84	381	(290)	1 190
Segment results	57	57	64	96		274

Abridged group balance sheet

As at 30 June 2006 (Rand million unless otherwise stated)	Reviewed year to 30 June 2006	Audited year to 30 June 2005
ASSETS		
Non-current assets	**549**	444
Property, plant and equipment	**537**	433
Other long-term assets	**9**	9
Deferred tax	**3**	2
Current assets	**567**	520
Inventories	**150**	154
Trade and other receivables	**74**	65
Cash and cash equivalents	**343**	301
Total assets	**1 116**	964
EQUITY AND LIABILITIES		
Capital and reserves	**794**	663
Stated capital	**27**	27
Non-distributable reserve	**17**	13
Treasury shares	**(48)**	(55)
Retained earnings	**768**	649
Outside shareholders' interest	**30**	29
Long-term liabilities	**10**	10
Current liabilities	**312**	291
Trade and other payables	**289**	264
Taxation	**23**	27
	1 116	964
Net asset value per share (cents)	**4 388**	3 731

Cash flow statement

For the year ended 30 June 2006 (Rand million unless otherwise stated)	Reviewed year to 30 June 2006	Audited year to 30 June 2005
Cash flow from operating activities	**167**	205
Cash flow from investing activities	**(121)**	(137)
Cash flow from financing activities	**(4)**	10
Net movement in cash and cash equivalents	**42**	78
Cash and cash equivalents at beginning of period	**301**	223
Cash and cash equivalents at end of period	**343**	301

Notes:

– There are no material contingent liabilities or assets at 30 June 2006

– Capital commitments at 30 June 2006

	Rm
Contracted	78
Authorised, not contracted	72
	150

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

Statement of changes in equity

For the year ended 30 June 2006 (Rand million unless otherwise stated) Group	Stated capital	Non-distributable reserve	Treasury shares	Minority interest	Retained profit	Total
Balance at 30 June 2004 restated	27	1	(46)	15	518	515
Net profit for the year				6	191	197
Dividends paid					(60)	(60)
Currency translation difference		11				11
Share option costs		1				1
Unallocated shares in share trust			(7)			(7)
Accumulated surplus in share trust			(2)			(2)
Subsidiary share capital increase				8		8
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 option costs		1				1
Unallocated shares in share trust			10			10
Accumulated surplus in share trust			(3)			(3)
Purchase of additional share in subsidiary				(4)		(4)
	27	17	(48)	30	768	794

IFRS impact on profit attributable to ordinary shareholders

(Rand million unless otherwise stated)	30 June 2005
As previously reported	197
Effect of IAS16 and IFRS2	—
	197

IFRS impact on shareholders equity

	30 June 2004	30 June 2005
As previously reported	499	633
Effect of IAS16 and IFRS2	1	1
Reallocation of minority interest	15	29
	515	663

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, Edura 70 Marshall Street, Johannesburg 2001 (PO Box 61051, Marshalltown 2107)

Directors: D H Rabin (Chairman), G A M Ravazzotti (Chief Executive Officer), P D Swatton** (Chief Financial Officer), J Couzis*, S I Gama, G P E Ravazzotti (*Greek ** British)

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

BASTION GRAPHICS