Reviewed Group Results for the six months ended 31 December 2009

ITALTILE Limited

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

The style. The passion.



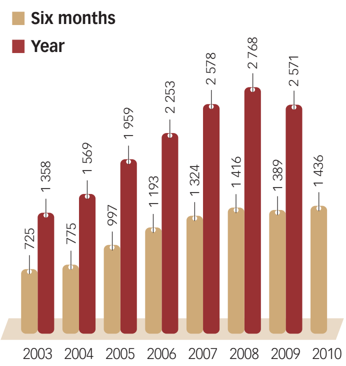
CELEBRATING 40 YRS OF ITALIAN PASSION

The Group's success is based on passion for our brands.

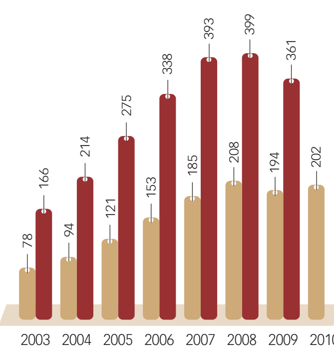
System wide turnover analysis

For the period ended 31 December 2009 *(Rand millions unless otherwise stated)*

	% increase	Reviewed six months to 31 December 2009	Unaudited six months to 31 December 2008	Audited year to 30 June 2009
Group and franchised turnover				
– By group owned stores		**692**	667	1 303
– By franchise owned stores (unaudited)		**744**	722	1 268
Total	3	**1 436**	1 389	2 571



System wide turnover
(Rm's)



Trading profit
(Rm's)

Abridged Group statements of comprehensive income

For the period ended 31 December 2009 *(Rand millions unless otherwise stated)*

	% increase	Reviewed six months to 31 December 2009	Unaudited six months to 31 December 2008	Audited year to 30 June 2009
Trading profit before depreciation		**222**	214	403
Depreciation		**(20)**	(20)	(41)
Profit on sale of property, plant and equipment		**—**	—	(1)
Trading profit	4	**202**	194	361
Investment income		**20**	25#	48
Profit before interest paid		**222**	219	409
Interest paid		**(14)**	(22)#	(40)
Profit before taxation	6	**208**	197	369
Taxation		**(59)**	(58)	(109)
Profit for the period	7	**149**	139	260
Currency translation differences		**—**	(16)	(12)
Total comprehensive income for the period		**149**	123	248
Attributable to:				
Equity holders of the parent		**143**	136	257
Non controlling interests		**6**	3	3
	7	**149**	139	260
Number of shares in issue (000's)*		**797 509**	793 893	795 984
Earnings per share (cents)	5	**17,9**	17,1	32,3
Headline earnings per share (cents)	5	**17,9**	17,1	32,4
Adjusted headline earnings per share (cents)	5	**17,9**	17,1	32,4
Diluted earnings per share (cents)	5	**17,9**	17,1	32,3
Diluted headline earnings per share (cents)	5	**17,9**	17,1	32,4
Dividends per share (cents)	0	**6,0**	6,0	11,0
RECONCILIATION OF HEADLINE EARNINGS				
Earnings attributable to ordinary shareholders		**143**	136	257
Profit on sale of property, plant and equipment		**—**	—	1
Headline earnings		**143**	136	258
RECONCILIATION OF SHARES IN ISSUE*				
Total number of shares issued (000's)		**909 800**	909 800	909 800
Share Incentive Trust shares (000's)		**24 291**	27 907	25 816
BEE treasury shares (000's)		**88 000**	88 000	88 000
Shares in issue to external parties (000's)		**797 509**	793 893	795 984

#re-stated for comparative purposes

Abridged Group statements of financial position

As at 31 December 2009 *(Rand millions unless otherwise stated)*

	Reviewed six months to 31 December 2009	Unaudited six months to 31 December 2008	Audited year to 30 June 2009
ASSETS			
Non-current assets	**964**	911	939
Property, plant and equipment	**937**	886	914
Other long-term assets	**19**	17	16
Goodwill	**6**	6	6
Deferred tax	**2**	2	3
Current assets	**1 102**	884	994
Inventories	**173**	224	191
Trade and other receivables	**121**	127	136
Cash and cash equivalents	**808**	533#	667
Total assets	**2 066**	1 795	1 933
EQUITY AND LIABILITIES			
Capital and reserves	**1 455**	1 241	1 346
Stated capital	**417**	417	417
Non-distributable reserve	**78**	64	78
Treasury shares	**(470)**	(475)	(473)
Retained profit	**1,384**	1,207	1,284
Non controlling interest	**46**	28	40
Long-term liabilities	**341**	331#	341
Deferred tax	**2**		2
Current liabilities	**268**	223	244
Trade and other payables	**251**	186	238
Taxation	**17**	37	6
	2 066	1 795	1 933
Net asset value per share (cents)	**182**	156	169

#re-stated for comparative purposes

Cash flow statement

For the period ended 31 December 2009 *(Rand millions unless otherwise stated)*

	Reviewed six months to 31 December 2009	Unaudited six months to 31 December 2008	Audited year to 30 June 2009
Cash flow from operating activities	**184**	65	223
Cash flow from investing activities	**(45)**	(46)	(77)
Cash flow from financing activities	**2**	233	240
Net movement in cash and cash equivalents	**141**	252	386
Cash and cash equivalents at beginning of period	**667**	281	281
Cash and cash equivalents at end of period	**808**	533	667

Statement of changes in equity

For the period ended 31 December 2009 *(Rand millions unless otherwise stated)*

Group	Stated capital	Non-distributable reserve	Treasury shares	Minority interest	Retained profit	Total
Balance at 30 June 2008	417	80	(473)	25	1 134	1 183
Total comprehensive income for the period		(12)		3	257	248
Dividends paid				(4)	(107)	(111)
Share option costs		—				—
Unallocated shares in share trust			2			2
Accumulated surplus in share trust			(2)			(2)
Sale of minority interest		10		16		26
Balance at 30 June 2009	417	78	(473)	40	1 284	1 346
Total comprehensive income for the period		—		6	143	149
Dividends paid					(43)	(43)
Unallocated shares in share trust			2			2
Accumulated surplus in share trust			—			—
Balance at 31 December 2009	417	78	(470)	46	1 384	1 455

Segmental reporting

For the period ended 31 December 2009 *(Rand millions unless otherwise stated)*

	Retail	Franchising	Properties	Supply and support services	Group
Reviewed period to December 2009					
Gross revenue	**595**	**64**	**79**	**263**	**1 001**
intra group transactions	**—**	**(26)**	**(34)**	**(150)**	**(210)**
Net revenue	**595**	**38**	**45**	**113**	**791**
Gross results	**42**	**83**	**64**	**13**	**202**
intra group transactions	**72**	**(26)**	**(34)**	**(12)**	**—**
Trading profit	**114**	**57**	**30**	**1**	**202**
Unaudited period to December 2008					
Gross revenue	567	63	75	275	980
intra group transactions	—	(28)	(35)	(154)	(217)
Net revenue	567	35	40	121	763
Gross results	37	79	60	18	194
intra group transactions	73	(26)	(35)	(12)	—
Trading profit	110	53	25	6	194

Commitments and contingencies

(Rand millions unless otherwise stated)

– There are no material contingent liabilities or assets at 31 December 2009
– Capital commitments at 31 December 2009

Contracted	12
Authorised, not contracted	95
	107

– In terms of the articles of association, the company's borrowing facilities are unlimited.

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 (Chairman), G P E Ravazzotti (Chief Executive Officer), *P D Swatton (Chief Financial Officer)
Non-executive Directors: S M du Toit, S I Gama, G K Morolo, **A Zannoni (*British ** Italian)
Company Secretary: E J Willis
Sponsor: BJM Corporate Finance (Pty) Ltd

Commentary

Results

The Group reported a 3% improvement in organic system wide turnover to R1,44 billion (2008: R1,39 billion) in line with retail sector trends and management's stated objective to retain and grow market share, capitalising on opportunities as the economy recovers. Trading profit increased 4% from R194 million in the comparative period to R202 million.

Improved turnover was achieved with zero price inflation, reflecting the competitive trading environment. While operating margin remained firm in the tile division, the Group implemented an aggressive pricing policy in the sanitaryware business, in keeping with its strategy to be regarded as a value player across its one-stop-shop offering.

Earnings per share increased 5% per share to 17,9 cents (2008: 17,1 cents).

The Group's cash reserves at the year ended 30 June 2009 were R667 million, including domestic borrowings of R300 million. This loan strategy was employed with a view to making expeditious investments in the property portfolio given the softening of land prices and continued rationalisation of the industry.

The Group's strong cash-generative ability is illustrated by the subsequent further increase in cash reserves to R808 million (2008: R533 million).

Sustained intensive inventory management continued to reduce stock holding and improve product mix for the fourth consecutive period. Inventories decreased from R191 million in June 2009 to R173 million in the review period.

The tangible net asset value per share increased by 17% to 182 cents (2008: 156 cents).

Operational review

Trading conditions remained challenging, illustrated by further rationalisation of less robust, import-dependent industry participants.

Long-standing relationships with suppliers and investment in integrating the supply chain continued to deliver benefits for the Group. Improved quality and fashionability of local product has dramatically reduced dependence on imports and thereby negated the effect of currency fluctuations and inconsistency of supply and quality. The recent investment in Ezeetile, a national manufacturer of adhesive, grout and related products, has added significant strategic advantage and the business unit delivered a record performance over the peak season trading period.

Notwithstanding the recessionary environment and restrained disposable income, the Group benefited from its position as the leading value player with well established brands. In CTM the emerging market sector continued to perform well and modest market share was gained in the middle income urban market during the last quarter, after a lengthy period of subdued consumer activity.

The Italtile stores experienced noticeably less customer traffic in the past six months. Trends indicate that affluent clients were more price sensitive and value conscious than previously, thereby pressuring new build and renovation sales.

Comprising 8 stores, Top T is the Group's fledgling brand. Management is satisfied that in time this entry-level offering will establish a strong foothold in the South African market. A conservative roll out programme will commence in the next six months, and the existing network will be expanded as appropriate opportunities arise.

Italtile is actively pursuing a programme to raise awareness of environmental sustainability throughout the Group. Demonstrated by the construction of its environmentally friendly Training Academy, efforts are being made to ensure the Group's stores are more self sufficient and resourceful in terms of energy and water consumption. Henceforth all new stores will be built to comply with environmentally responsible standards and existing stores will be modified accordingly.

Africa

Italtile has 14 stores in 7 African countries. Given the current economic environment, and the Group's conservative stance to establishing a presence in Africa, no further expansion of the store network was undertaken in the reporting period.

Australia

The Australian operation, comprising nine stores, delivered a good performance, and made a commendable contribution to Group profit. The turnaround achieved in this business is based on the strategy implemented over several years to remedy logistical decisions made when the Group initially entered the country. The Board is confident that the optimal trading model is now in place to suit the unique Australian market and that this performance is sustainable.

Property portfolio

The Group's combined African and Australian portfolio has a carrying value of R824 million (2008: R810 million). The strategic advantage of supporting its brands with high profile destination sites ensures that opportunities to grow this portfolio are continuously explored. The sector currently experiences a softening in commercial property prices presenting acquisition opportunities. Whilst the Group has a long term investment horizon, it is anticipated that an aggressive relocation programme will be implemented over the next 18 months. The Group's traditionally selective approach to investments will ensure that the property portfolio continues to deliver a sustainable, required return rate.

Directorate

During the review period the non-executive directors Mr Derek Rabin and Mr Giuseppe Zannoni retired. The Board expresses its sincere appreciation to Mr Rabin and Mr Zannoni for their commitment and guidance to the Group during their tenure and looks forward to continued relationships with them. Ms Alessia Zannoni was appointed as a non-executive director. The Board welcomes Ms Zannoni and looks forward to her future contribution.

Prospects

The Group will invest in retail technologies to augment in-store trading systems aimed at improving operational efficiencies and enhancing the shopping experience.

The economic environment is generally expected to remain challenging over the forthcoming period.

It is difficult to forecast the impact of 2010 World Cup activities on trading in the next six months, and in particular in the months of June and July 2010.

Notwithstanding this uncertain economic climate, the Board believes that growth at current levels will be maintained for the forthcoming period.

Basis of preparation of accounting policies

The reviewed interim financial results for the period are prepared in accordance with *IAS 34 – Interim Financial Reporting IFRS*, and comply with the Listings Requirements of the JSE Limited and the South African Companies Act, 1973.

The accounting policies applied in these unaudited interim financial statements are consistent in all material respects with those applied in the preparation of the group's annual financial statements for the previous year ended 30 June 2009 except for the adoption of new standards and interpretations. The following two standards had an impact for the half year-ended 31 December 2009. Other standards and interpretations that were issued did not have any impact on the entity.

- *IAS 1 (Revised) Presentation of Financial* Statements – The group has adopted IAS 1 (Revised) which is effective for financial periods beginning on or after 1 January 2009. The amendment mandates requirements for the presentation of financial statements on the basis of shared characteristics.
- *IFRS 8 Operating segments* – The group has adopted IFRS 8 *Operating Segments* which is effective for financial periods beginning on or after 1 January 2009. This standard requires the disclosure of information based on the "management approach" to reporting on the financial performance of operating segments.

Ordinary dividend

The Group has maintained its dividend cover of three times. The Board has declared an interim dividend of 6 cents per share (2008: 6 cents).

Ordinary dividend announcement

The Board has declared an interim dividend (number 87) of 6 cents per ordinary share to all shareholders recorded in the books of Italtile Limited at the close of business on Friday, 26 March 2010. The last day to trade cum dividend in order to participate in the dividend will be Thursday, 18 March 2010. The shares will commence trading ex dividend from the commencement of business on Friday, 19 March 2010 and the record date will be Friday, 26 March 2010. The dividend will be paid on Monday, 29 March 2010. Share certificates may not be rematerialised or dematerialised between Thursday, 18 March 2010 and Friday, 26 March 2010, both days inclusive.

Special cash dividend

Given the cash holding in the Company excess to requirements, the Board has furthermore declared a special dividend of 60 cents per ordinary share payable to shareholders, with the default being cash but who will have the option to choose to acquire additional shares at 325 cents per share in lieu of the special cash dividend, or to elect a combination of both cash and shares. The special dividend will also have the effect of assisting the Company's BEE partners in lowering their debt owed for the initial share acquisition The number of shares to be awarded will be calculated by dividing 60 cents per share by 325 cents (EX dividend), multiplied by the number of shares held by a shareholder on the record date. This equates to 18,4615 shares for every 100 ordinary shares held. The last day to trade CUM dividend in order to participate in the dividend will be Thursday, 18 March 2010. The shares will commence trading EX dividend from the commencement of business on Friday, 19 March 2010 and the record date will be Friday, 26 March 2010. The dividend will be paid on Monday, 29 March 2010. Share certificates may not be rematerialised or dematerialised between Thursday, 18 March 2010 and Friday, 26 March 2010, both days inclusive. A form of election will be posted to shareholders in due course.

For and on behalf of the board

G P E Ravazzotti
Chief Executive Officer

P D Swatton
Chief Financial Officer

18 February 2010

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