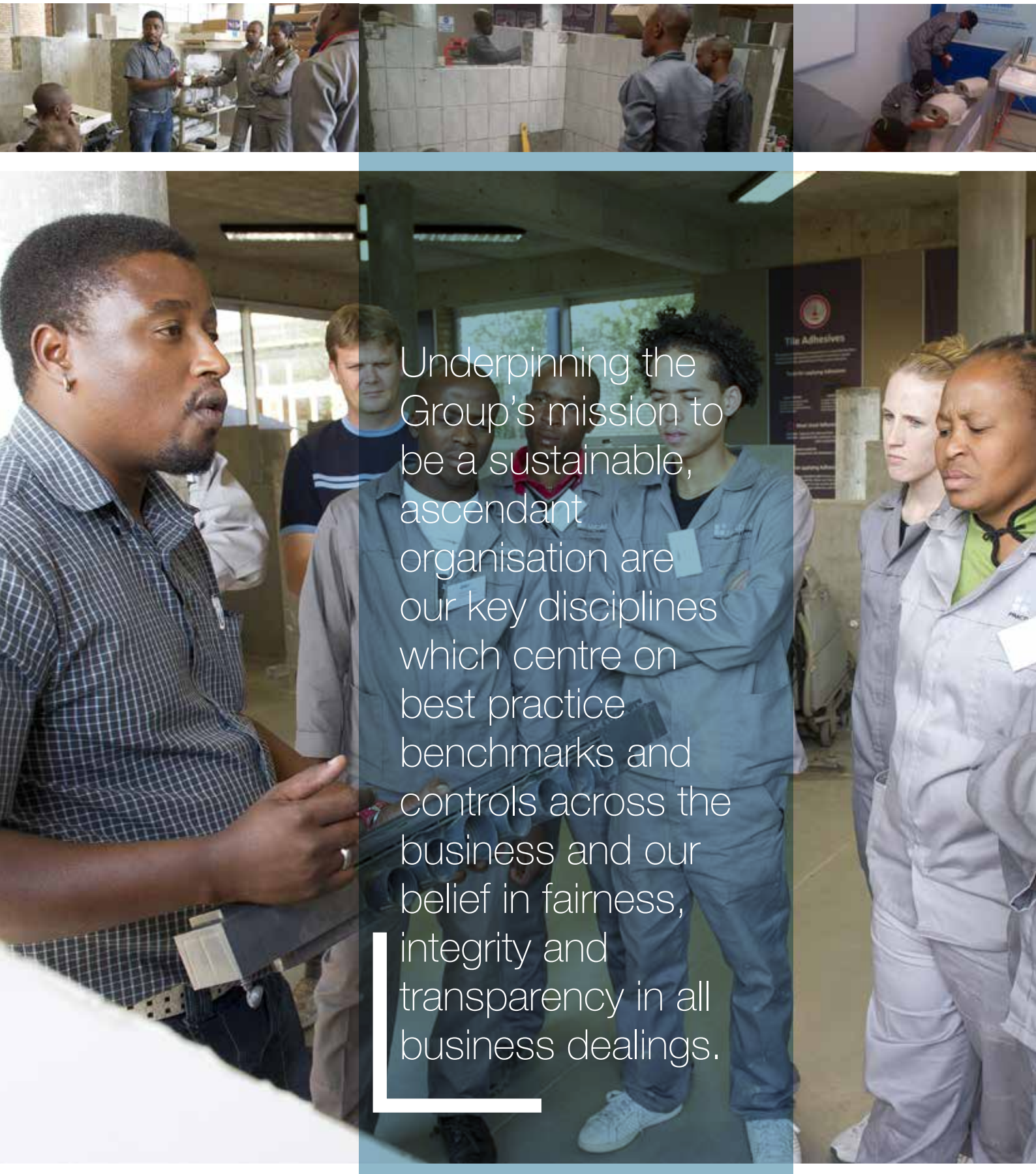


Underpinning the Group's mission to be a sustainable, ascendant organisation are our key disciplines which centre on best practice benchmarks and controls across the business and our belief in fairness, integrity and transparency in all business dealings.

Overview

Italtile is committed to applying, in all material respects, the principles contained in the King Report on Governance for South Africa, 2009 (King III), which became effective on 1 March 2010, as well as the additional requirements for good corporate governance stipulated in the JSE SRI index.

King III

The JSE Listings Requirements require all JSE-listed companies to provide a narrative of how they have applied the recommendations contained in King III, in respect of financial years commencing on or after the effective date.

During the year, the Group continued to advance its progress made in respect of applying the King III Code and the principles of integrated reporting. Ongoing measurement and reviews were conducted comparing the Group's governance practices with those recommended in King III, in order to ensure continued improvements were made related to complying with the implications of King III.

Overall application and compliance with King III

Italtile accepts the obligation to apply the practices prescribed by King III and has resolved as a business philosophy to adopt and pursue the same. It therefore strives to meet those objectives in accordance with the content of the table below.

During 2013, the Group subscribed to the Institute of Directors Governance Assessment Instrument (IoDSA GAI). The following report on the application of King III is extracted from that tool, and the full report on all 75 principles of King III is included on the Italtile website www.italtile.com.

Principle	Principle description	Applied/ Partially applied/ Not applied	IoDSA GAI score	Evidence	Explanation/ Compensating practices
Principle 2.1	The Board acts as the focal point for and custodian of corporate governance	Applied	AAA	Board Charter	
Principle 2.2	The Board appreciates that the strategy, risk, performance and sustainability are inseparable	Applied	AAA		Managed as part of the mandate to the Audit and Risk Committee
Principle 2.3	The Board provides effective leadership based on ethical foundation	Applied	AAA		Managed as part of the mandate to the Social and Ethics Committee
Principle 2.4	The Board ensures that the company is and is seen to be a responsible corporate citizen	Applied	AAA		Managed as part of the mandate to the Social and Ethics Committee
Principle 2.5	The Board ensures that the company ethics are managed effectively	Applied	AAA		Managed as part of the mandate to the Social and Ethics Committee
Principle 2.6	**Chapter 3:** Audit Committees	Applied	AAA		Please refer to the Audit and Risk Committee report
Principle 2.7	**Chapter 4:** The governance of risk	Applied	AAA		Please refer to the Audit and Risk Committee report
Principle 2.8	**Chapter 5:** The governance of information technology	Applied	AAA		Please refer to the Audit and Risk Committee report
Principle 2.9	**Chapter 6:** Compliance with laws, rules, codes and standards	Applied	AAA		Please refer to the Audit and Risk Committee report
Principle 2.10	**Chapter 7:** Internal audit	Applied	AAA		Please refer to the Audit and Risk Committee report
Principle 2.11	**Chapter 8:** Governing stakeholder relationships	Applied	AAA	Board Charter	
Principle 2.12	**Chapter 9:** Integrated reporting and disclosure	Applied	AAA		Reporting is in line with the JSE Listings Requirements
Principle 2.13	**Chapter 7 and 9:** The Board reports on the effectiveness of the Company's internal controls	Applied	AAA		Please refer to the Audit and Risk Committee report
Principle 2.14	The Board and its directors act in the best interests of the Company	Applied	AAA		
Principle 2.15	The Board will/has consider/ed business rescue proceedings or other turnaround mechanisms as soon as the Company has been/may be financially distressed as defined in the Companies Act, 71 of 2008	Applied	AAA		

Principle	Principle description	Applied/ Partially applied/ Not applied	IoDSA GAI score	Evidence	Explanation/ Compensating practices
Principle 2.16	The Board has elected a chairman of the board who is an independent non-executive director. The CEO of the Company does not also fulfil the role of chairman of the Board	Applied	AAA		Mr Ravazzotti has returned to the position of Chairman of the Company with effect from 1 July 2014. The Company has a lead independent director in place, and Brand Pretorius, who acted as Chairman for the 2014 financial year, remains on the Board as an independent non-executive director
Principle 2.17	The Board has appointed the Chief Executive Officer and has established a framework for the delegation of authority	Applied	AAA		Mr Booth joined the Company as Chief Executive Officer on 1 July 2014
Principle 2.18	The Board comprises a balance of power, with a majority of non-executive directors. The majority of non-executive directors are independent	Applied	AAA		
Principle 2.19	Directors are appointed through a formal process	Applied	AAA		
Principle 2.20	The induction of and ongoing training, as well as the development of directors are conducted through a formal process	Applied	AAA		
Principle 2.21	The Board is assisted by a competent, suitably qualified and experienced Company Secretary	Applied	AAA		Please refer to the Governance report
Principle 2.22	The evaluation of the Board, its committees and individual directors is performed every year	Applied	AAA		
Principle 2.23	The Board delegates certain functions to well-structured committees without abdicating from its own responsibilities	Applied	AAA		
Principle 2.24	A governance framework has been agreed upon between the Group and its subsidiary boards	Applied	AAA		
Principle 2.25	The Company remunerates its directors and executives fairly	Applied	AAA		
Principle 2.26	The Company has disclosed the remuneration of each individual director and prescribed officer	Applied	AAA		Please refer to the Directors' report
Principle 2.27	The shareholders have approved the Company's remuneration policy	Applied	AAA		

Board of directors

A formal Board charter, as recommended by King III, 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 four executive directors, a non-executive chairman and six non-executive directors of which four are independent.

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 have been nominated by a shareholder owning more than 20% of the Group, or who were in the employ of the Group in the preceding financial year; 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 Integrated 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
- Approval 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 responsibility

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.

The division of responsibilities maintains a balance of power and authority on the Board.

Term of office

The four executive directors have a fixed term of employment. In accordance with the Company's Memorandum of Incorporation, all non-executive 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:

Board member	Attendance at meetings in 2014
G A M Ravazzotti	**4/4**
N Booth#°	**n/a**
J N Potgieter#*	**n/a**
P D Swatton	**4/4**
P Langenhoven#	**2/4**
S M du Toit	**4/4**
S I Gama	**4/4**
A Zannoni	**4/4**
S G Pretorius	**4/4**
N Medupe□	**n/a**
B G Wood#	**4/4**

#Executive
°Appointed 1 July 2014
*Appointed 1 August 2014
□Appointed 20 August 2014

Board appointment 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. The appointment of the directors is approved at the annual general meeting of shareholders.

None of the non-executive directors have entered into service contracts or standard letters of appointment with Italtile.

Lead independent director

Whilst the Board is led by a non-executive Chairman, S M du Toit continues to serve as lead independent non-executive director to the Company's Board.

Board committees

The Board has established four committees to which it has delegated specific responsibilities in meeting its corporate governance and fiduciary duties.

These committees operate within written terms of reference approved by the Board.

These are:

- Audit and Risk Committee;
- Remuneration Committee;
- Nominations Committee; and
- Social and Ethics Committee.

Audit and Risk Committee

Accounting and internal controls

The Board has established controls and procedures to ensure the accuracy and integrity of the accounting records and to provide reasonable assurance that assets are safeguarded from loss or unauthorised use and that the financial statements may be relied upon for maintaining accountability for assets and liabilities and preparing the financial statements.

Management monitors the operation of the internal control systems in order to determine if there are deficiencies. Corrective action is taken to address control deficiencies as they are identified. The Board, operating through the Audit and Risk Committee, oversees the financial reporting process and internal controls systems. The Group applies the principles of integrated reporting.

The report of the Audit and Risk Committee is on page 72 of this document.

Remuneration report

Remuneration Committee – composition and terms of engagement

The Remuneration Committee is a sub-committee of the Board of directors. The Committee meets at least twice per annum. The Committee is chaired by an independent non-executive director and is comprised of three directors. In order to ensure that the majority of directors on the Committee are independent, Mr S G Pretorius replaced Mr P D Swatton with effect from 1 November 2013. The current members of the Committee are:

Ms S M du Toit (Chairman), Mr G A M Ravazzotti and Mr S G Pretorius.

The Board considers the Committee's composition to be appropriate in terms of the necessary knowledge, skills and experience of its members.

The Italtile Limited Group Company Secretary, E J Willis, attends all meetings of the Committee as secretary. The Chief Financial Officer attends all meetings by invitation in order to provide input and guidance with regards to executive director and senior management remuneration.

No attendee may participate in any discussion or decision regarding his or her own remuneration.

The Committee met twice during the year. Attendance at the meeting was as follows:

Members and invitees	Attendance at meetings in 2014
S M du Toit	2/2
G A M Ravazzotti	2/2
P D Swatton	1/2
S G Pretorius	1/2

Remuneration Committee – role and responsibilities

The Committee operates within a written terms of reference confirmed by the Board, which includes:

- assisting the Board in setting the Group's remuneration policy;
- advising on the fees for non-executive directors;
- determining the total remuneration of the executive directors and executive management; and
- reviewing and recommending 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. The Committee reviews remuneration and Board best practice reviews published by PWC and EY.

Details of directors' remuneration is set out on page 77 of this report.

Remuneration policy

Italtile is committed to maintain pay levels that reflect an individual's worth to the Group. The Group's philosophy is to treat employees as business partners. Remuneration policies are designed to attract, reward and retain the executives and employees needed to deliver on Italtile's business strategy. Italtile is cognisant of the ratio between the pay of the CEO and that of entry-level workers.

Performance management

For executives and senior management, performance is linked to strategic delivery and defined financial targets set each year. The Committee performs a rigorous review of performance in determining remuneration packages.

Policy on annual incentive schemes

All employees share in Group profits, based on an individual's contribution to the Group.

Policy on long-term incentives

There are three long-term incentive schemes within the Italtile Group, each rewarding performance in an appropriate manner, designed to reward and retain key personnel. The long-term incentives include the Italtile Long-Term Incentive Plan, the Share Appreciation Rights Scheme, and the Executive Retention Plan.

Long-Term Incentive Plan

In accordance with the Long-Term Incentive Plan (LTIP), selected directors and employees of the Group are entitled to receive conditional notional Italtile Limited share awards. 25% of the awards vest after three years from grant date, and the balance (75%) after five years. There is no strike price attached to these awards, and the exercise price is defined as the volume weighted average price of Italtile Limited shares as traded on the JSE over the 10 trading days preceding and including the vesting date.

Share Appreciation Rights Scheme

In accordance with the Share Appreciation Rights Scheme (SARS), selected directors and employees of the Group are entitled to a conditional cash award linked to the value of notional Italtile Limited shares (shares). 25% of the awards vest after three years from grant date, and the balance (75%) after five years. The value of an award is equal to the increase in the value of the shares between grant date and vesting date (the value at the latter date is defined as the volume weighted average price of Italtile Limited shares as traded on the JSE over the 10 trading days preceding and including the vesting date).

Executive Retention Plan

The Executive Retention Plan is an additional mechanism, over and above the existing Italtile LTIP and SARS, to retain and reward selected employees and directors in line with the Group's values and remuneration philosophy of partnership. Italtile selectively enters into Retention Plan agreements with employees and directors in terms of which retention payments are made to them in conjunction with awards in terms of the Share Scheme. The payment of a Retention Award to an employee or director is

subject to such employee or director remaining with the Group for a period of three years. The employee or director shall be the registered and beneficial holder of the shares acquired pursuant to the retention award from the date of transfer of such shares.

Awards from these three schemes are to be applied towards the obligatory subscription and/or purchase of Italtile Limited ordinary shares.

Non-executive directors' fees

Non-executive director remuneration is fee based and not linked to the share price of Italtile Limited.

The Remuneration Committee takes cognisance of market norms and practices when setting non-executive director fees.

Italtile Limited non-executive directors do not receive bonuses or share options to ensure actual and perceived independence. However, it should be noted that Mr S I Gama participates in the Group's BEE transaction.

Nominations Committee

The Nominations Committee is a sub-committee of the Board and meets on an *ad hoc* basis as required, but at least once a year. The Committee is chaired by the independent, non-executive Chairman and comprises a majority of independent non-executive directors. The current members of the Committee are:

Mr S G Pretorius (Chairman), Ms S M du Toit and Mr G A M Ravazzotti.

The Nominations Committee's key roles include the identification and evaluation of suitable candidates for appointment to the Board, as well as succession planning. The Committee met twice in the period under review at which all members were present.

The Board considers the composition of the Nominations Committee to be appropriate for the needs of the Group at this time, and believes that the members are suitably equipped with the necessary knowledge, skills and experience.

Social and Ethics Committee

Composition and terms of engagement

The Social and Ethics Committee (the Committee) is a sub-committee of the Board of directors as required by the Companies Act, No 71 of 2008 (as amended). The Committee adopted a formal charter that was approved by the Board of directors. The Committee conducts its affairs in compliance with its charter. The Committee meets at least twice per annum and is chaired by an independent non-executive director. The Committee is comprised of four directors. The current members of the Committee are:

Ms S M du Toit (Chairman), Mr G A M Ravazzotti, Mr P D Swatton and Mr B G Wood.

The Board considers the Committee's composition appropriate in terms of the necessary knowledge, skills and experience of the members.

The Italtile Group Company Secretary, Ms E J Willis, attends all meetings of the Committee as secretary. A representative from Human Resources attends all meetings by invitation in order to provide input and guidance to the Committee on employment and ethics related matters.

The Committee met three times during the year and all members were present, besides one meeting not attended by Mr G A M Ravazzotti.

Role and responsibilities

The Committee's role and responsibilities include its statutory duties as per the Companies Act, No 71 of 2008 (as amended), and the principles of the King Code, which includes:

- monitoring the Group's activities with regard to matters relating to
  - social and economic development;
  - good corporate citizenship, including the Group's promotion of equality, prevention of unfair discrimination, reduction of corruption, contribution to development of the communities in which its

activities are predominantly conducted or within which its products or services are predominantly marketed, and record of sponsorship, donations and charitable giving;

- the environment and health and public safety;
- consumer relationships, including the Group's advertising, public relations and compliance with consumer protection laws; and
- labour and employment.

- monitoring the Group's performance and interaction with its stakeholders and ensuring that this interaction is guided by the Constitution and Bill of Rights;
- determining clearly articulated ethical standards and ensuring that the Group takes measures to achieve adherence to these in all aspects of the business, thus achieving a sustainable ethical corporate culture within the Group; and
- providing effective leadership based on an ethical foundation and ensure that the Company is and is seen to be a responsible corporate citizen.

Social and ethics policy

This policy sets out Italtile's commitment to undertake its business activities in a socially and environmentally responsible and ethical manner, and sets out the standards by which all employees, representatives and franchisees will be guided in their actions and dealings with colleagues, customers, suppliers and business partners. The policy was approved by the Board of directors and is communicated to all directors and employees.

Italtile is committed to a policy of fairness and integrity in its business dealings. Italtile recognises that maintaining high ethical standards is essential to the long-term economic success of the Group. The Group believes in integrity and transparency, hands-on involvement, partnerships to promote entrepreneurial spirit and passion for customer service.

1. Italtile's relationship with employees

Italtile strives to treat all employees equally and believes in providing a workplace that is free form unfair discrimination. In this pursuit, Italtile subscribes to the following principles and supports the following programmes and initiatives:

- All employees have the right to work in an environment which is free from any form of discrimination on the basis of race, age, place of origin, religion, creed, gender, sexual orientation, political persuasion, marital or family status, disability, nationality or HIV/Aids.
- Italtile promotes the health, safety and welfare of all employees.
- Italtile provides appropriate training and the opportunity for development to all employees, management and leadership.
- Italtile gives fair remuneration to employees that reflect an individual's worth to the Group and abides by both the terms of contracts of employment and its human resources policies. An important element of the Group's remuneration philosophy is the profit share, shared by all employees. Depending on individual contribution and Group performance, the profit share can have a significant impact on an individual's earnings.
- Italtile does not exploit labour and upholds the principle of fair labour practices.
- Italtile respects an individual's right to freedom of association.
- Italtile is committed to employment equity. The Employment Equity Committee meets on a monthly basis to monitor and implement the requirements of the Employment Equity Act, 1998.

2. Employees, leaders, franchisees and business partners' relationship with Italtile

All employees and leaders will demonstrate high levels of integrity, professionalism and performance in their work.

- Integrity – We are open, honest and fair in all our relationships. We make and keep commitments and accept accountability for our actions.
- Professionalism – We try to achieve our full potential as leaders and employees. We commit to winning by learning as much as we can, improving and working as an effective team every day.
- Performance – We strive for continuous improvement, set clear goals and reward excellence.

3. Italtile's relationship with its franchisees and business partners

Italtile's association with its business partners and franchisees is conducted in a spirit of partnership. We will:

- honour all commitments;
- strive to achieve Italtile's business objectives; and
- preserve the entrepreneurial nature of the business.

4. Dealings with colleagues

In dealing with Italtile colleagues we are open, honest, fair and respectful.

5. Dealings with customers

Italtile exists because of its customers. Customer service is thus our top priority. We will provide:

- friendly, courteous, knowledgeable and professional service and advice at all times; and
- quality, fashionable products that provide good value for money.

6. Dealings with suppliers

Relationships with suppliers are conducted in a professional manner in order to support Italtile's reputation and business objectives. In doing business we:

- will honour Italtile's commitments;
- will not knowingly associate with suppliers who exploit labour or discriminate on any basis;
- will not deal with suppliers who conduct unethical or improper business practices; and
- will encourage dealings with suppliers committed to the process of transformation.

7. Dealings with competitors

Italtile recognises that competition is essential to continuous improvement. Every action that Italtile takes will comply with both the spirit and the letter of the law.

We will compete fairly in the market place.

8. Compliance with laws and regulations

Employees and leaders must comply with all applicable laws and regulations, which relate to their activities for and on behalf of Italtile.

9. Conflict of interest

Employees and leaders must be independent from any organisation providing goods or services to Italtile. In maintaining independence:

- employees and leaders must not take a direct or indirect financial interest in such organisations, nor accept gifts or favours that create an actual or perceived obligation to such organisations; and
- employees and leaders must not use their position at Italtile for their own personal benefit.

Company Secretary

The Company Secretary is Ms E J Willis and she is neither a director nor a shareholder of Italtile or any of its subsidiaries. On that basis, the Board believes that E J Willis maintains an arm's length relationship with the executives, the Board and the individual directors in accordance with paragraph 3.84(j) of the Listings Requirements of the JSE.

The Company Secretary is responsible for administering the proceedings and affairs of the directorate, the Company and, where appropriate, owners of securities in the Company, in accordance with the relevant laws. The Company Secretary is available to assist all directors with advice on their responsibilities, their professional development and any other relevant assistance they may require.

The Nominations Committee has considered the skills and experience of the Company Secretary and the level of competence she has demonstrated as Italtile's Group Company Secretary since 2009, and in her role as a company secretarial consultant since 2001. The Board, on the recommendation of the Nominations Committee, is satisfied with the level of competence of the Company Secretary as required in terms of paragraph 3.84(i) of the Listings Requirements of the JSE. It requires a decision of the Board as a whole to remove the Company Secretary, should this become necessary.

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.

Stakeholder communication

Italtile 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 and 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 15 business days before the meeting. Separate resolutions are proposed on each substantially different issue. The notice is contained in the Integrated 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.

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 Financial Markets Act, 19 of 2012, the Board enforces a restricted period for dealing in Italtile shares, in terms of which any dealings in shares by all directors and senior personnel is disallowed from the time that the reporting period has elapsed to the time that results are released and at any time that such individuals are aware of unpublished price sensitive information, whether the Company is trading under cautionary announcement as a result of such information or not.

Risk management and internal controls

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

The Group has in place an Enterprise Risk Management framework which is based on a combined assurance model comprising: management (divisional and executive directors); external auditors (EY); and support centre oversight (including the internal audit function). The structure of this model and its activities are designed to ensure that the Group's risks are adequately addressed.

The Board, assisted by the Audit and Risk Committee, is responsible for risk, risk tolerance determination, risk management within the Group, performance of risk assessments, the use of acceptable risk methodologies and the monitoring of risk on a continual basis.

The Board ensures there is regular assessment of financial and non-financial risks in the context of the Group's business environment, with a view to mitigating and/or eliminating 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.

The Material Issues report on page 13 of this report discusses the Group's key risks and issues and the management thereof in detail. In brief they are identified as follows:

Suppliers and supply chain management

The Group has strong relationships with its supply partners, being the largest customer to all of its suppliers. Opportunities to increase capacity by suppliers if required is constantly reviewed, as are alternative sources of supply should any potential disruption be identified. The Group's acquisition of a strategic stake in Ceramic Industries Limited is evidence of its policy to strengthen key supplier relationships.

Remaining competitive/fashionable

Ensuring that the Group remains fashionable and internationally competitive is critical to its continued existence. Staying abreast of fashion trends and evolving consumer behaviour, employing experienced brand managers and capitalising on leading-edge technology are key priorities in this regard.

Brand reputation

Reputational risk is managed by ensuring intensive focus on customer service, product quality and competitive pricing. Staff training, motivation and incentivisation are key activities in promoting positive brand awareness. Italtile's corporate governance, sustainability and environmental policies all contribute to upholding the Group's brand reputation.

Preservation of the organisational philosophy and structure

Central to the Group's success is its business model which promotes partnerships and autonomy (an effective motivator), and has been flexible and adaptable in the past. The Group would be negatively impacted if this philosophy and structure are not adequately preserved. A range of factors mitigate this risk, including: close involvement in the operations of the Group by divisional management and executive directors which serves to reinforce the values of the Group; flat reporting structures which facilitate transparent communication and oversight; and optimal recruitment and training programmes to ensure the business model is entrenched.

Treasury risk

The Group has in place a Treasury policy, which serves to mitigate against risks including: under-performing investment returns; inadequate liquidity of investments to meet commitments; and institutional/commercial risk relating to funds into which investments are made.

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.

Credit risk

Trade credit is provided by reputable third party credit providers, and is available through the retail stores. The Board is confident that an adequate system of internal control is in place, which mitigates areas of significant risk to an acceptable level.

Recruitment, retention and succession planning

Attracting, developing and retaining human capital is a major focus for the Group. Keen attention is paid to optimal recruitment processes, comprehensive training, and motivation and incentivisation of employees.

Ongoing development of leadership and management potential is a critical initiative advanced through high-level training programmes.

Computer-based business process

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

Regulatory compliance

In order to mitigate against the risk of non-compliance with relevant legislation and regulations, the Group regularly engages various professionals and legal advisers. In addition, management attends workshops and training related to legislative and other updates. To an extent, the external audit also provides some assurance related to compliance.

Sustainability

Italtile 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.

King III places emphasis on the principles of strategy, sustainability and governance and provides for greater integration of those elements. Accordingly, Italtile continues to strive to align the Group's practices with the recommendations of King III.

Transformation

Italtile 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 2014

	Male				Female				Foreign nationals		
	African	Coloured	Indian	White	African	Coloured	Indian	White	Male	Female	Total
Skilled to top management	87	18	5	49	14	8	2	18	2	2	**205**
Semi-skilled and unskilled	338	42	3	70	124	28	3	40	7	1	**656**
Total	**425**	**60**	**8**	**119**	**138**	**36**	**5**	**58**	**9**	**3**	**861**

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.

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

- Sparrow Ministries Aids Village, a non-profit organisation which provides care and comfort to adults and children who have been infected or affected by the HIV/Aids pandemic;
- One School at a Time;
- Little Eden;
- World Wildlife Fund; and
- National Sea Rescue Institute.

Furthermore, the Group implemented a community investment programme to establish up to two sports grounds per year in areas lacking such facilities. This initiative is based on an existing successful venture, the Soweto sports ground, a community-centred facility sustained by various sponsorship efforts, with which the Group has been involved for many years.

In addition, a number of Group-owned, joint-venture and franchised stores across the Group make ongoing corporate social investments to various community causes.

Occupational health and safety

Italtile complies with the Occupational Health and Safety Act, No 85 of 1993 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 Group's environmental department is instrumental in implementing Italtile's long-standing environmental consciousness values across the business. Programmes are aimed at measuring, managing and reducing the Group's impact on the environment and promoting its long term sustainability. This department operates in conjunction with the property portfolio department, with a view to better aligning and integrating the Green agenda into the day-to-day processes and functioning of the business.

The Group's Green agenda is discussed in greater detail on page 44 and 45 of this report.

Human capital development

Italtile strives to be the employer of choice in its industry. 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;
- to employ a range of mechanisms to promote worker participation in the operational decision-making process;
- to continue to implement the profit incentive scheme instituted in 1990, whereby all members of staff share in the Group's trading profits;
- to cultivate entrepreneurship within the Group by ensuring trading operations are franchised or in partnerships with the Group; and
- to evaluate and evolve training initiatives continuously 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.

178 (2013: 86) Group-wide training courses were conducted during the year. 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 R5 million (2013: R5 million) was spent on training and staff communications and course development. 1 311 (2013: 964) staff members completed courses in the review period.

In addition to Group-wide training interventions, Italtile's Tiling, Plumbing and Laminate Academy continues to raise the benchmark in product knowledge training.

Economic impacts

Italtile 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 reinvested in the Group for the replacement of assets and development of future operations.

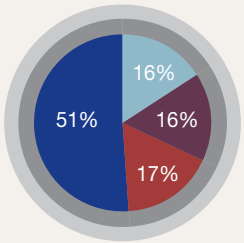
Value added statement

	GROUP			
	2014 Rm's	%	2013 Rm's	%
Turnover	**2 745**		2 141	
Cost of goods and services	**(1 597)**		(1 182)	
	1 148		959	
Income from investments and interest received	**11**		26	
Value added	**1 159**		985	
Value distributed and retained				
Employees				
– Salaries, incentives and benefits	**178**	**15**	155	16
Providers of capital	**172**	**15**	161	16
– Outside equity holders	**15**	**1**	20	2
– Ordinary dividend	**157**	**14**	141	14
Taxation	**232**	**20**	172	17
Reinvested in Group activities	**577**	**50**	497	51
– Depreciation	**68**	**6**	53	5
– Retained income	**509**	**44**	444	46
	1 159	**100**	985	100

Value distributed and retained 2014



Value distributed and retained 2013



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 does not assess and quantify its indirect economic impacts although the Group does provide indirect economic benefits:

- The Group spent R1 597 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 R232 million in taxation, for the ultimate benefit of all South Africans.
- The Group paid R178 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.