

General

The Board affirms a commitment to the principles of openness, accountability and integrity and to the provision of timely, relevant and meaningful reporting to all its stakeholders. It will ensure that the business of Italtile and its subsidiaries is conducted with integrity and in accordance with the highest standards of corporate governance.

The Board endorses the Code of Corporate Practices and Conduct as set out in the Second King Report on Corporate Governance for South Africa 2002 ("King II" or "King Code"). The principles contained therein are reviewed from time to time to take into account appropriate changes and developments in the field of corporate governance, both locally and internationally. The Company is in substantial compliance with King II. Areas in which the Company does not comply are indicated below. The draft of the King III guidelines is also being closely monitored to ensure that the Group will comply by the time of its implementation in March 2010.

Board of directors

The Board comprises three executive directors and five non-executive directors.

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 of 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.

The three 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.

Operation of the Board of directors

The Board meets at least every quarter or more frequently if circumstances so require. Information relevant to a meeting is supplied on a timely basis to the Board ensuring directors can make informed decisions.

The directors have unrestricted access to information, management and the Company Secretary in relation to Italtile. All directors are entitled to seek the advice of independent professionals on matters concerning the affairs of the Group, at Italtile's expense.

Details of attendance at Board meetings are set out below:

Board meetings

	1 August 2008	26 November 2008	31 January 2009	21 May 2009
G A M Ravazzotti	√	√	√	√
P D Swatton	√	√	√	√
S M du Toit*	N/A	N/A	N/A	√
D H Rabin	√	√	√	√
G Zannoni	√	√	√	√
G K A Morolo	√	√	√	√
S I Gama	√	√	—	√
G P E Ravazzotti	√	√	√	√

*Appointed 6 March 2009.

Areas of non-compliance

Representation on the Board and Board committees does not represent 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 of it. Furthermore, the Board is committed to appoint additional independent non-executive directors to the Board as a matter of priority.

Appointment to the Board

The Board as a whole is responsible for reviewing the composition of the Board and identifies and considers the appointment of new directors. Appointments to the Board are made taking into account the need for ensuring that the Board provides a diverse range of skills, knowledge and expertise, the necessity of achieving balance between skills and expertise and the professional and industry knowledge necessary to meet the Company's strategic objectives, as well as the need for ensuring demographic representation. Upon appointment, each director receives an induction programme into the Group with guidance on their responsibilities.

Division of responsibility

Whilst the Board is chaired by an executive Chairman, there is a clear division between the roles of the Chairman and the Chief Executive Officer. The Chairman is responsible for providing leadership to the Board, formulating strategy, 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 Italtile, and ensuring that the day-to-day affairs of the Group operations are appropriately supervised and controlled.

The Company will conduct an annual evaluation of its Board, Board committees and individual directors and is confident that this process would raise concerns should any particular individual have too much influence.

The non-executive directors all have a high degree of integrity and credibility, and the composition of the Board provides for objective input into the decision-making

process, thereby ensuring that no one director holds unfettered decision-making powers. The directors come from diverse backgrounds and bring to the Board a wide range of experience.

Board Committees

The Board has appointed two Committees to which it has delegated specific responsibilities. Both Committees operate within written terms of reference approved by the Board.

The Audit and Risk Committee

The Audit and Risk Committee is chaired by S M du Toit and includes S I Gama and G K A Morolo. The Audit and Risk Committee meets at least every quarter or more frequently if circumstances so require. The external auditors have unrestricted access to the Audit and Risk Committee.

The Audit and Risk Committee assumes responsibility for internal control assessment, internal audit, external audit, the financial statements and the appointment of the external auditors of the Italtile Group. The Audit and Risk Committee regularly reviews the work plan and key findings of the internal and external audit process and monitors developments to ensure that areas of weakness are addressed. The Audit and Risk Committee also assumes responsibility for assessment and management of all business risks with a view to enhancing the value of shareholders' investments and safeguarding 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.

The roles and responsibilities of the Audit and Risk Committee are currently in compliance with Corporate Laws Amendment Act 2006. The composition requirements of the Corporate Laws Amendment Act 2006 are currently being met, with its composition of three independent non-executive directors. The Board assesses the independence of the non-executive directors on an ongoing basis.

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.

The Audit and Risk Committee report

Details of attendance at Audit and Risk Committee meetings are set out below:

The Audit and Risk Committee meetings

	31 July 2008	13 November 2008	30 January 2009	27 May 2009
P D Swatton [†]	√	√	√	√
S M du Toit [*]	N/A	N/A	N/A	√
S I Gama	√	√	—	√
G K A Morolo	√	√	√	—

^{*}Appointed 6 March 2009.

[†]By invitation.

Remuneration Committee

The Remuneration Committee is chaired by D H Rabin and includes G A M Ravazzotti.

The Remuneration 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.

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

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

Remuneration Committee meeting

5 September
2009

G A M Ravazzotti	√
D H Rabin	√

Code of business and ethics

The Group has adopted a formal Code of Business Ethics and Conduct ("the Code") which reaffirms the high standards of business conduct required of all employees, officers and directors of the Italtile Group. The Group is committed to the promotion of ethical behaviour and 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. No significant contraventions of the Code have been reported.

Share dealings

In line with best practice and the Securities Services Act, the Company 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 circumstances.

Risk management and internal control

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 processes

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

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 its commercial success as well as improving the likelihood of its long-term success. The Group will take into account the King III sustainability guidelines once these are implemented in March 2010.

Communication with stakeholders

The Group is committed to honest, open and regular communication with key stakeholders on both 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 annual general 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 also 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 this annual report.

The Italtile Group's executive management team meets with investors after the publication of the interim and annual results with an update of the current operations as well as the industry outlook and prospects for the company. In addition, a site visit to the Group's CTM operations was held with investors during June 2009.

Economic impacts

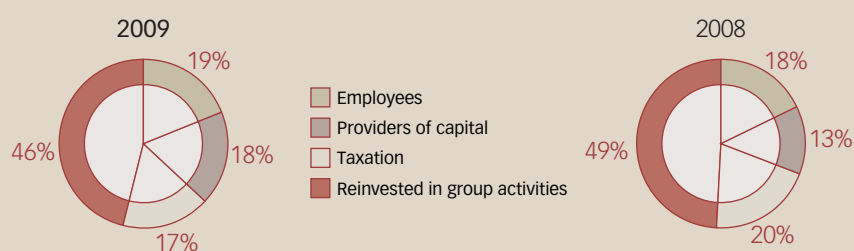
At the cornerstone of its business is Italtile Limited's commitment to satisfy the needs of its customers while delivering acceptable profit growth. The Group endeavours to create wealth for the benefit of all stakeholders.

The value added statement is a measure of the wealth created by the Group during the year under review. It equates to the amount of value added by its diverse activities to the cost of raw materials, products and services purchased. The statement shows the total wealth created and how it was distributed.

Corporate governance continued

Value added statement

	2009		2008	
	Rm's	%	Rm's	%
Turnover	1 303		1 635	
Cost of goods and services	(711)		(1 004)	
Income from investments and interest received	592		631	
Value added	48		20	
	640		651	
Value distributed and retained				
Employees				
– Salaries, incentives and benefits	119	19	120	18
Providers of capital	114	18	87	13
– Outside equity holders	3	0	2	0
– Ordinary dividend	111	17	85	13
Taxation	109	17	128	20
Reinvested in group activities	298	47	316	49
– Depreciation	41		41	
– Retained income	257	40	275	42
	640	100	651	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 R711 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 R109 million in taxation, for the ultimate benefit of all South Africans.
- During the year, the Group paid R119 million 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.

Transformation

Italtile Limited is supportive of transformation in South Africa and is committed to the principles embodied in the BEE Act and Department of Trade and Industry's Broad Based Black Economic Empowerment Codes of Good Practice and the Employment Equity Act.

Ownership

In 2008, the Group finalised a transaction which effectively transferred the equivalent of 10,7% of the entire issued ordinary share capital of Italtile to the following equal BEE partners:

- Mafumbuka Investment Holdings (Proprietary) Limited, a wholly black owned entity which has a shareholder profile comprising of a trust, private individuals as well as the Ingcuze Women Organisation, a broad-based women's group involved with HIV/AIDS projects as well as employment generation for rural women.
- Aka Capital (Proprietary) Limited, a black owned and managed private equity and investment holding company, which was founded in 2001.

Employment equity

People balance sheet

The split as of the 30th June 2009 is as follows:

	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Total Permanent	198	18	12	57	56	11	6	33	391
Non-Permanent	18	2	0	7	3	0	0	6	36
Total	216	20	12	64	59	11	6	39	427

The above split is for company owned and JV stores only and does not include the franchised stores.

The Group submits its employment equity reports to the Department of Labour on an annual basis. It has met its overall targets, set out in its employment equity reports.

Corporate social responsibility

The Group is keenly aware of the broader society in which it operates and believes that a sustainable business can only be built upon a foundation of partnership that enriches society as a whole. Italtile continues to invest both 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 many previously unemployed individuals.

Italtile also makes significant donations every year to children's Aids hospices and environmental organisations.

The Group continues to support the Sparrow Ministries, a non-profit organisation which provides care and comfort to adults and children who have been infected or affected by the HIV/AIDS pandemic. Located in Roodepoort, it is both a Hospice for the terminally ill and a Children's Home for those vulnerable children who have become homeless due to the death of one or both of their parents. Sparrow currently cares for over 225 children and 80 adults.

The Group also made ad hoc contributions to deserving causes during 2009 including, among others:

- Support for the Soweto Sports Day by sourcing sponsorship for 22 schools;
- Monthly financial aid to the Fiat Soweto Sports Grounds;
- Donations of new basins to Little Eden to enhance the facilities at its new chapel; and
- Annual donations to the World Wildlife Foundation and the SA Guide Dogs' Association.

In addition, a number of CTM stores also make ongoing corporate social investments including:

- CTM Nelspruit made monthly donations of 50m² of odd tiles for a period of eight months to the Maqamela Primary School during the financial year;
- CTM Port Elizabeth is an ongoing sponsor of the Port Elizabeth Children's Home, Boys Town and the Animal Anti-Cruelty Society; and
- CTM Potchefstroom donated tiles, sanitaryware and taps to a homeless blind lady in her 80s, in co-operation with the Mayor's Officer to help in providing her with a roof over her head.

Occupational health and safety

Occupational health and safety remains a priority. The Group's health and safety complies with the Occupational Health and Safety Act 1970 and other relevant legislation, regulations and codes of practice for South Africa. The Group aims to prevent and minimise work-related and health impairments by ensuring that all employees are supplied with adequate training and supervision for the role they undertake.

Compliance is reviewed by an independent third party on a quarterly basis. No serious accidents have been reported during the year.

Environmental management

The nature of the Group's business is such that it has very little negative impact on its environment. Italtile takes great care in harmonising buildings with the surrounding environment in order to provide staff, customers and the community with a pleasing, safe and clean environment.

Human capital development

Key strategic themes have been identified and are continuously strived for:

- to match the demographics of the organisation with the diverse markets in which the Group operates;
- a representative task team drives the Group's employment equity plan and ensures that milestones are met;
- Italtile employs a number of mechanisms to promote worker participation in the operational decision-making process;
- a profit incentive scheme in terms of which all members of staff share in trading profits has been in operation since 1990;
- it is a stated objective of the Group to have all trading operations either in an outright franchise or in partnership with Italtile to cultivate the level of entrepreneurship within the Group; and
- to continuously enhance effectiveness of training in order to improve the foundation of skills within the organisation.

Human resources

In support of Italtile's commitment to empowering its people and training them to ensure only the highest quality customer interactions, a dedicated human resources manager was appointed during the year.

The formalised focus on human resources will enable the Group to deliver on its objective to be the preferred employer in the tile and sanitaryware retail market. These disciplines will include more stringent human resource

practices and standards as well as more intensive screening of new staff.

High on the agenda is a strategy to strengthen the channels of employee communication across the Group to ensure its people's understanding of policies and procedures as well as accelerating activities which give employees a sense of belonging to a family which extends beyond the store of their employ.

These programmes, which started at the end of 2009, are set to deliver benefits in 2010 in the form of an improved culture and loyalty, to support growth through increased knowledge of salespeople on the shop floor.

Training and development

The Group manages its training and development initiatives in-house and has, over the years, heightened its Group focus to improve business and management skills as training was identified as a competitive advantage for the Group. All training is developed in-house to ensure relevance to CTM's culture and strategy and 34 training modules are available throughout the country. The courses are tailored into three tiers aimed at the Beginners; Intermediate and Advanced levels. Training courses include focused business, technical, management and corporate governance programmes as well as an induction course for all new employees.

Minimum training competencies have been mapped for all job titles to support consistent standards across the Group. The benefits of these training initiatives are starting to pay off. For example, attendance at the selling course yielded an improvement in sales of about 30% in the three subsequent months.