Accounting policies extracted from the 2016 annual consolidated financial statements

STEINHOFF INTERNATIONAL HOLDINGS N.V.
SUMMARY OF ACCOUNTING POLICIES
FOR THE PERIOD ENDED 30 SEPTEMBER 2016

Steinhoff International Holdings N.V. (Steinhoff N.V.) is a Netherlands registered company with tax residency in South Africa. The consolidated annual financial statements of Steinhoff N.V. for the period ended 30 September 2016 comprise Steinhoff N.V. and its subsidiaries (together referred to as the Steinhoff Group) and the group's interest in associate companies and joint-venture companies.

Statement of compliance

The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code. All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective for periods ending 2016 have been endorsed by the EU, except that the EU did not adopt some of the paragraphs of IAS 39 applicable to certain hedge transactions. Steinhoff N.V. has no hedge transactions to which these paragraphs are applicable. Consequently the accounting policies applied by Steinhoff N.V. also comply with IFRS as issued by the IASB. These accounting policies have been applied by group entities.

Adoption of revised standards

During the current year, the group did not adopt any revised standards or interpretations as issued by the IASB and the IFRIC as none issued were relevant to its operations.

Basis of preparation

The consolidated annual financial statements are prepared in millions of euro (€m) on the historical-cost basis, except for certain assets and liabilities which are carried at amortised cost, and certain financial instruments which are stated at their fair value. The management board and supervisory board reasonably believe that the group has adequate resources to continue in operation for the foreseeable future, and the consolidated annual financial statements have therefore been prepared on the going-concern basis.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that may affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed under judgements and estimates.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these annual financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2: *Share-based Payments,* leasing transactions that are within the scope of IAS 17: *Leases,* and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2: *Inventories* or value in use in IAS 36: *Impairment of Assets.*

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are defined as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can assess at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included in level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The material accounting policies applied by the group, as well as accounting policies where IFRS allows choice, are set out below and have been applied consistently to the periods presented in these consolidated annual financial statements, except where stated otherwise.

The accounting policies have been applied consistently by all group entities.

STEINHOFF INTERNATIONAL HOLDINGS N.V.
SUMMARY OF ACCOUNTING POLICIES
FOR THE PERIOD ENDED 30 SEPTEMBER 2016

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the group (including structured entities). An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, substantive rights relating to an investee are taken into account. For a right to be substantive, the holder must have the practical ability to exercise that right.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition. Any difference between the cost of acquisition and the group's share of the net identifiable assets, liabilities and contingent liabilities, fairly valued, is recognised and treated in terms of the group's accounting policy for goodwill.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

Subsequently, any losses applicable to the non-controlling interests are allocated to the non-controlling interests even if this results in the non-controlling interests having deficit balances.

Associate companies

An associate company is an entity over which the group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the entity, but which it does not control or jointly control. The group applies equity accounting to its associates.

Dilution gains and losses arising on the investment in associate companies are recognised in other comprehensive income.

The profit or loss on transactions with associate companies is not eliminated.

Joint arrangements

A joint arrangement is defined as an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. There are two types of joint arrangements, namely joint operation and joint venture.

Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognise and measure the assets and liabilities (and recognise the related revenues and expenses) in relation to its interest in the arrangement in accordance with the relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses.

A joint venture is a joint arrangement whereby the parties that have control of the arrangement have rights to the net assets of the arrangement. A joint venturer recognises an investment and accounts for that investment using the equity method.

Contingent consideration

Where a structured business combination contains a puttable instrument on the interest of an apparent non-controlling shareholder, the acquirer will classify the obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as equity on the basis of the definitions of an equity instrument and financial liability in IAS 32: *Financial Instruments - Presentation.*

Contingent consideration is measured at fair value at each reporting date, and changes in fair value are recognised in profit or loss.

STEINHOFF INTERNATIONAL HOLDINGS N.V.
SUMMARY OF ACCOUNTING POLICIES
FOR THE PERIOD ENDED 30 SEPTEMBER 2016

Common control transactions and premiums and discounts arising on subsequent purchases from, or sales to non-controlling interests in subsidiaries

When a purchase price allocation has been performed for separate financial statements it is reversed for group consolidated accounts. Any increases or decreases in ownership interest in subsidiaries without a change in control are recognised as equity transactions. The carrying amounts of the group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any differences between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received are recognised directly in equity and attributed to owners of the company.

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill arising on the acquisition of a subsidiary, associate company or joint-venture company represents the excess of the aggregate consideration transferred, non-controlling interest in the acquiree and in business combinations achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate company or joint-venture company recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. An impairment loss in respect of goodwill is not reversed.

Goodwill is allocated to cash-generating units (CGUs) and is tested annually for impairment, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

On disposal of a subsidiary, associate company or joint-venture company, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Gains on bargain purchases arising on acquisition are recognised directly as capital items in profit or loss.

Intangible assets

Intangible assets that are acquired by the group are stated at cost less accumulated amortisation and impairment losses. If an intangible asset is acquired in a business combination, the cost of that intangible asset is measured at its fair value at the acquisition date.

Expenditure on internally generated goodwill and brands is recognised in profit or loss as an expense as incurred.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation of intangible assets is recognised in profit or loss on a straight-line basis over the assets' estimated useful lives, unless such lives are indefinite. An intangible asset is regarded as having an indefinite useful life when, based on analysis of all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Intangible assets with indefinite useful lives and intangible assets not yet available for use are not amortised but are tested for impairment annually, or more often when there is an indication that the asset may be impaired. Other intangible assets are amortised from the date they are available for use.

The amortisation methods, estimated useful lives and residual values are reassessed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

Property, plant and equipment

Owned assets

Property, plant and equipment are stated at cost to the group, less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the costs of materials, direct labour, the initial estimate, where relevant, of the cost of dismantling and removing the items and restoring the site on which they are located, borrowing costs capitalised and an appropriate proportion of production overheads.

STEINHOFF INTERNATIONAL HOLDINGS N.V.
SUMMARY OF ACCOUNTING POLICIES
FOR THE PERIOD ENDED 30 SEPTEMBER 2016

Leased assets
Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the group are classified as finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease.

The capital element of future obligations under the leases is included as a liability in the statement of financial position. Lease payments are allocated using the effective-interest method to determine the lease finance costs, which are charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor.

Subsequent costs
The group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred, if it is probable that additional future economic benefits embodied within the item will flow to the group and the cost of such item can be measured reliably. Costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as an expense when incurred.

Depreciation
Depreciation is recognised in profit or loss on a straight-line basis at rates that will reduce the book values to estimated residual values over the estimated useful lives of the assets.

Land is not depreciated. Leasehold improvements on premises occupied under operating leases are written off over their expected useful lives or, where shorter, the term of the relevant lease.

The depreciation methods, estimated useful lives and residual values are reassessed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Investment property
Investment property is land and buildings that are held to earn rental income or for capital appreciation, or both.

Investment property is initially recognised at cost, including transaction costs, when it is probable that future economic benefits associated with the investment property will flow to the group and the cost of the investment property can be measured reliably. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. The cost of a self-constructed investment property is its cost at the date when the construction development is complete.

Investment property is accounted for under the cost model and the accounting treatment after initial recognition follows that applied to property, plant and equipment.

Taxation
Current taxation
Income taxation on the profit or loss for the year comprises current and deferred taxation. Income taxation is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which case it is recognised directly in other comprehensive income or equity.

Current taxation is the expected taxation payable on the taxable income for the year, using taxation rates enacted or substantially enacted at the reporting date, and any adjustment to taxation payable in respect of previous years.

STEINHOFF INTERNATIONAL HOLDINGS N.V.
SUMMARY OF ACCOUNTING POLICIES
FOR THE PERIOD ENDED 30 SEPTEMBER 2016

Deferred taxation

Deferred taxation is provided for using the statement of financial position liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used in the computation of taxable income. The following temporary differences are not provided for: goodwill not deductible for taxation purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associate companies and interest in joint-venture companies, except where the group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current taxation assets and liabilities on a net basis.

Deferred taxation assets and liabilities are measured at the taxation rates that are expected to apply in the period in which the liability is settled or the asset realised, based on the taxation rates (and taxation laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred taxation liabilities and assets reflects the taxation consequences that would follow from the manner in which the group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

A deferred taxation asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset will be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related taxation benefit will be realised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling and distribution expenses.

The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of overheads based on normal operating capacity.

Development properties comprise land valued at cost and development expenditure attributable to unsold properties.

Where necessary, the carrying amounts of inventory are adjusted for obsolete, slow-moving and defective inventories.

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. These assets may be a component of an entity, a disposal group or an individual non-current asset. Upon initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of their carrying amount and fair value less costs to sell.

A discontinued operation is a component of the group's business that represents a separate major line of business or geographical area of operation or a subsidiary acquired exclusively with a view to resell. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale.

STEINHOFF INTERNATIONAL HOLDINGS N.V.
SUMMARY OF ACCOUNTING POLICIES
FOR THE PERIOD ENDED 30 SEPTEMBER 2016

Share capital

Preference shares

Preference shares are classified as equity if they are non-redeemable and any dividends are discretionary, or are redeemable but only at the group's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

In order to calculate earnings attributable to ordinary shareholders, the amount of preference dividends for cumulative preference shares required for that period, whether or not declared, is deducted from profit attributable to equity holders in determining earnings per ordinary share.

The amount of preference dividends for the period used to calculate earnings per ordinary share does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in accordance with the group's dividend policy.

Treasury shares

When shares recognised as equity are purchased by group companies in their holding company and by the employee share trusts, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from share premium.

Dividends

Non-discretionary dividends on preference shares are recognised as a liability and recognised as an interest expense using the effective-interest method. Other dividends are recognised as a liability in the period in which they are declared.

Dividends received on treasury shares are eliminated on consolidation.

Share-based payment transactions

Equity-settled

The fair value of the deferred delivery shares and the share rights granted to employees is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and is expensed over the period during which the employees are required to provide services in order to become unconditionally entitled to the equity instruments. The fair value of the instruments granted is measured using generally accepted valuation techniques, taking into account the terms and conditions upon which the instruments are granted. The amount recognised as an expense is adjusted to reflect the actual number of deferred delivery shares and the share rights that vest, except where forfeiture is only due to share prices not achieving the threshold for vesting.

Group share-based payment transactions

Transactions in which a parent grants rights to its equity instruments directly to the employees of its subsidiaries are classified as equity-settled in the financial statements of the subsidiary, provided the share-based payment is classified as equity-settled in the consolidated financial statements of the parent.

The subsidiary recognises the services acquired with the share-based payment as an expense and recognises a corresponding increase in equity representing a capital contribution from the parent for those services acquired. The parent recognises in equity the equity-settled share-based payment and recognises a corresponding increase in the investment in subsidiary.

A recharge arrangement exists whereby the subsidiary is required to fund the difference between the exercise price on the share right and the market price of the share at the time of exercising the right. The recharge arrangement is accounted for separately from the underlying equity-settled share-based payment as follows upon initial recognition:

- The subsidiary recognises a share scheme settlement provision at fair value, using cash-settled share-based payment principles, and a corresponding adjustment against equity for the capital contribution recognised in respect of the share-based payment.
- The parent recognises a corresponding share scheme settlement asset at fair value and a corresponding adjustment to the carrying amount of the investment in the subsidiary.

STEINHOFF INTERNATIONAL HOLDINGS N.V.
SUMMARY OF ACCOUNTING POLICIES
FOR THE PERIOD ENDED 30 SEPTEMBER 2016

Subsequent to initial recognition, the recharge arrangement is remeasured at fair value at each subsequent reporting date until settlement date to the extent vested. Where the settlement provision recognised is greater than the initial capital contribution recognised by the subsidiary in respect of the share-based payment, the excess is recognised as a net capital distribution to the parent. The amount of the settlement asset in excess of the capital contribution recognised as an increase in the investment in subsidiary is deferred and recognised as dividend income by the parent when settled by the subsidiary.

Convertible bonds
Bonds which are convertible to share capital, where the number of shares to be issued does not vary with changes in their fair value, are accounted for as compound financial instruments. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of the proceeds. The equity component of the convertible bonds is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in profit or loss is calculated using the effective-interest method.

Provisions
Provisions are recognised when the group has a present constructive or legal obligation as a result of a past event, and when it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.

If the effect is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Warranties
A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Restructuring
A provision for restructuring is recognised when the group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Dilapidation and onerous contracts
A provision for dilapidation and onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting the obligation under the contract.

Foreign currency
Foreign currency transactions
Transactions in currencies other than the functional currency of entities are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates ruling on the reporting date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at rates ruling at the dates the fair value was determined.

Financial statements of foreign operations
The assets and liabilities of all foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at rates of exchange ruling at the reporting date. The revenues and expenses of foreign operations are translated at rates approximating the foreign exchange rates ruling at the date of the transactions.

Foreign exchange differences arising on translation are recognised in other comprehensive income and aggregated in the foreign currency translation reserve (FCTR). The FCTR applicable to a foreign operation is released to profit or loss as a capital item upon disposal of that foreign operation.

STEINHOFF INTERNATIONAL HOLDINGS N.V.
SUMMARY OF ACCOUNTING POLICIES
FOR THE PERIOD ENDED 30 SEPTEMBER 2016

Net investment in foreign operations
Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges, are recognised in other comprehensive income and accumulated in the FCTR. They are released to profit or loss as a capital item upon disposal of that foreign operation.

Financial instruments
Initial recognition
Financial assets and financial liabilities are recognised on the group's statement of financial position when the group becomes a party to the contractual provisions of the instrument.

Initial measurement
All financial instruments are initially recognised at fair value, including transaction costs that are incremental to the group and directly attributable to the acquisition or issue of the financial asset or financial liability, except for those classified as fair value through profit or loss where the transaction costs are recognised immediately in profit or loss.

Subsequent measurement
Financial instruments at fair value through profit or loss consist of items classified as held for trading or where they have been designated as fair value through profit or loss.

All financial liabilities, other than those at fair value through profit or loss, are classified as financial liabilities at amortised cost.

Loans and receivables are carried at amortised cost, with interest recognised in profit or loss for the period, using the effective-interest method.

Available-for-sale financial assets are measured at fair value, with any gains and losses recognised directly in equity along with the associated deferred taxation. Any foreign currency gains or losses, dividend income or interest revenue, measured on an effective-yield basis, are recognised in profit or loss.

Embedded derivatives
Certain derivatives embedded in financial host contracts are treated as separate derivatives and recognised on a standalone basis, when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value, with gains and losses reported in profit or loss.

Derecognition
The group derecognises a financial asset when the rights to receive cash flows from the asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

A financial liability is derecognised when, and only when, the liability is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or has expired.

STEINHOFF INTERNATIONAL HOLDINGS N.V.
SUMMARY OF ACCOUNTING POLICIES
FOR THE PERIOD ENDED 30 SEPTEMBER 2016

Impairment of financial assets
An impairment loss for loans and receivables is recognised in profit or loss when there is evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative unrealised gains and losses recognised in equity are reclassified to profit or loss, even though the financial asset has not been derecognised. Impairment losses are only reversed in a subsequent period if the fair value increases due to an objective event occurring since the loss was recognised. Impairment reversals other than available-for-sale debt securities are not reversed through profit or loss but through other comprehensive income.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Instalment sale and loan receivables, such as up-to-date and early-stage delinquent trade receivables, i.e. assets that are assessed not to be impaired individually, are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables includes the level of arrears of a customer, part payment of instalments or missed instalments, as well as observable changes in national or economic conditions that correlate with defaults on receivables.

Effective-interest method
The effective-interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of a financial instrument, or, where appropriate, a shorter period.

Hedge accounting
The group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges in foreign exchange risk on firm commitments are accounted for as cash flow hedges.

Fair value hedges
Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in fair value of the hedged item that are attributable to the hedged risk.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in other comprehensive income are recycled to profit or loss in the periods when the hedged item is recognised in profit or loss, and it is included in the same line of the income statement as the recognised hedged item.

Hedges of net investments in foreign operations
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income in the FCTR. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Gains and losses deferred in the FCTR are recognised in profit or loss on disposal of the foreign operation.

STEINHOFF INTERNATIONAL HOLDINGS N.V.
SUMMARY OF ACCOUNTING POLICIES
FOR THE PERIOD ENDED 30 SEPTEMBER 2016

Insurance contracts

Classification of contracts

Contracts, under which the group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary, if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary, are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable it is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Premiums

Written premiums comprise the premiums on contracts (including inward reinsurance) entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission payable to intermediaries and exclude value added taxation.

The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten.

Unearned premium provision

The provision for unearned premiums comprises the proportion of gross premiums written, which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method.

Claims

Claims incurred in respect of general business consist of claims and claims handling expenses paid during the financial year, together with the movement in the provision for outstanding claims.

The outstanding claims provision comprises provisions for the group’s estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses.

Deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs represent the portion of acquisition costs incurred that correspond to the unearned premium provision.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Goods sold and services rendered

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at reporting date. The stage of completion is assessed by reference to surveys of the work performed.

Revenue is not recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods as well as continuing management involvement with goods to a degree usually associated with ownership. Where the group acts as agent and is remunerated on a commission basis, only the commission income, and not the value of the business transaction, is included in revenue.

The recovery of duties and taxes payable on imports and exports are not recognised in revenue but netted off against the expense paid on behalf of the customer.

STEINHOFF INTERNATIONAL HOLDINGS N.V.
SUMMARY OF ACCOUNTING POLICIES
FOR THE PERIOD ENDED 30 SEPTEMBER 2016

Insurance premiums
Insurance premiums are stated before deducting reinsurances and commissions and are accounted for when they become due.

Interest
Interest is recognised on the time proportion basis, taking account of the principal debt outstanding and the effective rate over the period to maturity.

Rental income
Rental income is recognised in profit or loss on a straight-line basis over the term of the lease.

Dividend income
Dividend income from investments is recognised when the right to receive payment has been established.

Royalty income
Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Operating leases
Payments and receipts under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Segmental reporting
A segment is a distinguishable component of the group that is engaged in providing products or services that are subject to risks and rewards that are different from those of other segments. The basis of segmental reporting is representative of the internal structure used for management reporting as well as the structure in which the chief operating decision-makers review the information.

The basis of segmental allocation is determined as follows:

- Revenue that can be directly attributed to a segment and the relevant portion of the profit that can be allocated on a reasonable basis to a segment.
- Segmental assets are those assets that are employed by a segment in its operating activities and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segmental assets exclude investments in equity accounted companies, investments and loans, cash and cash equivalents, assets of discontinued operations and assets held for sale.

STEINHOFF INTERNATIONAL HOLDINGS N.V.
JUDGEMENTS AND ESTIMATES
FOR THE PERIOD ENDED 30 SEPTEMBER 2016

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities during the next financial year are discussed below.

Useful lives and residual values
The estimated useful lives for intangible assets with a finite life, property, plant and equipment and vehicle rental fleet are:

Intangible assets	
Customer relationship and trade and brand names	10 - 20 years
Contracts and licences	Over the term of the contract or project
Software	1 - 8 years

Patents, trademarks, trade names and brand names, which are considered to be well-established growing brands and product lines for which there is no foreseeable limit to the period in which these assets are expected to generate cash flows, are classified as indefinite useful life assets. The classification of such assets is reviewed annually.

Indefinite useful life intangible assets, excluding goodwill, recognised at fair value in business combinations, are expected to generate cash flows indefinitely and the carrying value would only be recovered in the event of disposal of such assets. Accordingly, deferred taxation is raised at the capital gains taxation rate on the fair value of such assets exceeding its taxation base.

Property, plant and equipment	
Buildings	5 - 80 years
Computer equipment	2 - 4 years
Motor vehicles	4 - 10 years
Office equipment and furniture	3 - 16 years
Plant and machinery	3 - 60 years
Investment property	
Buildings	5 - 80 years
Vehicle rental fleet	Over the period of the buy-back agreement or estimated holding period

The estimated useful lives and residual values are reviewed annually, taking cognisance of the forecasted commercial and economic realities and through benchmarking of accounting treatments in the specific industries where these assets are used.

Impairment of assets
Investments, goodwill, property, plant and equipment, investment property and intangible assets that have an indefinite useful life, and intangible assets that are not yet ready for use, are assessed annually for impairment.

Deferred taxation assets
Deferred taxation assets are recognised to the extent that it is probable that taxable income will be available in the future against which these can be utilised. Future taxable profits are estimated based on business plans that include estimates and assumptions regarding economic growth, interest, inflation, taxation rates and competitive forces.

Contingent liabilities
Management applies its judgement to the fact patterns and advice it receives from its attorneys, advocates and other advisors in assessing whether an obligation is probable, more likely than not, or remote. This judgement application is used to determine whether the obligation is recognised as a liability or disclosed as a contingent liability.

Valuation of equity compensation benefits
Management classifies its share-based payment scheme as an equity-settled scheme, based on the assessment of its role and that of the employees in the transaction. In applying its judgement, management consulted with external expert advisors in the accounting and share-based payment advisory industry. The critical assumptions, as used in the valuation model, are detailed in note 17.

STEINHOFF INTERNATIONAL HOLDINGS N.V.
JUDGEMENTS AND ESTIMATES
FOR THE PERIOD ENDED 30 SEPTEMBER 2016

Post-employment benefit obligations
In applying its judgement to defined benefit plans, management consulted with external expert advisors in the accounting and post-employment benefit obligation industry. The critical estimates, as used in each benefit plan, are detailed in note 21.

Consolidation of special-purpose entities
Certain special-purpose entities established as part of the B-BBEE transactions have been consolidated as part of the group results. The group does not have any significant direct or indirect shareholding in these entities, but the substance of the relationship between the group and these entities was assessed and judgement was made that these are controlled entities.

Buy-back lease commitments
When a buy-back agreement is entered into, a provision is raised in respect of future reconditioning costs that may be incurred before the vehicle is made available for sale. Management based this provision on historical data and past experience.

Provision for bad debts
The provision for bad debts was based on a combination of specifically identified doubtful debtors and providing for older debtors.

A provision for bad debts held against instalment sales receivables is raised when there is objective evidence that the assets are impaired. Factors taken into account to determine impairment of an asset are the level of arrears, part payment of instalments or missed instalments. Estimated future cash flows, that are discounted at the effective interest rate, are determined utilising past payment history and probability of default.

Fair values in business combinations
Management uses valuation techniques to determine the fair value of assets, liabilities and contingent liabilities acquired in business combination. Fair value of property, plant and equipment is determined by using external valuations as well as rental return on property.

Although a comprehensive valuation exercise is performed for each business combination, the group applies initial accounting for its business combinations that will allow the group a period of one year after the acquisition date to adjust the provisional amounts recognised for a business combination.

Claims made under insurance contracts
The operations' estimates for reported and unreported losses and establishing resulting provisions are continually reviewed and updated, and adjustments resulting from this review are reflected in income. The process relies upon the basic assumption that past experience adjusted for the effect of current developments and likely trends is an appropriate basis for predicting future events.

The process used to determine the assumptions is intended to result in estimates of the most likely or expected outcome. The sources of data used as input for the assumptions are internal, using detailed studies that are carried out annually. The assumptions are checked to ensure that they are consistent with observable market prices or other published information.

The nature of the business makes it relatively easy to predict the likely outcome of claims and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments.