

Corporate governance

APPLICATION OF GOVERNANCE CODES

The directors of Italtile fully endorse the spirit of transparency, integrity and accountability as advocated in the King Committee report on corporate governance.

BOARD OF DIRECTORS

In terms of the Group's long term succession plan, effective 1 July 2006, Mr Giovanni Ravazzotti, resumed his former role as Group Executive Chairman and Mr Gian-Paolo Ravazzotti assumed the position of Chief Executive Officer of the Group. Accordingly, Mr Derek Rabin relinquished his role as Chairman and resumed his previous role as a non executive director of the Group.

Mr Christian Trumpelman elected to take up a franchising opportunity within the Group and therefore resigned as Chief Operating Officer and as an executive director with effect 1 April 2006.

Mr Gordon Cousins advised the Board that he would be spending a significant amount of time in pursuit of new off-shore business interests and therefore decided not to stand for re-election at the annual general meeting and resigned with effect 2 December 2005.

Italtile Limited and its subsidiaries have unitary board structure, comprising three executive directors and three non-executive directors, one of which is independent. The Board meets regularly and maintains full and effective control in directing the Group towards achieving its vision.

In terms of its charter, the Board is ultimately accountable for the formulation and execution of strategies to meet the Group's objectives, operational performance, financial results

of the Group's risk management, financial controls and director selection and evaluation.

The Board works to a formal agenda covering areas of operational performance, strategy and growth initiatives. Board papers are circulated prior to every meeting. A clear division of responsibilities exists which maintains a balance of power and authority.

The Board has also delegated certain specific responsibilities to Board subcommittees, which are detailed more fully below.

The Board as a whole is responsible for the selection and appointment of non-executive directors in accordance with the criteria set out in the Board charter. Selection will be voted on, after the Board collectively or individually has conducted a formal interview with the candidate.

Membership of the Italtile Board is set out on page 24. The directors bring together a wealth of experience and expertise from varying fields to ensure the Group retains proper direction and control over its business activities.

One third of the Board retires by rotation each year. If requested to serve a further term by the Board, those retiring directors can offer themselves for re-election by the shareholders. In addition any director appointed during the year must retire at the annual general meeting held immediately after his appointment.

OPERATION OF THE BOARD OF DIRECTORS

The Board meets each quarter and on an ad-hoc basis should the need arise. Details of the attendance at Board meetings are set out in the table below:

Board meetings

	5 August 2005	9 September 2005	29 October 2005	28 January 2006	6 May 2006
G A M Ravazzotti	✓	✓	✓	✓	✓
P D Swatton	✓	✓	✓	✓	✓
G P E Ravazzotti	—	✓	✓	✓	✓
J Couzis	✓	✓	✓	✓	✓
S I Gama	✓	✓	✓	✓	✓
D H Rabin	✓	✓	✓	✓	✓
C Trumpelmann	—	✓	✓	✓	n/a
G F Cousins	✓	—	—	n/a	n/a

✓ = Present

— = Not present

Corporate governance continued

Directors have unrestricted access to the Company secretary, executive management and, at the expense of the Company, outside counsel in the execution of the duties and responsibilities.

REMUNERATION OF DIRECTORS

Details of individual director's remuneration are found on page 29. The remuneration committee ensures the provision of executive remuneration packages and director's fees that are competitive in relation to that of other South African retail companies.

No service contract exists between the Company and any of its directors.

BOARD COMMITTEES

Audit committee

The membership of the Group's audit committee is set out on page 24. The committee operates within written terms of reference confirmed by the Board, which include:

- ◆ Compliance with applicable legislation.
- ◆ Matters relating to the maintenance of adequate books and records, internal controls, accounting policies and financial reporting and disclosure.
- ◆ Approval of the scope of the external audit, review of audit reports and fees.
- ◆ Compliance with the code of corporate governance.

The external auditors have unrestricted access to the audit committee.

The audit committee has adopted guidelines as to the extent of fees paid for non-audit services provided by the external auditors, so that these fees do not become so significant as to call into question the external auditor's independence of Italtile. The audit committee met four times during the year.

Attendance at these meeting was:

	Ordinary meetings			
	5 August 2005	14 September 2005	27 January 2006	5 May 2006
J Couzis	✓	✓	✓	✓
S I Gama	✓	✓	✓	✓
P D Swatton*	✓	✓	✓	✓

✓ = Present

* = By invitation

The audit committee, which provides regular reports on its activities to the Board, confirms that it has adhered to its terms of reference over the past financial year.

REMUNERATION COMMITTEE

The remuneration committee's membership is set out on page 24. The committee operates within written terms of reference confirmed by the board, which include:

- ◆ Group's remuneration policy.
- ◆ Short-term and long-term incentives policies for directors, executive management and staff.

The remuneration committee met once during the year.

Attendance at this meeting was:

	3 September 2005
D H Rabin	✓
G A M Ravazzotti	✓

CODE OF ETHICS

Italtile has documented a formal code of ethics. The Group, through a system of values and standards, is committed to the promotion of ethical behaviour and the compliance with laws and regulations towards being a good corporate citizen.

The Board plays an oversight role in ensuring that management throughout the organisation assumes responsibility for training, mentoring staff on the Group's values and standards and, where appropriate, ensuring compliance.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for risk management. It regularly assesses the financial and non-financial risks in the context of the Group's business environment with a view to their mitigation or elimination through the Group's strategies and processes.

The Group's most significant areas of risk are:

◆ Currency risk

The foreign currency exposures on imported product is actively managed. All foreign liabilities are matched with forward exchange contracts, upon confirmation of import orders.

◆ Computer-based business processes

All Italtile's major business processes are computer-based. Italtile has a formally documented and tested disaster recovery plan.

◆ Credit risk

Trade credit is available through the Italtile division. Strict credit granting criteria are in place and the trade debtor's book is insured through a reputable insurance company.

Italtile operates within an established framework of values designed to create an environment where decentralised autonomy is coupled with accountability for operational and financial objectives matched with centralised leadership.

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

STAKEHOLDER COMMUNICATION

Italtile is committed to the principle of transparency in its dealings with key stakeholders. 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 report deals adequately with disclosures pertaining to financial statements, auditor's responsibility, accountability, accounting records, internal control, risk management, accounting policies, adherence to accounting standards, going-concern issues and adherence to codes of conduct.

CORPORATE SOCIAL RESPONSIBILITY

Italtile is keenly aware of its responsibility to the broader society in which it operates. A sustainable business is only built upon foundation of partnership that enriches society as a whole.

OCCUPATIONAL HEALTH AND SAFETY

Occupational health and safety remains a priority with compliance reviewed on a quarterly basis by an independent third party. No serious accidents were reported throughout the Group during the year.

ENVIRONMENTAL MANAGEMENT

The nature of our business is such that it has little negative impact on its environment. We generate no effluent or noise pollution.

In the construction of its stores, Italtile takes great care in harmonising each building with its surroundings in order to provide staff, customer and community a pleasing, safe and clean environment. As far as possible we provide facilities to prevent vehicle congestion in the neighbourhoods in which we are situated.

HUMAN CAPITAL DEVELOPMENT

As indicated by the Group's financial results, Italtile has continued its trend of rapid financial growth. This in itself presents challenges to the organisational leadership and places great demands on staff.

As a consequence, the following have been identified as the Group's key strategic themes:

- ◆ To match the demographics of the organisation with the diverse markets in which we trade, a representative task team drives the Group's employment equity plan, and ensures stated milestones are being met.
- ◆ Worker participation – Italtile employs a number of participating mechanisms within the organisation, whereby relevant financial information is shared and participation in operational decision-making is encouraged. The Group has implemented a profit incentive scheme in which all members of staff share in trading profits generated.
- ◆ To develop the level of entrepreneurship within the Group, it is a stated objective to have all trading operations either in an outright franchise or in a partnership within Italtile.
- ◆ To continuously enhance the delivery and effectiveness of training in order to improve the foundation of skills within the organisation.

SOCIAL RESPONSIBILITY

Italtile continues to invest, across all nine provinces 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 has made significant donations to children's aids hospices and environmental organisations.