

Enterprise and economic

Stakeholders: shareholders, franchisees, employees, customers, suppliers and business partners

Strategic focus	2014	2015 focus and targets
Enterprise Risk Management	The Group's Enterprise Risk Management (ERM) programme serves to: – specify the sources of assurance over the Group's risks; – link risk management and assurance activities, which facilitate review of risk management effectiveness; and – provide a basis for identifying assurance gaps. These activities are designed to ensure that the Group's risks are adequately addressed. The ERM structure is based on a combined assurance model comprising three elements: – management (divisional and executive directors); – external auditors (EY); and – Support Centre oversight (including the internal audit function). • The Group's flat reporting structures continued to facilitate transparent communication and oversight in the business. • Throughout the year, management conducted regular regional and divisional meetings. The executive directors paid frequent visits to stores and supply chain partners; embraced regular communication with and motivation of staff; and continued to foster a culture of partnership and empowerment. • The external audit function focused on addressing perceived audit risk related to presented financial information and internal controls. • The Group's accounting, operational and HR functions are largely centralised at the Support Centre, which facilitates effective oversight of in-store operations and results. The internal audit function continued to focus primarily on the assessed risks of inventory and cash management and identifying possible obstacles to achieving key targets. • The Group's 'Be Heard' hotline introduced in the prior year is a useful mechanism to enable staff to report perceived fraud or any other improper workplace practices.	• The Group has a consistent track record of unmodified audit reports and by enforcing a robust control environment will maintain that status. • Management's focus on best practice benchmarks and hands-on approach will continue to ensure attention is centred on safeguarding assets and compliance with relevant policies. • Support Centre oversight will continue to be enhanced through improvements which ensure consistent business practices in-store. The internal audit function will continue to grow with the business and will play an increasingly important role.

Enterprise and economic *(continued)*

Strategic focus	2014	2015 focus and targets
Market risk and financial viability	• The Group grew system-wide turnover by 17% and trading profit by 23% from continuing operations despite the testing economic environment. • Market share was retained across the brand offering and merchandise categories. The strength of the Group's well-established business model, underpinned by its integrated supply chain and cash reserves were critical to its continued growth in the challenging trading conditions. In addition, the strategy of ensuring the right stock at the right time, place and price, together with an uncompromising focus on quality, afforded a key competitive advantage in a volatile marketplace.	• Implementation of further improvements across the business and supply chain and capitalising on opportunities in the industry should enable continued growth and market share gain.
Reliance on key suppliers	• The Group's requirements were consistently met by its supply chain throughout the year. • The Group holds strategic stakes in both of its major local suppliers, namely 20% in Ceramic Industries and an effective 46% in Ezeetile. These suppliers are key to the Group attaining its growth targets and the strategic investment strengthens its relationships with these businesses.	• The Group will continue to pro-actively manage its supplier relationships to ensure supply requirements are consistently executed throughout the year. Core activities will include projection planning, monitoring, and ensuring suppliers' capacity to increase production if required. • In the unlikely event of insufficient supply from Ceramic and Ezeetile, the Group could source alternative supply from other local suppliers (adhesive and grout) or importers (tiles and sanitaryware).
Supply chain management	• In the context of currency and market volatility, the supply chain provided invaluable support to the retail operations through competitive pricing and consistent availability of fashionable merchandise. • Despite increased inventory levels, stock turn continued to improve, and further enhancements were made in automated ordering processes and model stock matrixes across the Group. • During the period, the Group's new Distribution Centre which opened in Cape Town made progress in achieving its strategic objectives to streamline distribution and logistics of imported product and improve performance in the region.	• Well-established, cooperative relationships with local and international suppliers will remain crucial to ensuring uninterrupted product supply and mitigating the impact of currency volatility. • Improved supply chain functionality, focused on procurement and stock management, will be a core focus area in the forthcoming year.
Supply chain disruption (Distribution Centres)	• The Group's disaster management plan is structured to withstand interruption of operations due to supplier, shipping or warehouse storage difficulties.	• The Group will continue to ensure optimal inventory levels thereby negating any short-term disruption to supply.

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Remaining fashionable	• The Group enjoys a strong reputation for its high quality, fashionable offering in a marketplace which is largely informed by international vogue, and is continuously evolving as new styles and fashions emerge. Management is constantly mindful that the Group's industry leadership position is upheld by remaining on-trend. • In order to prioritise fashion and flair in the product range across merchandise categories, intense research is conducted on an ongoing basis into new products and markets. Consumption related trading information is continuously analysed to ensure the Group's offering aligns with customer expectations and desires.	• The Group will continue to invest in research-driven innovation in order to entrench its position as a style icon. • This will be accomplished through attending trade shows and accessing industry thought-leadership resources to gain insight into global trends and product offerings, and by capitalising on procurement opportunities in international markets. • Internally, experienced brand managers and continuous communication within the Group at regional and national level will ensure improved understanding of local fashion desires. • Optimal range/pricing structures will also remain a priority.
International competitiveness	• Consumers in the local market continued to aspire to international fashion trends and increasingly demanded innovation in products and technology. Mindful of this, and the opportunity it provides to gain competitive advantage, the Group remained focused on delivering a contemporary and aspirational offering through significant enhancements in its range, its use of technology, access to new channels (e-commerce and social media) and in cost/pricing.	• The Group's stated goal is to be a world-class, low-cost retailer through alignment of customer satisfaction and profitability. Consistent focus on providing an unrivalled shopping experience and implementation of best practice business principles, will promote achievement of this objective.
Foreign currency	• The Group imports a range of products and was therefore subject to fluctuations in the local currency and volatility of international markets. Management of foreign currency exposure remained a key priority and wherever possible risk was mitigated.	• Company policy dictates that foreign currency fluctuations will continue to be closely managed and all foreign liabilities will be matched with forward exchange contracts on confirmation of order.
Computer-based business processes	• Management is cognisant that the IT environment affords significant opportunities for the Group to accomplish its growth objectives and improve customer satisfaction. In pursuit of these goals, a range of projects was completed, within budget and on schedule, including improvements in functionality of the Group's online and in-store technology, and enhancement of SAP systems in the retail operations and supply chain. • The Group's comprehensive disaster recovery plan was further enhanced and the business maintained its minimal downtime track record.	• Seamless operation of the Group's IT infrastructure is vital to the business; accordingly management of potential downtime and system failure risk will remain a key priority. • SAP functionality will continue to be enhanced to unlock efficiencies, thereby promoting growth. • Roll out of technology, including improved web-shopping capability for both CTM and Italtile Retail, will remain a focus area.

Enterprise and economic *(continued)*

Strategic focus	2014	2015 focus and targets
Liquidity, cash reserves and treasury risk	• Capital management and cost containment were core focus areas during the period. This, together with the Group's strong cash generating ability ensured that cash reserves continued to exceed operational requirements. • The Group's treasury policy is structured to anticipate and mitigate the major treasury risks which exist, namely: – sub-standard investment returns; – inadequate liquidity of investments to meet commitments; and – institutional/commercial risk relating to funds into which investments are made.	• Cost containment and rigorous management of cash flow and overheads will remain key priorities in the year ahead. • The Group's treasury policy has proved well-constituted and effective, and will continue to attenuate risks linked to investments.
Credit risk	• The Group's consumer credit offering is outsourced through RCS, an independent financial services business specialising in credit products. Italtile and CTM also offer a trade credit facility which is managed and insured by an outsourced specialist debtors' solutions company, Cladding Finance. During the reporting period, credit applications and credit management continued to be intensively monitored and well administered.	• The Group's business model is centred on cash transactions in the retail operations thereby limiting exposure to consumer credit risk. • In the current economic climate, credit applications and management thereof will remain a priority focus area.
Brand reputation	• The Group's Italtile Retail and CTM brands are respectively 45 and 31 years old, and are pivotal to the business model and the Company's profitability. Accordingly, reputation management of these and all other Group brands is a core priority, conducted through continuous review and brand-enhancing activities. • Potential areas of reputational risk include: poor customer service; poor product quality and unrealistic pricing; poor staff management; negative environmental impact and non-compliance with legislation and standards. Each of these risk areas was monitored closely and mitigated through the following mechanisms: – brand managers who attend regular regional meetings to gain insight into markets and product offering; – ongoing training for staff on service and products; and – implementation of an employment equity policy, environmental sustainability programme, whistle-blowing facility, and involvement of the services of a Health and Safety expert.	• Customised strategies have been developed specifically for each of the three individual retail brands. These strategies will focus on growth opportunities for the respective brands and maintaining the good reputation they enjoy in the market.

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Property investment portfolio	• Significant strategic advantage is afforded to the retail operations by this portfolio, which is centred on providing an optimal shopping experience for customers, achieved through branded stores that are situated on highly visible, accessible sites offering an aesthetically pleasing, well maintained shopping environment. It has an estimated market value of R1,9 billion and strong cash reserves; returns are in line with the retail operations. During the reporting period R96 million was added to the value of this investment portfolio net of property sales and refurbishment capital expenditure.	• Continuous review of the portfolio and marketplace ensures that risk is minimised and potential investment opportunities capitalised on. This division's main objective is to constantly improve the value and quality of its investment properties to support the retail operations in delivering the required rate of return.
Preservation of the organisational philosophy and structure	• Empowerment, partnership, entrepreneurship and autonomy are central pillars of the Group's business model and philosophy. Individual business units continued to be managed and operated independently within the broader Group structure, facilitating development of management experience and expertise across the organisation.	• The Group's organisational structure and culture will be maintained through mentorship, empowerment, encouraging transparent communication facilitated by flat reporting lines and ensuring best practice leadership development.
Succession planning	• During the period the Group appointed a new CEO and COO, thereby enhancing the Board's endeavours to comply with relevant King legislation. These key appointments will have a significant impact on increasing the depth of management in the Group.	• Elsewhere in the business, the goal is to build succession cover for each major management position to ensure that there are successors for each key individual, both in the short- and long-term. • Attracting, developing and retaining human capital will remain a key focus, with mentorship and leadership programmes prioritised.
Chairman's mentorship programme	• A management mentorship programme is conducted under the auspices of the Chairman, through which the values and ethics of the business are instilled across the organisation. • Leadership development is also facilitated through CTM's in-house Operator Training Programme, in conjunction with Stellenbosch University, which aims to produce graduates with the necessary skills and qualifications to manage Group stores.	• The Group will continue to commit significant resources to initiatives centred on developing a pool of leaders with extensive experience and expertise to facilitate achievement of the Group's growth targets.



Social

Stakeholders: franchisees, employees, customers and the community

Strategic focus	2014	2015 focus and targets
Recruitment and retention	• Number of employees including franchised stores: 1 588 (2013: 1 518) • Experienced, skilled personnel are in short supply in the broader retail industry and the Group is cognisant of the need to be an employer of choice in this competitive environment. Accordingly, opportunities for empowerment and entrepreneurship are promoted through ownership models (including franchise and joint venture partnerships) and profit and share schemes. • A new staff share scheme was implemented in August 2013 aimed at promoting partnership in the business. Participants in the scheme benefit directly from the growth in the Group's sales and profitability, thereby incentivising staff to contribute to the success of the business. At 30 June 2014, 13 million shares were held by qualifying staff members.	• Enhanced training will improve motivation and empowerment of employees, which will have a positive impact on retention. • Improved processes will be introduced to attract and recruit new talent in the drive to build the resources required to achieve the Group's expansion goals. • Leadership development will remain a priority focus. • The Group's culture of empowerment and entrepreneurship is important to retaining its employees. This culture will continue to be facilitated through amongst other mechanisms, ownership opportunities. • Staff will continue to be incentivised via profit share and share schemes. In terms of the staff share incentive scheme, a second allocation of shares will be made to qualifying foreign staff and other staff members who achieved three years of service on 31 August 2014.
Training	• The total number of training interventions undertaken increased to 1 311 (2013: 1 031). • A total of 178 courses (2013: 86) were conducted. • 193 (2013: 142) candidates completed the Academy's Practical Tiling, Plumbing and Laminate course. • CTM's Operator Training Programme (OTP), in conjunction with Stellenbosch University's Business School, produced 11 graduates for store management positions.	• The goal for the year ahead is to enhance analysis and measurement of performance and closer align training interventions with specific requirements within the individual brand businesses. • The OTP is an important mechanism to grow leadership talent in the Group. Nine candidates are currently enrolled in the programme.
Transformation	• Employment equity targets were once again met, in line with the Group's consistent record over several years.	• Continued achievement of employment equity targets will remain a priority.
BEE ratings	• The Group achieved an improved BBBEE contributor status Level 6 (2013: Level 8).	• The BBBEE contributor status target for the year ahead is Level 6. The Group will put in place measures and initiatives to ensure continued compliance when the updated BBBEE codes come into effect.

Environmental

Stakeholders: shareholders, franchisees, employees, suppliers, business partners and the community

Strategic focus	2014	2015 focus and targets
Water consumption	• The Group achieved its annual goal of 5% reduction in water consumption for the year. • Both Italtile Retail and CTM increased their ranges of water-saving products. • Information and education regarding water-saving products and behaviour continued to be promoted in-store.	• The Group will continue to target an annual water saving of 5%. • A unique policy has been formalised for each of the three retail brands related to water consumption and reduction, which will be managed within the Group-wide sustainability agenda.
Energy consumption	• A five year energy management plan is in place aimed at reducing consumption by 50% by the end of FY2017. • An improved energy saving of 9,75% was achieved across the business (between FY2011 and FY2013 a saving of 3,63% was achieved) through installation of photovoltaic (PV) solar panels in seven stores and retro-fitting new efficient lighting in some of the Group's older stores. • Independent metering equipment was installed at stores experiencing inaccurate billing, improving management of energy consumption.	• PV systems, which produce 40% of each store's energy requirements, will be fitted in six additional stores in the forthcoming year. • Energy efficient technologies/lighting will be implemented in all new, upgraded and relocated stores, and rolled out to the Group's older stores lacking this technology in due course. • A customised policy has been formalised for each of the three retail brands related to energy consumption and reduction, which will be managed within the Group-wide sustainability agenda.
Waste minimisation	• A five year plan was introduced targeting a reduction in waste for recycling and waste to landfill by all stores by 10% by FY2015. The Group is on target to achieve this goal.	• Depending on the success of achieving the FY2015 target, the long-term goal is to reduce waste to landfill to a maximum of 5% of all waste by FY2017.
Carbon footprint	• The Group's fourth carbon footprint study confirmed a decrease of 30% (FY2013: 16% decrease) in direct CO_2 emissions per Rand value of turnover.	• The Group's fifth carbon footprint study (FY2015) has been commissioned, and based on the downward trend to date and recent initiatives implemented, it is anticipated that a further reduction in the Group's direct CO_2 emissions will be achieved.

Governance and regulatory environment

Stakeholders: government, regulators, shareholders, franchisees, employees, customers, suppliers and business partners

Strategic focus	2014	2015 focus and targets
Compliance with legislation	• The Group strives to implement good corporate governance practices across its operations aimed at promoting sustainability of the business. Accordingly it endeavours to ensure compliance with the Companies Act, JSE Listings Requirements, the King Code, BBBEE, employment equity and labour legislation, the Competition Act, the Consumer Protection Act and all relevant tax legislation. • A high-level Group Health and Safety Committee was introduced which will drive compliance of the business units with the relevant Health and Safety legislation.	• Appropriate professionals and advisers will continue to be consulted to ensure compliance with legislation. Relevant seminars and training related to legislative and other updates will be attended by management who will continue to be supported by the external audit function in ensuring compliance.

ITALTILE Limited





















The Group's high profile brands have appeal across the income and fashion spectrum, whilst our well-established supply chain supports our year-round value offering.