Corporate governance

OVERVIEW

Italtile Limited ("Italtile") endorses the Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance for South Africa 2002 ("King Code 2002"). The Board advocates sound governance practices by the Group and its subsidiaries.

The Company is in substantial compliance with the King Code; areas in which it does not comply are noted in the section "Areas of non-compliance" in this report.

Italtile subscribes to a set of values which seeks to foster integrity, innovation, individual empowerment and personal accountability. The Company affirms a commitment to the principles of transparency and timeous, relevant and meaningful reporting to all its stakeholders.

BOARD OF DIRECTORS

A formal Board charter, as recommended by the King Code 2002, has been adopted. The charter includes a code of ethics to which all directors subscribe. Procedures exist in terms of which unethical business practices can be brought to the attention of the Board by Directors.

COMPOSITION OF THE BOARD

The Board comprises two executive directors and four non-executive directors.

The directors are individuals of a high calibre with diverse backgrounds and expertise, facilitating independent judgement and broad deliberations in the decision-making process.

CLASSIFICATION OF DIRECTORS

The basis on which directors have been classified in terms of their independence in this report is as follows:

- executive directors are employed in a full time capacity by Italtile;
- non-executive directors are those who, while not in the full time employment of the Company, are members of the management committee or who have been nominated by a shareholder owning more than 20% of the Company; and
- independent non-executive directors are all other directors irrespective of the period during which they have been members of the Board.

No director has an automatic right to a position on the Board. All directors are required to be elected by the shareholders at an annual general meeting on a rotational basis.

BOARD RESPONSIBILITIES

The Board is responsible to shareholders for the conduct of the business of the Italtile Group, which includes providing Italtile with clear strategic direction. The schedule of matters reviewed by the Board includes:

- approval of the Group's strategy and annual budget;
- overseeing Group operational performance and management;
- ensuring that there is adequate succession planning at senior levels;
- overseeing director selection, orientation and evaluation;
- approval of major capital expenditure or disposals, material contracts, material acquisitions and developments;
- reviewing the terms of reference of Board committees;
- determining policies and processes which seek to ensure the integrity of the Group's risk management and internal controls;
- maintaining and monitoring the Group's systems of internal control and risk management;
- communication with shareholders, including approval of all circulars, prospectuses and major public announcements;
- approval of the interim statement and annual report and accounts (including the review of critical accounting policies and accounting judgements and an assessment of the Company's position and prospects); and
- recommendation of dividends.

The Board retains full and effective control over the business of Italtile. The Board has defined levels of materiality through a written delegation of authority, which sets out decisions the Board wishes to reserve for itself. The delegation is regularly reviewed and monitored.

Division of responsibilities maintains a balance of power and authority.

TERM OF OFFICE

The two executive directors have fixed terms of employment. In accordance with the Company's Articles of Association, all directors are subject to retirement by rotation and re-election by shareholders at least every three years. If requested to serve a further term, those retiring directors may offer themselves for re-election by shareholders. Any director appointed during the year must retire at the annual general meeting held immediately after his or her appointment.

BOARD MEETINGS

The Board meets at least every quarter or more frequently if circumstances require.

At the meetings, the Board considers both financial and non-financial qualitative information that might have an impact on the Group's stakeholders.

Prior to every Board meeting, each director receives an information pack which provides background information on the performance of the Group for the year to date and any other matters for discussion at the meeting.

Board members have full and unrestricted access to relevant information, management, and the Company Secretary, and may, at the cost of the Group, seek independent professional advice in the fulfilment of their duties.

Details of attendance at Board meetings are set out below:

Attendance at Board meetings

	4 August 2009	26 November 2009	14 February 2010	16 August 2010
G A M Ravazzotti	✓	✓	✓	✓
P D Swatton	✓	✓	✓	✓
S M du Toit	✓	✓	✓	✓
D H Rabin	✗	✓	N/A	N/A
G Zannoni	✓	✓	N/A	N/A
G K A Morolo	✗	✓	✗	N/A
S I Gama	✓	✓	✓	✓
G P E Ravazzotti	✓	✓	✓	✓
A Zannoni*	✓#	✓	✓	✓

*Appointed 26 November 2009.
#By invitation.

AREAS OF NON-COMPLIANCE

Whilst representation on the Board and Board committees does not comprise a majority of independent non-executive directors, the Board is satisfied that these areas of non-compliance with the King Code do not impair governance, integrity or perceptions thereof.

The Board has committed to appoint additional independent non-executive directors as a matter or priority.

BOARD APPOINTMENTS POLICY

The Board evaluates its composition each year to ensure an appropriate mix of skills, experience, professional and industry knowledge to meet the Company's strategic objectives. Demographic representation is also a consideration. New directors are subject to a "fit and proper" test. An induction programme is available to incoming directors, providing guidance on their responsibilities.

DIVISION OF RESPONSIBILITY

The Board is chaired by a non-executive Chairman, and there is a clear division between the roles of the Chairman and Chief Executive Officer.

The Chairman is responsible for formulating strategy, providing leadership to the Board and overseeing its efficient operation, and ensuring effective corporate governance practices.

The Chief Executive Officer is responsible for formulating, implementing and maintaining the strategic direction of the Group, and ensuring the day-to-day affairs of Italtile's operations are appropriately supervised and controlled.

The non-executive directors have extensive experience and a high degree of integrity and credibility, which provides for objective input into the decision-making process.

The Company conducts an annual evaluation of its Board, Board committees and individual directors, and is confident that there is an appropriate balance of power and authority on the Board.

LEAD INDEPENDENT DIRECTOR

The previous King Report (King II) emphasised that there should be a clear division of responsibilities at the head of the company, ensuring a balance of power and authority, so that no one individual has 'unfettered powers of decision-making' (Code 2.3.1). This points strongly to having an independent non-executive chairman.

King III recognises that a company may have sound reasons for appointing a chairman who does not meet all the criteria for independence, but should be prepared to justify its decision. In such circumstances, King III as well as the JSE Listings Requirements advocate that the appointment of a lead independent director (LID) to assist the Board in dealing with any actual or perceived conflicts of interest that arise in these or future circumstances.

The main function of an LID (as per King III) is to provide leadership and advice to the Board, without detracting from the authority of the Chairman, when the Chairman has a conflict of interest. The LID should at all times be aware that his/her role is that of support to the Chairman and Board and not in any way to undermine the authority of the Chairman. The LID should also chair those Board meetings which deal with the succession of the Chairman and the Chairman's performance appraisal.

Having regard to the recommendations set out in King II and King III, which advocates having an independent non-executive chairman failing which a lead independent director, the Italtile Board appointed Ms S M du Toit as lead independent non-executive director on the Company's Board.

BOARD COMMITTEES

The Board has established two committees to which it has delegated specific responsibilities in meeting its corporate governance and fiduciary duties. Both committees operate within written terms of reference approved by the Board. These are:

- Audit and Risk Committee; and
- Remuneration Committee.

Audit and Risk Committee

This committee is chaired by independent non-executive Director, Ms S M du Toit and includes Mr S I Gama. Mr G K A Morolo was a member of this committee until his resignation as a director. The committee meets at least every quarter or more frequently if circumstances require. The external auditors have unrestricted access to the Audit and Risk Committee.

The committee's objectives are to assist the Board in fulfilling its fiduciary duties with regard to:

- Internal control assessment
- Internal and external audit
- Financial reporting process
- Appointment of the external auditors
- Assessment and management of business risks
- Safeguarding the Group's assets

A policy regarding the provision of non-audit services by the Company's auditors is in place. This process is structured between management and the external auditors to ensure that the guidelines requiring approval by the Audit and Risk Committee are adhered to and monitored.

As required in terms of the Companies Act, as amended by the Corporate Laws Amendment Act, No 24 of 2006, the committee is satisfied that it has complied with and performed its functions and that the Company's external auditors are independent of the Company.

The Audit and Risk Committee provides regular reports on its activities to the Board and confirms that it has adhered to its terms of reference over the past financial year.

Attendance at Audit and Risk Committee meetings

	30 July 2009	11 September 2009	10 February 2010	17 May 2010
P D Swatton*	✓	✓	✓	✓
S M du Toit	✓	✓	✓	✓
S I Gama	✓	✗	✗	✓
G K A Morolo	✓	✓	✓	N/A

**By invitation.*

Remuneration Committee

The Remuneration Committee is chaired by Ms S M du Toit and includes Mr G A M Ravazzotti.

This committee operates within the written terms of reference confirmed by the Board, which includes:

- the Group's remuneration policy; and
- short and long-term incentive policies for directors, executive management and staff.

The committee reviews and evaluates the contribution of each director and member of senior management and determines their salary adjustments on an annual basis.

No director or manager is involved in any decisions as to his or her own remuneration.

Details of directors' remuneration for the review period are set out on page 37 of this report.

Details of attendance at Remuneration Committee meetings are set out below:

Attendance at Remuneration Committee meetings

	28 June 2010	16 August 2010
S M du Toit	✓	✓
G A M Ravazzotti	✓	✓

Corporate governance continued

COMPANY SECRETARY

The Company Secretary is Ms E J Willis. All directors have unlimited access to the services of the Company Secretary, who is responsible to the Board for ensuring that proper corporate governance principles are adhered to.

CODE OF BUSINESS AND ETHICS

The Group has adopted a formal code of business ethics and conduct ("the Code") which requires all directors and employees to act with honesty and integrity and to maintain the highest ethical standards. The Code deals with compliance with laws and regulations through a system of values and standards.

The Board oversees and ensures that management throughout the Group assumes responsibility for training and mentoring staff on the Group's values and standards and ensuring compliance.

The Code will be evaluated on a regular basis to ensure it aligns with the corporate compliance policy, King III and relevant new legislation.

SHARE DEALINGS

All directors of the Company are required to comply with the requirements of the JSE regarding inside information, transactions and disclosure of transactions.

In line with the Securities Services Act, the Group operates closed periods prior to the announcement of its interim and annual financial results.

During these closed periods, directors, officers and other employees who are likely to be in possession of price sensitive information may not deal in the shares or other instruments pertaining to the shares of the Company. This principle is also applied at other times whenever there is a corporate action or similar circumstance.

RISK MANAGEMENT AND INTERNAL CONTROLS

Italtile Limited recognises that managing risk and compliance is an integral part of generating sustainable shareholder value and enhancing stakeholder interests.

The Board assumes ultimate responsibility for risk management and regularly assesses financial and non-financial risks in the context of the Group's business environment, with a view to mitigate and/or eliminate risk through the Group's strategies and processes.

Internal controls are designed to manage rather than eliminate risks of failure to achieve business objectives, and provide reasonable rather than absolute assurance against material misstatement or loss. The internal audit function is a structured review of internal controls based on risk assessment.

Currency risk

Foreign currency exposure in imported product is actively managed. All foreign liabilities are matched with forward exchange contracts upon confirmation of import orders.

Computer-based business process

All major business processes are computerised and the Group has a formally documented and tested disaster recovery plan in place.

Credit risk

Trade credit is available through the Italtile and CTM divisions. Strict credit granting criteria are in place and the trade debtors book is insured through a reputable insurance company.

The Board is confident that an adequate system of internal control is in place, which mitigates areas of significant risk to an acceptable level.

SUSTAINABILITY REPORT

Italtile Limited is committed to good corporate citizenship practices and organisational integrity in the direction, control and stewardship of the Group's affairs.

The Group recognises the imperative to balance returns for shareholders with the long-term needs of the business, its employees, the broader society and the environment.

The Company is aware of its responsibility to safeguard the interests of all stakeholders and believes that good governance is essential to the Group's long-term sustainability and functioning. The Group's objective is to conform stringently to transparency, while operating profitably and remaining accountable to the broader community which it serves.

Shareholders, customers, employees, suppliers, regulators and the communities in which the Group operates are regarded as key stakeholders.

The Group embraces the King II Report's guidelines for socially responsible reporting according to the 'triple bottom line' – the economic, social and environmental impacts of its operations – as a method of enhancing commercial success as well as improving the likelihood of long-term success. The King III Report implemented in March 2010 places renewed emphasis on the principles of strategy, sustainability and governance discussed in King II, but provides for the greater integration of those elements. Accordingly, the Group is mindful of this development and management is involved in a full review of King III in order to confirm the levels of compliance.

STAKEHOLDER COMMUNICATION

Italtile Limited is committed to open, honest and regular communication with key stakeholders on financial and non-financial matters. A working partnership between the Group, its suppliers, franchisees, employees and members of the community forms the basis of a mutually beneficial association.

The annual general meeting provides an opportunity to communicate directly with shareholders. The Chairman has the opportunity to present to the shareholders a report on current operations and developments. The meeting also provides a forum for shareholders to question and express their views about the Company's business. The chairmen of the Audit, Risk and Remuneration Committees are available at the meetings to answer questions from shareholders.

Notice of the annual general meeting and related documents are mailed to shareholders at least 21 working days before the meeting. Separate resolutions are proposed on each substantially different issue. The notice is contained in the annual report.

The Group's executive management team meets with investors after the publication of interim and annual results to present an update on the industry, current operations of the business and its prospects.

TRANSFORMATION

Italtile Limited is committed to empowerment in its business and is supportive of transformation in the country. The Group endorses the principles in the Employment Equity Act and aligns its Human Resources policies accordingly.

EMPLOYMENT EQUITY

Employee composition statistics

As at 30 June 2010

	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	Total
Total permanent	212	23	10	83	64	13	5	57	467
Non-permanent	1	1	—	2	—	—	—	—	4
Total	313	24	10	85	64	13	5	57	471

The above statistics apply to South African operations only and do not include the franchised stores.

The Group submits its employment equity reports to the Department of Labour on an annual basis and has consistently met relevant targets over recent years.

CORPORATE SOCIAL RESPONSIBILITY

The Group is committed to uplifting the societies in which it operates through following sound employment practices and meeting the real needs of those communities.

Italtile continues to invest in South Africa and neighbouring countries in education, training and skills transfer through the Italtile training academy which has provided tiling, technical and business skills to numerous previously unemployed individuals.

The Group also makes substantial donations every year to Aids hospices and environmental organisations.

R1,2 million was donated to Sparrow Ministries Aids Village ("Sparrow") this year. This charity is a non-profit organisation which provides care and comfort to adults and children who have been infected or affected by the HIV/Aids pandemic. Sparrow serves as a hospice for terminally ill patients and a children's home for those vulnerable children made homeless due to the death of one or both parents. Sparrow currently cares for over 240 children and 80 adults.

Ad hoc contributions were also made to the following deserving causes:

- Little Eden.
- South African Guide Dogs Association.
- World Wildlife Fund.

In addition, a number of Group-owned or joint-venture CTM stores make ongoing corporate social investments to various causes including:

- Child Welfare South Africa.
- Roodepoort Care of the Aged.
- Cancer Association of South Africa.
- Salem Baby Care Centre.
- Schools Project Soweto.

OCCUPATIONAL HEALTH AND SAFETY

Italtile complies with the Occupational Health and Safety Act of 1970 and other relevant legislation, regulations and codes of practice for South Africa. The aim of the Group's health and safety policy is to prevent and minimise work-related and health impairments by ensuring that all employees are provided with adequate training and supervision to undertake their roles.

ENVIRONMENTAL MANAGEMENT

The Company has traditionally subscribed to environmentally sustainable policies and procedures. During the review period, greater resources were committed to measuring the impact of the business on the environment and reducing the Group's carbon footprint, that of its products, and its suppliers. An environmental officer has been appointed and will work with the property portfolio division to advance Italtile's green programme. The Group has also established relationships with international specialist suppliers whose ecologically-friendly products are widely accredited.

Most of Italtile's existing properties maximise natural light usage, and new buildings will be further improved to employ solar energy and minimise water consumption.

Although this programme is still in its infancy, these initiatives will enhance the quality of the business over the long term by reducing overheads and improving efficiencies while contributing in a sensitive manner to the sustainability of the environment.

HUMAN CAPITAL DEVELOPMENT

Italtile strives to be the employer of choice in its field. The Group's strategy is to recruit and retain the best people from South Africa's diverse population base, and to ensure they are empowered, accountable for their actions and rewarded accordingly.

- The Group's goal is to match the demographics of the organisation with the diverse markets in which it operates. To achieve this, a representative team is tasked with managing the employment equity plan and ensuring that milestones are achieved;
- Italtile employs a range of mechanisms to promote worker participation in the operational decision-making process;
- A profit incentive scheme was implemented in 1990, whereby all members of staff share in the Group's trading profits;
- Italtile's stated objective is to cultivate entrepreneurship within the Group by ensuring trading operations are franchised or in partnerships with the Group;
- Training initiatives are continuously evaluated and evolved to improve the skills level in the organisation.

SKILLS DEVELOPMENT

Training and development initiatives are formulated and conducted in-house, ensuring relevance to the Group's culture, values and strategy.

Altogether 34 training modules are available to staff across the country. Courses are designed for students ranging from Beginners to Intermediate and Advanced levels. Training courses include an induction course for all new employees, as well as focused business, technical, management and corporate governance programmes. Minimum training competencies have been mapped for all job titles to support consistent standards across the Group.

Over the past year over R4 million was spent on training and staff communications, and a further R370 000 was incurred in course development. Courses completed by trainees increased from 749 in 2009 to 1 037 in 2010.

In addition to Group-wide training interventions, Italtile's Tiling and Plumbing Academy, launched in November 2009, has raised the benchmark in product knowledge training. Since inception, 180 students have graduated from this institution.

ECONOMIC IMPACTS

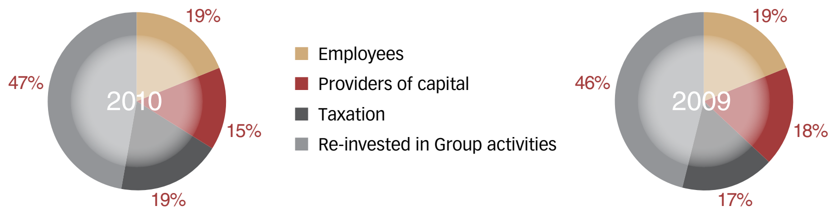
The Group is committed to satisfying the needs of its customers while delivering acceptable profit growth. The Group endeavours to create wealth for the benefit of all stakeholders.

The value added statement is a measurement of the wealth the Group created in its operations by adding value to the cost of raw materials, products and services purchased. The statement shows the total wealth created and how that was distributed.

The statement also takes into account the amounts retained and re-invested in the Group for the replacement of assets and development of future operations.

VALUE ADDED STATEMENT

	GROUP			
	2010 Rm's	**%**	2009 Rm's	%
Turnover	**1 354**		1 303	
Cost of goods and services	**(664)**		(711)	
	690		592	
Income from investments and interest received	**42**		48	
Value added	**732**		640	
Value distributed and retained				
Employees				
– Salaries, incentives and benefits	**124**	17	119	19
Providers of capital	**173**	24	114	18
– Outside equity holders	**8**	1	3	1
– Ordinary dividend	**88**	12	111	17
– Cash component of special dividend	**77**	11	—	—
Taxation	**123**	17	109	17
Re-invested in Group activities	**312**	42	298	46
– Depreciation	**39**	5	41	6
– Retained income	**273**	37	257	40
	732	100	640	100



INDIRECT IMPACTS

The total economic impact of an organisation includes indirect impacts. These are usually benefits arising in the course of its business to which a monetary amount is not directly attributable. Italtile Limited does not assess and quantify its indirect economic impacts although the Group does provide indirect economic benefits:

The Group spent R741 million during the year purchasing tiles and sanitaryware as well as other products and services from suppliers. This in turn creates opportunities for suppliers to employ more staff to keep pace with the Group's demands.

During the year the Group paid R123 million in taxation, for the ultimate benefit of all South Africans.

The Group paid R124 million during the year to employees in the form of salaries, incentives and benefits. These employees in turn supported their families, contributing to the economic activity of their communities and the South African economy.