Steinhoff International Holdings Ltd

Corporate governance report 2011

Contents

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Steinhoff International Holdings (Steinhoff)

About this report

Corporate governance is concerned with the conducting of corporate affairs in a proper and ethical manner to establish and maintain a balance between corporate, economic and social goals and the goals of individuals and the community.

The purpose of this report is to provide stakeholders with an understanding of our approach to corporate governance and to demonstrate that the group's businesses and assets are managed responsibly. The report is published as a supplementary report to the group's integrated report to provide the level of detail required by certain stakeholders.

Scope

The scope of this report includes all our operating subsidiaries and covers the financial reporting period 1 July 2010 to 30 June 2011. Any relevant subsequent events up to 31 October 2011 have been noted or described in this report.

All references to Steinhoff, the group, the company, the business, our and we refer to Steinhoff International Holdings Limited and its underlying subsidiaries.

To obtain a full appreciation of the affairs of the group this report should be read together with the audited annual financial statements and the corporate responsibility report available at www.steinhoffinternational.com.

Our approach

The wide geographical spread of the group's operations, together with the group's focus on vertical integration and the diversity that this brings to the group's businesses, requires adherence to high standards of corporate governance, both at divisional and group level. The Steinhoff group, its directors, officers and management, remain committed to ensuring that effective corporate governance is a way of life across the full spectrum of its diverse activities and geographical locations.

In line with the group's decentralised management approach, day-to-day responsibility for ensuring that the group's businesses are appropriately managed rests with divisional management and their boards. There are defined reporting lines from divisional level to the board of Steinhoff International to ensure that the divisional operations' approach to corporate governance is in line with group policies. Notwithstanding this decentralised approach, the ultimate responsibility for retaining full and effective control of the group's businesses rests with the board.

Policies on governance areas such as ethics, insider trading, compliance, risk management and human rights are set at group level. Regional and divisional management developed their own divisional policies having due regard for the legislation and regulations applicable to their operations and for the policies prescribed at group level. Decisions on material matters are reserved by the board, including but not limited to, decisions on the allocation of capital resources to optimise the return on shareholders' funds and the authorisation of procurement capital expenditure, property transactions, borrowings and investments, other than where pre-approved materiality levels, which have been defined by the board, apply.

A corporate culture of compliance with applicable laws, regulations, internal practices and procedures has been established across the group and is a fundamental component of our approach to corporate governance. This culture, coupled with the group's systems of internal controls, has played a key role in securing sustainable returns and serves to provide stakeholders with the assurance that the group's businesses and assets are managed responsibly.

We remain committed to ensuring the maintenance of effective corporate governance and ethical practices across all of the group's operations, to create value for stakeholders in a balanced, ethical and sustainable manner and to ensure compliance with the laws and regulations governing our operations.

This commitment is firmly embedded in our corporate culture and is driven from the top. In his performance review contained in the 2011 integrated report, the chairman stated that:

'We continue with our pragmatic approach to continuous improvement in this high-profile and fast-developing arena. We believe that maintaining high standards of corporate governance is 'good business' and remain fully committed to the principles of the Code of Corporate Practices and Conduct, set out in the King report on Corporate Governance 2009 (King III), the purpose of which is to promote the highest level of corporate governance in South Africa.

The tone at the top and within the board has fostered an environment in which we are committed to high ethical standards, fairness, full compliance with legal requirements and resistance to market pressures for short-term results.

We are pleased that each director brings independence of character and judgment to their role. Board and committee meetings are characterised by ongoing robust, constructive debate based on our management's extensive, focused reporting and the board ensures that it keeps its performance and core governance principles under constant review.'

Application of King III

Utilising an external service provider, a King III gap analysis was undertaken early in 2011. This exercise highlighted certain areas where disclosure could be improved and work-in-progress initiatives continued and served to identify opportunities to consider and adopt further recommendations. The items still outstanding, in respect of which it was recommended that Steinhoff could improve their application of governance principles and recommended practices, have been identified and are listed in the following table:

King III Principles/Recommendations	Comments
1.3: The board should ensure that the company's ethics are managed effectively. *37. The board should ensure that the company's ethics risks and opportunities are assessed and that an ethics risk profile is obtained.*	Steinhoff has adopted a code of ethics that is communicated and stringently applied across the group. However, due to the diversity and geographical spread of its operations, Steinhoff has not established a formal process for obtaining assurance on ethical awareness and ethical compliance throughout the group. The board is nevertheless satisfied that it has taken all reasonable steps to promote awareness of the group's code of ethics and that its systems of internal control ensure that application of the code is monitored and regulated throughout the group and that any instances of non-compliance with the code are reported and dealt with appropriately.
2.1: The board should act as the focal point for a custodian of corporate governance. *1. The board should have a charter setting out its responsibilities.*	A comprehensive board charter has been in place for many years and is reviewed on a regular basis. The charter will be reviewed during the next reporting period to ensure alignment with King III. Revisions will be subject to board approval and, should there be any areas of non-application, these will be highlighted and explanations furnished in the 2012 integrated report.
5.1: The board should be responsible for Information Technology (IT) governance. *4. The board should ensure that an IT governance charter and policies are established.*	Our existing IT policy documents incorporate the essential elements of an IT charter. A group IT charter will be discussed and implemented during the second phase of an IT legal project, which is being developed and implemented under the guidance of external advisors.
5. The board should ensure promotion of an ethical IT governance culture and awareness and a common IT language.	Due to the diversity and geographical spread of the group's businesses, the decision has been taken not to standardise IT throughout the group. The board's position on an ethical IT governance culture and IT awareness will be considered for inclusion in the IT charter to be developed.

Corporate governance report continued

King III Principles/Recommendations	Comments
8. The board should ensure that an IT internal control framework is adopted and implemented and that the board receives independent assurance on the effectiveness thereof.	IT assurance forms part of internal audit and external partners are used where more technical expertise is required. An external IT assurance function is in the design phase and external reports generated will be submitted to the audit committee.
7.3: Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management. *16.Internal audit should provide a written assessment of the effectiveness of the system of internal controls and risk management to the board. The assessment regarding internal financial controls should be reported specifically to the audit committee.*	A written assessment from internal audit on Steinhoff's risk management, internal control and internal financial control systems is in process and will be submitted to the board and to the audit committee.
8.1: The board should appreciate that stakeholders' perceptions affect a company's reputation. *2. The gap between stakeholders' perceptions and the performance of the company should be managed and measured to enhance or protect corporate reputation and to avoid damage or destruction by company actions.*	It is the current practice at Steinhoff that the relationship between stakeholders (other than shareholders) and the company is managed and monitored at divisional level and reported on at board level, as this has been proven to be the most effective way of ensuring that long-standing relationships are built and maintained. There is no unified formal engagement model for stakeholders (other than shareholders) at group level, as this is not considered practical, given the diversity of the group's operations and its wide geographical spread. Shareholder perceptions are managed at group level. The measurement of the gap between stakeholder perceptions and company performance is a new and emerging area for governance and reporting. This will be considered as part of a review of stakeholder engagement methodology to be undertaken.
9.3: Sustainability reporting and disclosure should be independently assured. *17. A formal process of assurance with regard to sustainability reporting should be obtained.*	The responsibility for review and approval of the full integrated report currently rests with the audit committee. A combined assurance model, incorporating independent assurance on material sustainability issues, will be developed.

As is more fully detailed in this report and with the exception of the items listed above, for which explanations have been provided, the company has applied the principles of King III.

The board

Board charter

The board strives to provide the appropriate leadership, strategic oversight and control environment to produce the delivery of value to the group's stakeholders in a sustainable and ethical manner, whilst acting in the best interests of the company.

The detailed responsibilities of the board are set out in a formal board charter. The charter, which forms the basis of the board's responsibilities and duties, was updated in 2010 and will be reviewed again during the next reporting period. The charter sets out the powers of the board and provides a clear division of responsibilities and the accountability of board members, both collectively and individually.

The responsibilities of the board, as detailed in the charter, include responsibility for:

- determining the strategy for the group and approving the operating plans presented by management for the achievement of the group's strategic objectives;
- ensuring the efficient utilisation of Steinhoff International's resources for the achievement of these objectives;
- setting levels of authority and determining procedures, both at group and regional level, for approving capital and investment expenditure;
- considering, and where appropriate, approving major capital expenditure programmes together with significant acquisitions and disposals;
- reviewing, on a regular basis, the strategic direction of investment decisions and performance against approved plans, budgets and best- practice standards;
- determining policies and processes to ensure the integrity of the group's risk management processes, internal controls, communication and reporting;
- monitoring and evaluating the company's performance against approved budgets and against prevailing and forecast economic conditions;
- assuming ultimate responsibility for regulatory compliance, including but not limited to, compliance with environmental legislation;
- subject to shareholder approval, selecting and appointing directors on the recommendation of the nomination committee; and
- with the assistance of the nomination committee and the human resources and remuneration committee, reviewing and considering structured management succession planning for purposes of identifying, developing and advancing future leaders in the group.

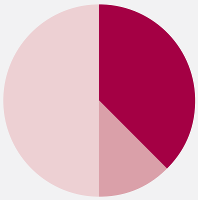
Although the board has delegated certain powers to executive management, the board remains ultimately responsible for the retention of full and effective control over the group. Decisions on material matters are reserved by the board including, but not limited to, decisions on capital expenditure, procurement, property transactions, borrowings and investments other than at pre-approved materiality levels.

Composition

Details of the board of directors, including brief curricula vitae of each director, are given on pages 23 and 25 of the integrated report.

The board is currently comprised of 16 directors, with six executive directors and 10 non-executive directors, eight of whom are independent non-executive directors. There are five alternate directors. The composition of the board is in line with King III which requires the majority of directors to be non-executive and the majority of non-executive directors to be independent.

Directors split



Executive directors	**37.5%**
Non-executive directors	**12.5%**
Independent non-executive directors	**50.0%**

No individual director has unfettered powers of decision-making and there is a clear division of responsibilities at board level to ensure an appropriate balance of power and authority.

Terms of office of non-executive directors are subject to three year rotations and age restriction provisions. Executive directors are appointed for terms of office not exceeding five years, subject to the company's general conditions of service.

Chairman and the chief executive

The chairman of the board is Dr Deenadayalen (Len) Konar, an independent non-executive director. The chief executive is Markus Jooste.

The roles of the chairman and the chief executive have been formally defined and have been separated. The chief executive is appointed by the board.

The chairman is responsible for leadership of the board and for ensuring that the board plays an effective role. As an integral part of his responsibilities, he also facilitates appropriate communication with shareholders and constructive relations between the executive and non-executive directors. The principal role of the chief executive has been defined as the provision of leadership to the executive team in managing the group's businesses.

Appointment requirements

Directors are appointed on the basis of skill, acumen, experience and on their actual or potential level of contribution to the group, bringing impartial and objective viewpoints to the board's decision-making processes and to the group's standards of conduct Non-executive directors are required to dedicate sufficient time to the affairs of the board and may serve on other boards provided that they continue to demonstrate that such other directorships have not, or will not, impede the discharge of their duties to the Steinhoff International board but rather add value by bringing a broader dimension to board deliberations.

Steinhoff International's directors collectively possess a wide range of business-related expertise as well as significant experience in financial, commercial, retail, logistics, timber and related raw material activities and in the furniture industry.

The directors, in fulfilling their duties, assist the group to:

- manage the risks that threaten its ability to provide sustainable long-term benefits to its stakeholders;
- support the people who rely on its businesses and business practices; and
- decrease the group's impact on the environment

and to realise the strategic priorities of the board, which are focused on:

- revenue growth to support the group's ability to provide long-term benefits to stakeholders; and
- the maintenance and enhancement of efficiencies within the group's businesses, to provide a competitive edge.

The board is satisfied that the chairman and each of the directors, in their respective roles, comply with the appointment criteria and are able to bring significant influence to bear to board and committee deliberations. Collectively, the board is required to provide direction to enable the group to reach its strategic goals, taking into account risks identified and opportunities presented, including economic uncertainty, furniture industry consolidation, growth in e-commerce/cross channelling, growth in emerging markets, competition, supply chain management, scale benefits, sustainable supply and the price of raw materials, centralised sourcing operations, logistics operations, consumer demand and changing consumer, ethical and environmental focus areas.

Appointment process

Directors are appointed through a formal process which includes background checks. Appointments to the board and proposals for re-election to the board are recommended by the nomination committee and are considered by the board as a whole. Proposals for re-election to the board are also considered by the nomination committee, after the annual board performance evaluations have been completed. All director appointments are subject to shareholder approval/ratification.

The memorandum of incorporation of the company provides that, at every annual general meeting, at least one-third of the non-executive directors shall retire from the board by rotation. If eligible, such directors may offer themselves for re-election.

At the annual general meeting of shareholders to be held on 5 December 2011, shareholders will be asked to confirm the re-appointment of the following non-executive directors who will retire by rotation in accordance with the company's memorandum of incorporation and who, being eligible, have offered themselves for re-election:

Mr David (Dave) Charles Brink*
Mr Johannes (Jannie) Fredericus Mouton
Dr Franklin Sonn*, and
Mr Bruno Ewald Steinhoff*

* The company's memorandum of incorporation requires that directors who have reached the age of 71 and who are seeking re-election, shall offer themselves for re-election at every subsequent annual general meeting. The retirement age for directors is 76.

In addition, shareholders will be asked to ratify the appointments of Mr Paul van den Bosch as a non-executive director with effect from 10 December 2010 and Dr Marthinus Theunis (Theunie) Lategan as an independent non-executive director with effect from 23 September 2011.

The memorandum of incorporation of the company allows the board to remove any director by written resolution, signed by all that director's co-directors, without the requirement to obtain shareholder approval.

Non-executive directors: Classification

Dr Stefanus (Steve) Francois Booysen, Mr Dave Brink, Ms Yolanda Zoleka Cuba, Mr Claas Edmund Daun, Dr Deenadayalen (Len) Konar, Dr Theunie Lategan, Mr Jannie Mouton, and Dr Franklin Sonn are classified as independent non-executive directors in accordance with the classification specifications contained in King III. Mr Bruno Ewald Steinhoff and Mr Paul van den Bosch are classified as non-executive directors.

The board has satisfied itself that the directors classified as independent non-executive directors are independent in character and judgment and that there are no relationships or circumstances which are likely to affect, or could appear to affect, their independence. (Please see the section below on progressive renewal of the board in respect of the independence of those directors who have served for longer than nine years).

Progressive renewal of the board

The board has rigorously reviewed the independence of Dr Len Konar, Dr Franklin Sonn, Mr Jannie Mouton and Mr Claas Daun, all of whom have served as independent non-executive directors for more than nine years, and has determined that each of these directors, who serve on other boards and have commitments and interests outside of the Steinhoff group, remains independent in character and judgment and that there are no relationships or circumstances which are likely to affect or which could appear to affect their judgment or independence of character and has determined that the length of service of these directors has not compromised, nor could be held to have compromised, their independence.

It has further been determined that the outside directorships and interest of these directors have not impeded these directors in the fulfilment of their duties to the board, but have assisted in bringing balanced input to board discussions.

Dr Len Konar and Mr Claas Daun joined the board in 1998 and Dr Franklin Sonn and Mr Jannie Mouton joined the board in 2002. The board considers that each of these directors brings integrity, wisdom and experience to the board and that the individual contributions made by these directors have played, and continue to play, a valuable role in shaping the group's growth.

The new board appointments made during the period under review serve to further strengthen the balance between new and long-serving directors.

Lead independent non-executive director

The board has appointed Mr Dave Brink as the lead independent non-executive director. He serves as an additional contact point for shareholders and is also available to fellow non-executive directors, either collectively or individually, to allow for discussion on any matters that may be of concern, in a forum that does not include executive directors or management of the company.

Executive directors: Retirement/ Appointments

Mr Ian Michael Topping retired from the board on 10 December 2010.

On 30 May 2011, Mr Thierry Louis Joseph Guibert was appointed to the board and Ms Mariza Nel was appointed as an alternate director. Shareholders will be asked to ratify these appointments at the forthcoming annual general meeting.

Financial director

The Financial Director of the company is Mr Fredrik (Frikkie) Johannes Nel. A review of this function was undertaken at the audit committee meeting held on 2 September 2011 and the board and audit committee are satisfied that Mr Nel possesses the appropriate experience and qualifications for this position.

Succession planning

The nomination committee evaluates the pool of skills, knowledge and experience on the board and identifies the role and capabilities required for individual board appointments. The committee makes appointment recommendations to the board, including recommendations for appointments to the committees of the board. Appointments to the audit committee and to the board are subject to shareholder approval. Care is taken to ensure that board candidates identified would have sufficient time available to devote to the interests of Steinhoff International. The committee makes recommendations to the board as appropriate concerning:

- plans for succession for both executive and non-executive directors;
- the appointment or proposed re-election of any director;
- the appointment of any director as an executive or officer of the company;
- the renewal of terms of office of any non-executive director;
- in consultation with the chairman and the relevant committee chairmen, candidates for
- membership of the board committees; and
- any matters relating to the continuation in office of any director at any time.

There is a formal process in place for the succession of the chairman.

Board meetings and attendance

The board meets at least four times a year or more often should circumstances require. Non-executive directors are afforded the opportunity at each meeting to meet without the executive directors being present.

Directors declare their interests in contracts and other appointments at all board meetings. Meetings are conducted according to a formal agenda, ensuring that the board properly addresses and follows up on all substantive matters.

The following table indicates the attendance by each director at meetings of the Steinhoff International board held during the period under review.

	7 September 2010	6 December 2010	1 March 2011	30 May 2011
SF (Steve) Booysen	✓	✓	✓	✓
DC (Dave) Brink[#]	✓	✓	✓	✓
YZ (Yolanda) Cuba	Apology	Apology	✓	✓
CE (Claas) Daun	✓	✓	✓	✓
HJK (Piet) Ferreira	✓	✓	✓	✓
SJ (Stéhan) Grobler	✓	✓	✓	✓
TLJ (Thierry) Guibert[+]	–	–	✓ *(Attended as an invitee)*	✓ *(Attended as an invitee)*
MJ (Markus) Jooste	✓	✓	✓	✓
D (Len) Konar (Chairman)	✓	✓	✓	✓
MT (Theunie) Lategan**	–	–	–	–
JF (Jannie) Mouton	✓	✓	✓	✓
FJ (Frikkie) Nel	✓	✓	✓	✓
FA (Franklin) Sonn	✓	✓	✓	✓
BE (Bruno) Steinhoff	✓	✓	✓	✓
IM (Ian) Topping*	✓	Apology	–	–
PDJ (Paul) van den Bosch[x]	–	✓ *(Attended as an invitee)*	✓	✓
DM (Danie) van der Merwe	✓	✓	✓	✓
JNS (Johann) du Plessis (Alternate)	✓	✓	✓	✓
KJ (Jo) Grové (Alternate)	✓	✓	✓	✓
A (Angela) Krüger-Steinhoff (Alternate)	✓	✓	✓	✓
AB (Ben) la Grange (Alternate)	✓	✓	✓	✓
M (Mariza) Nel[‡] (Alternate)	✓ *(Attended as an invitee)*	–	✓ *(Attended as an invitee)*	✓ *(Attended as an invitee)*

[#] Lead independent non-executive director
[+] Appointed executive director 30 May 2011
** Appointed non-executive director, effective 23 September 2011 (post-year-end)
* Resigned effective 10 December 2010
[x] Appointed non-executive director 10 December 2010
[‡] Appointed alternate director 30 May 2011

Meetings without the executive directors

Non-executive directors hold formal sessions on an annual basis, chaired by the chairman, without the executive directors present. These sessions provide a useful forum for the free exchange of information or concerns.

Director induction and development

On induction, directors are provided with guidelines on their duties. A formal induction programme has been established, with particular emphasis on risk and internal controls, and serves to familiarise new directors with the group's businesses, competitive stance, strategic plans and objectives and its compliance and corporate governance requirements and control systems.

The induction programme includes meetings with other directors and senior group executives to enable new directors to receive information on and familiarise themselves with all aspects of the group's businesses. Opportunities to update and develop skills and knowledge, through internally and externally run seminars, management forums, regular circulation of relevant industry, regulatory and economic news and analysis, as well as briefings by senior executives, are afforded to all directors.

Directors' access to management/ information

All directors have unrestricted access to management, including the company secretary, the legal department and the group risk manager/compliance manager. They also have access to information required to enable them to carry out their duties and responsibilities fully and effectively. Independent professional advice is available in appropriate circumstances and at the company's expense. During the year under review, none of the directors sought independent external advice through the company.

Directors are apprised, where relevant, of any changing commercial risks that may affect the group's affairs and operations, together with any new legislation, additional corporate governance requirements and technical developments. Through independent site visits and meetings with senior management and/or other directors, directors are encouraged to stay abreast of developments that could affect the group's businesses.

Board and committee evaluations

An annual self-evaluation process to review the effectiveness of the board, the individual directors and the board committees is in place. The chairman is required to assess the performance of the individual board members and the board is required to assess the performance of the chairman. The board has satisfied itself as to the performance of the individual directors, the board and its committees. This evaluation process forms an invaluable tool in ensuring the ongoing effectiveness of the board as a whole and in assessing the individual performance and contribution of the directors.

All related board and committee minutes and approvals are made available to the group's external auditors.

Assessments take into account several key factors, including relevant expertise, enquiring attitude, objectivity and independence, judgement, commitment and an understanding of the group's businesses.

The results of the evaluations are reviewed in full and assessed by the board and any deficiencies identified are addressed. Should this be required, additional training is provided. Following the review of the self-evaluations conducted this year, the board is satisfied that continuous progress is being made in improving the effectiveness of the board and that the chairman and all board members continue to making valuable contributions to board affairs.

Directors’ remuneration

Governance of directors’ remuneration is undertaken by the human resources and remuneration committee. The responsibility for ensuring that the directors and executives are fairly and responsibly remunerated has been formally delegated to this committee.

Details of the responsibilities and approach of the committee in fulfilling these responsibilities are given in the remuneration report on page 94 of the integrated report.

Directors’ fees for both executive and non-executive directors are submitted in advance for approval by shareholders at each annual general meeting.

The remuneration and fees paid to directors for the period under review and on share rights granted are detailed in note 40 in the annual financial statements.

Executive directors’ remuneration

Remuneration for executive directors consists of a basic salary, a performance-related incentive bonus, retirement contributions, medical scheme membership and participation in long-term incentive schemes, together with fees earned for services on the board of Steinhoff International.

Non-executive directors’ remuneration

Non-executive directors receive an annual fee for their board participation. The fee consists of a base fee and retainer and, where applicable, committee membership fees together with all reasonable travelling and accommodation expenses to attend board and committee meetings.

To avoid a conflict of interest, the human resources and remuneration committee, which consists entirely of non-executive directors, takes no part in the determination of non-executive directors’ fees or in the recommendation of such fees for approval at the annual general meeting. These fees are reviewed and recommended by the board, taking due cognisance of fees paid to non-executive directors of comparable companies and of the necessity to attract and retain high-calibre non-executive directors possessing the requisite skills and experience. Independent advice from specialist human resource consultants is acquired to assist with the review of non-executive directors’ remuneration. Remuneration is not linked to the company’s share-price or performance, but is based on market relativities and the responsibilities assumed in chairing the board and in chairing or participating in board committees.

The independent non-executive directors do not have service contracts and are not members of the group’s retirement funding schemes. There are no shares or options under the group’s share incentive schemes held by non-executive directors.

Board committees

The board has delegated certain responsibilities to a number of standing committees to assist with its duties. The committee mandates are reviewed annually and are amended where required.

1. Executive committee

Members	Purpose	Composition	Meetings
Markus Jooste (chairman) Johann du Plessis Piet Ferreira Stéhan Grobler Jo Grové Ben la Grange Mariza Nel Frikkie Nel Hein Odendaal Danie van der Merwe Gavin van der Merwe Sean Summers	Responsible for assisting and advising the chief executive in implementing the strategies and policies determined by the board, managing the business and affairs of the company, prioritising the allocation of capital, technical and human resources and establishing best management practices. Monitors the performance of the company and assists the chief executive and financial officers in preparing the annual budget for review and approval by the board. Responsible for reviewing and monitoring the company's system of internal control. Reviews merger and acquisition opportunities.	Comprises 12 executives under the chairmanship of the chief executive, Markus Jooste. The chairman of the board, Len Konar, and Bruno Steinhoff as well as various members of the executive team, designated staff members and divisional directors regularly attend these meetings as invitees.	Meets regularly, approximately every three weeks and formally each month with senior executive management, designated staff members and divisional directors. **Attendance** The members of the executive committee attended all eight meetings of the committee held between July 2010 and June 2011.

2. Audit committee

Subject to shareholder approval and taking into account the recommendations of the nomination committee, the board is responsible for filling vacancies on the audit committee. As the audit committee is a statutory committee under the Companies Act 2008, and in terms of the recommendations set out in King III, shareholders will be requested to elect the members of the committee at the annual general meeting to be held on 5 December 2011.

Audit committee members are kept up to date with the skill-set required for committee membership. The committee and/or individual committee members are permitted to consult with specialists in any related field, subject to board approval.

The board elects the chairman of the committee and the chairman participates in setting and agreeing the agendas for committee meetings.

The audit committee has the responsibility of reviewing the finance function and has satisfied itself as to the expertise, resources and experience of the company's finance function. It is also the responsibility of the committee to appoint and review the performance of the chief internal audit executives and, should this be required, the committee has the power of dismissal.

Members	Purpose	Composition	Meetings
Steve Booysen (chairman) Dave Brink Theunie Lategan* Len Konar** Post-year-end changes: * Appointed 23 September 2011 ** Resigned 23 September 2011	Responsible for the integrity of financial reporting, including annual financial statements, interim results and summarised integrated information, and for the audit process. Responsible for ensuring that risk management and internal control systems are maintained. Considers significant risk and control issues arising from the financial officers' reports on financial and accounting frameworks, including tax-related matters. Reviews and monitors capital expenditure throughout the group for adequate control, monitoring and reporting. Oversees relations with external auditors and external service providers and reviews the effectiveness of the internal audit function and co-operation between parties. Approves the internal audit plan.	Comprises three members, all of whom are independent non-executive directors, under the chairmanship of the independent, non-executive director, Steve Booysen.	Meets formally at least four times per annum, with external auditors and the chief internal auditor(s) attending the meetings. **Attendance** There was full attendance by serving committee members during the year. Four committee meetings were held during the year.

2. Audit committee continued

Members	Purpose (continued)	Composition	Meetings
Steve Booysen (chairman) Dave Brink Theunie Lategan* Len Konar** Post year end changes: * Appointed 23 September 2011 ** Resigned 23 September 2011	Recommends the external auditors' appointment and approves the terms of engagement, fees, scope of work, process of annual audit, applicable levels of materiality and reviews the independence of external auditors and the services they provide. Responsible for overall compliance with corporate governance principles regarding external audit functions. Monitors the internal control and audit functions both of which report to and have unrestricted access to the committee). Facilitates and promotes communication between the board, management, the external auditors and the chief internal auditors and receives and deals with any complaints, relating either to the accounting practices and internal audit of the group, or to the content or auditing of its financial statements, or any other related matters. Reviews and recommends the integrated report, including reports on sustainability issues, for approval by the board. Oversees all group information technology (IT) risks.	Comprises three members, all of whom are independent non-executive directors, under the chairmanship of the independent, non-executive director, Steve Booysen.	Meets formally at least four times per annum, with external auditors and the chief internal auditor(s) attending the meetings. **Attendance** There was full attendance by serving committee members during the year. Four committee meetings were held during the year.

3. Human resources and remuneration committee

The remuneration policy of the company will be submitted to shareholders for approval at the annual general meeting to be held on 5 December 2011.

Members	Purpose	Composition	Meetings
Dave Brink (chairman) Len Konar Franklin Sonn	Fulfils delegated responsibilities on Steinhoff's share-based incentive plans, e.g. appointing trustees and compliance officers. Approves the appointments and promotions of key executives. Reviews incidents (if any) of unethical behaviour by senior managers and the chief executive. Reviews annually the company's code of ethics. Reviews annually the remuneration committee's charter and recommends amendments as required. Determines and approves the group's general remuneration policy, which must be presented at each annual general meeting for a non-binding advisory vote by shareholders. Reviews and approves annually the remuneration packages of the most senior executives, including inventive schemes and increases, ensuring they are appropriate and in line with the remuneration policy. Annually appraises the performance of the chief executive. Approves amendments to the Steinhoff share-based incentive plans, after consultation with shareholders, and the JSE Limited.	Comprises three independent non-executive directors under the chairmanship of the lead independent non-executive director, Dave Brink. Divisional remuneration committees have been established to deal with management remuneration at all divisions. These committees are comprised of the regional chief executive, the divisional managing director and the group's human resource executive. The divisional committees report directly to the human resources and remuneration committee.	Meets at least twice a year with ad hoc meetings convened as and when required. **Attendance** There was full attendance by serving committee members during the year, other than at the meeting held on 23 September 2010, for which apologies were accepted from Franklin Sonn.

3. Human resources and remuneration committee continued

Members	Purpose (continued)	Composition	Meetings
Dave Brink (chairman) Len Konar Franklin Sonn	Undertakes an annual assessment of the effectiveness of the committee, reporting these findings to the board and the committee. Annually reviews the charters of the group's significant subsidiaries' remuneration committees, and their annual assessment of compliance with these charters to establish if the Steinhoff remuneration committee can rely on the work of the subsidiary companies' committees. Prepares an annual remuneration report for inclusion in the company's integrated annual report.	Comprises three independent non-executive directors under the chairmanship of the lead independent non-executive director, Dave Brink. Divisional remuneration committees have been established to deal with management remuneration at all divisions. These committees are comprised of the regional chief executive, the divisional managing director and the group's human resource executive. The divisional committees report directly to the human resources and remuneration committee.	Meets at least twice a year with ad hoc meetings convened as and when required. **Attendance** There was full attendance by serving committee members during the year, other than at the meeting held on 23 September 2010, for which apologies were accepted from Franklin Sonn.

4. Nomination committee

Members	Purpose	Composition	Meetings
Len Konar (chairman) Franklin Sonn	Makes recommendations to the board on the appointment of executive and non-executive directors, having due regard to input received from the board, on re-election to the board and on the composition of the board and its committees.	Comprises two independent non-executive directors, under the chairmanship of Len Konar.	Meets at least once a year. **Attendance** Both committee members attended the meeting held during the year.

5. Group risk advisory committee

Members	Purpose	Composition	Meetings
Steve Booysen (chairman) Dave Brink Yolanda Cuba Claas Daun Len Konar Theunie Lategan * Jannie Mouton Franklin Sonn Angela Krüger-Steinhoff (alternate) Bruno Steinhoff Paul van den Bosch ** **Appointed 10 December 2010 Post year-end change * Appointed 23 September 2011	Assists the board in reviewing risk management processes and significant risks facing the group. Sets the group's risk strategy in consultation with executive directors and senior management, making use of generally recognised risk management and internal control frameworks. Monitors and reports on key performance indicators and risks.	Comprises eight independent non-executive directors, two non-executive directors and one non-executive alternate director, under the chairmanship of Steve Booysen.	Meets at least twice a year. **Attendance** There was full attendance by serving committee members during the year, other than at the meetings held on 7 September 2010 and 6 December 2010, for which apologies were accepted from Yolanda Cuba.

6. Social and ethics committee

The establishment of a social and ethics committee is a requirement under the Companies Act 71 of 2008 (the Act). At the board meeting held on 3 September 2011, a social and ethics committee was formed and Dr Len Konar, Mr Stéhan Grobler, Mr Themba Siyolo and Ms Mariza Nel were appointed to the committee. Prior to this, the functions that now fall under the committee were dealt with via various divisional and committee structures.

Accountability

The chief executive (CE) is responsible for and accountable to the board for all group operations. As the group operates on a decentralised basis, regional/divisional managing directors (MDs) and/or CEs of the main operating divisions have been appointed to assist the CE in discharging this responsibility. The duties and responsibilities of the MDs are detailed in formal role descriptions, together with prescribed limits of authority. These duties and responsibilities are reviewed annually by the CE.

Principally, the group is managed within an organisational structure that distinguishes between the northern hemisphere and the southern hemisphere.

Within the Steinhoff Africa/Pacific Rim and the Steinhoff Europe regions, each underlying division has its own operational, IT, marketing, environmental, health, safety and social responsibility budgets. Policies are set at divisional level, subject to overall guidelines set by the group and to standing group policies. Each division is accountable for its own results and responds independently to customer needs, pricing policies, and environmental and social responsibility requirements, subject to the relevant group policies.

Although the board has delegated certain powers and authorities to executive management, the ultimate responsibility for retaining full and effective control of the group rests with the board.

Company secretary

The Steinhoff International company secretary is appointed and removed by the board.

All directors have access to the advice and services of the company secretary, supported by the legal department. The company secretary is responsible for the duties set out in section 88 of the Act and for ensuring compliance with the listings requirements of the JSE Limited. The certificate required to be signed in terms of Section 88 (2) (e) of the Act appears on page 6 of the annual financial statements.

The company secretary is responsible for the duties set out in Section 88 of the Act and for assuring compliance with the listings requirements of the JSE Limited. Other secretarial duties include:

- preparing and circulating minutes of board and committee meetings;
- fulfilling the role of company secretary of the nominations committee and assisting the committee with the appointment of directors;
- ensuring that board and committee charters and mandates are kept up to date;
- eliciting responses/ensuring follow-up action from board and board committee meetings;
- drafting yearly meetings' timetables ;
- assisting with the evaluation of board committees and individual directors;
- providing induction manuals to new directors and assisting with the training and ongoing development of directors; and
- ensuring that all stock exchange news service (SENS) announcements are properly and timeously made.

During the period under review, the position of company secretary was held by Mr Stéhan Grobler. Stéhan relinquished his position as company secretary on 23 September 2011. Stéhan's directorship on the board and his responsibilities to the group remain unchanged. During the period of his service as company secretary, the board was satisfied that Stéhan was appropriately experienced and qualified to hold that office.

With effect from 23 September 2011, Steinhoff Africa Secretarial Services (Pty) Ltd was appointed as company secretary. The board is satisfied that the directors of this company are appropriately qualified and competent to fulfil this function.

Remuneration

Steinhoff's remuneration policy is to reward all employees fairly for their individual and joint contributions in the execution of its business strategy and delivery of the group's operating and financial performance. Our remuneration philosophy is to remunerate all employees in a competitive manner to attract, motivate and retain individuals of the necessary calibre.

Full details of the group's remuneration policy, for which approval will be sought at the annual general meeting of shareholders to be held on 5 December 2011, are available in the remuneration report on page 94 of the integrated report.

Share schemes

Steinhoff share incentive schemes

Previously, the company operated share incentives schemes for senior executive and management staff, under which the remuneration committee granted rights which reflected a multiple of the executive directors' remuneration. Broad-based rights were granted, subject to time limits and clearly measurable performance criteria. These criteria were set in 2003, in respect of grants issued from 2003 to 2009, as Steinhoff International achieved a compound growth in headline earnings per share over the relevant three-year period equal to or exceeding the weighted average growth of the companies included on the JSE Indi 25 Index and as the volume-weighted average traded share price of Steinhoff International shares equalling or exceeding a formula-driven share price based on the JSE Indi 25 Index and the Steinhoff International share price.

Outstanding share rights

In 2007, a total of 9 506 874 rights were granted to participants for the three completed financial years commencing on 1 July 2007 (the 2007 allocation), In 2008, a total of 15 525 000 rights were granted to participants for the three completed financial years commencing 1 July 2008 and, in 2009, a total of 22 775 000 rights were granted to participants for the three completed financial years commencing 1 July 2009 and in 2010 a total of 10 770 568 rights were granted to participants in respect of the three completed financial years commencing 1 July 2010. The share rights in respect of the 2007 allocation did not meet the market-related performance hurdles and accordingly this allocation lapsed in 2010.

(The schemes referred to above are collectively referred below to as 'The Prior Share-based Schemes').

At the annual general meeting of shareholders held on 6 December 2010, shareholders approved the granting of rights and the subsequent allotment and issue of shares, at nominal value, in terms of a new executive share incentive scheme, namely the Steinhoff International Holdings Limited Executive Share Rights Scheme ('The New Share-based Scheme'). The number of participants under this scheme was reduced from in excess of 400 employees to a small number of key employees at senior executive level. The New Share-based Scheme, which accords with schedule 14 of the listings requirements of the JSE Limited, was introduced to:

- incentivise those executives who are key to driving the business strategy.
- retain key executive talent/scarce skills; and
- align with the company's talent management strategy and succession plans.

Targets are set with reference to industry and market benchmark performance. Benchmarks are determined annually by measuring operational performance against that of peer group companies (in comparable industries and markets) in local currencies. Benchmark performance criteria are aligned with the group's long-term strategic priorities.

As detailed in note 24.7 to the annual financial statements, the number of shares reserved for the New Share-based Scheme is less than 10% of the current issued and reserved share capital and the company has undertaken to ensure that the total rights outstanding at any time in respect of the New Share-based Scheme will not exceed 10% of the company's issued and reserved share capital.

The salient features of the New Share-based Scheme, as detailed in the notice to shareholders dated 4 November 2011 of the annual general meeting to be held on 5 December 2011, are:

- the rights will only be granted to senior executives who exercise a material influence on the performance on the group (the participants), as approved by a quorum of non-executive directors, who are members of the remuneration committee;
- the rights will be granted to qualifying participants on an annual basis and such rights will vest on the third anniversary of the grant date, provided the performance criteria set by the remuneration committee at the time of the grant have been achieved;
- the shares required for delivery when rights vest can either be allotted and issued by the company, or delivered by a subsidiary of the company, or the shares scheme trust may purchase such shares in the market to satisfy obligations in terms of the New Share-based Scheme. Shares will only be issued or purchased by the New Share-based Scheme once a participant or group of participants to whom they will be allocated, has been formally identified;
- 150 000 000 (one hundred and fifty million) unissued ordinary shares of 0.5 cents (one half of a cent) each in the company may be used for the implementation of the New Share-based Scheme;
- the rolling over of shares which have already been issued in terms of the scheme is prohibited. Therefore, the company will be required to obtain shareholder approval for a further reservation of shares should the number of shares reserved for the New Share-based Scheme be fully utilised;
- the maximum number of rights that may be held at any one time by any one participant will be 15 000 000 (fifteen million) rights;
- except if as approved by the remuneration committee and save for the reasons of termination set out below, the rights will lapse and cease to be of any force should any participants leave the employ of the group, save for:
  - death;
  - retirement (the rights will accrue pro rata in accordance with the period of time between the relevant grant dates and the retirement date provided a period of at least one year from the grant date has expired) and;
  - incapacity or disability;
- rights may not be assigned or transferred except on the death of a participant or with the prior approval of the remuneration committee;
- rights do not confer on participants any shareholder rights, for example the right to vote or receive dividends, until the reserved shares are allotted and issued, whereupon they will rank pari passu in all respects with the issued shares of the company;
- in the event that the company is taken over, delisted or becomes the subject matter of a merger which results in the listing of the shares being suspended or terminated (the corporate action), the expiry of the three-year period applicable to all unvested rights will then automatically coincide with the effective date of such corporate action and the rights will be adjusted on a time-weighted basis and exchanged for equivalent valued rights in Steinhoff's successor (as determined and approved by the remuneration committee where necessary), provided that the relevant performance criteria set by the remuneration committee at the time of the grant have been duly achieved up to the effective date of the corporate action;

- in the event of the company undertaking or effecting a subdivision or consolidation of shares, reduction of capital or the like, the number of rights granted to participants (in respect of which the shares have as yet not been allotted or issued) will be adjusted to ensure a participant's entitlement to the same proportion of equity capital as that to which the participant was entitled previously, provided that:
  - the issue of securities by the company as consideration for an acquisition, or the issue of securities by the company for cash will not be regarded as a circumstance requiring adjustment;
  - the capitalisation issue of shares by the company, will not be regarded as a circumstance requiring adjustment;
  - such adjustments are to be confirmed by the company's auditors as having been calculated on a reasonable basis and as being in accordance with the provisions of the scheme, and the JSE is to be provided with such confirmation;
- such adjustments are to be reported on in the company's annual financial statements in the year during which same is made;
- any shares reserved as a result of rights granted will revert back to the New Share-based Scheme if such shares are not issued or reallocated to the identified participant/s as a result of, for example, forfeiture or lapsing of rights;
- the reserved shares will be allotted and issued and/or delivered on the third anniversary of each annual grant, provided that the performance criteria set by the remuneration committee at or about the time of the grant date, have been achieved; and
- in the event of the performance criteria not being satisfied by the third anniversary of the relevant annual grant, all rights attaching to that particular grant will lapse.

Unitrans Share Incentive Scheme

Following the acquisition by the group on 8 May 2007 of the businesses of Unitrans Limited (Unitrans), the rights of participants to receive shares in Unitrans in terms of the Unitrans Limited Share Scheme and rights over shares in terms of the Unitrans Executive Share Rights Scheme, were amended. Participants in these schemes received shares or rights, as appropriate, over shares in Steinhoff International.

The terms and conditions of these schemes, including vesting periods and performance hurdles, remained unchanged save that the beneficiaries became entitled to shares or rights over shares in Steinhoff International, as opposed to shares or rights over shares in Unitrans. No further allocations have been made under the Unitrans Limited Share Scheme. The Unitrans Limited Executive Share Rights Scheme, which was introduced from December 2005 and under which rights vested after three years subject to the meeting of the specified performance hurdles applicable to the Steinhoff Executive Share Rights Scheme, was integrated in 2007 into the Steinhoff Executive Share Rights Scheme (the Prior Share-based Schemes). The 2005 and 2006 allocations did not meet the prescribed criteria and the rights granted to participants under these allocations accordingly lapsed.

The following options/rights over shares in Steinhoff International were outstanding in respect of the Unitrans Limited Share Scheme as at 30 June 2011:

	2011	2010
Unitrans Limited Share Scheme	**1 582 900**	2 157 150

Longer-term Incentive Scheme

It is intended that the remainder of the participants, who had previously participated under the Prior Share-based Schemes, will now participate in a Longer-term Incentive Scheme (the LTI Scheme). The LTI Scheme will be aligned with the New Share-based Scheme, but will be settled in cash with performance criteria of PBIT and cash at the relevant business unit level, measurable cumulatively over a three-year period.

Employee share ownership plan/ Management share ownership plan

Steinhoff has recognised the importance of affording all of its African employees an opportunity to participate in the success of its business. Details of the employee share participation scheme that effectively empowers 10 000 South African Steinhoff employees, the majority of whom are black, and of the management trust established to retain and attract black managerial staff are contained in the full corporate responsibility report published on our website www.steinhoffinternational.com

Reporting

Divisional management reporting disciplines include defined parameters for the reporting of litigation matters, compliance with legislation and any penalties incurred, risk analyses (including operational, strategic and information technology risks).

Management reporting

Management reporting disciplines include the preparation of annual budgets by the operating entities. These budgets are reviewed by the board and are subject to final board approval. Monthly results and the financial status of the group's operating entities are reported against the approved budgets.

Profit projections and cash flow forecasts are reviewed regularly and working capital and borrowing levels are continuously monitored.

The performance of each operating entity is reported on and reviewed on a quarterly basis at divisional and regional level and consolidated reports are submitted quarterly to the Steinhoff board.

Divisional management is additionally charged with the duty of reporting on risks and opportunities, compliance, social, ethical and environmental concerns. Risk reports are reviewed by the divisional and regional boards and the major risks identified are reviewed at main board level. Environmental concerns are reported on in the corporate responsibility section of the integrated report. Should there be any significant items of concern, these are reported through to the regional board or, if material, to the main board.

Financial control and reporting

The directors are responsible for ensuring that the group companies maintain adequate records and for reasonable, accurate, timeous and reliable reporting on the financial position of the group and on the results of its activities. To assist the directors to effectively discharge this duty, financial reporting procedures have been put in place at all levels across the group.

Financial and other information is constantly reviewed and any corrective action required is taken immediately.

The financial statements are prepared in accordance with International Reporting Standards.

Internal control and risk management

A revised COSO-based enterprisewide risk management policy and framework, to facilitate the timeous identification, measurement, analysis and evaluation of risks, was approved in May 2011 by the audit committee and the board and is being rolled out across the group. Each of the group's divisional and operational entities is required to have a risk management plan in place, together with an up-to-date risk register detailing, quantifying and prioritising risks, and containing details of plans and actions, both to mitigate risks and to exploit opportunities. The effectiveness of controls to manage the risks identified is evaluated by internal audit and is formally reported to the board.

This policy and framework have been designed to:

- increase the probability of attaining group objectives by assisting management to achieve group performance and probability targets and prevent loss of resources;
- align risk appetite and strategy (Management will consider the group's risk appetite in evaluating strategic alternatives, setting related objectives and developing mechanisms to manage related risks.);
- enhance risk response decisions (Management will be encouraged to identify and select alternative risk responses including risk avoidance, risk reduction, sharing and acceptance.);
- reduce operational surprises and losses (The capacity to identify potential events and establish responses, reducing surprises and associated costs or losses, is enhanced.);
- identify and manage multiple and cross-enterprise risks (Effective responses to interrelated impacts and integrated responses to multiple risks are facilitated.);
- capitalise on opportunities (By considering a full range of potential events, management is better positioned to identify and proactively realise opportunities.);
- improve the deployment of capital (Obtaining robust risk information allows management to effectively assess overall capital needs and enhance capital allocation.); and
- in general, assist divisional management to achieve the group's performance and profitability targets, identify and exploit opportunities, ensure compliance with laws and regulations, facilitate effective reporting and help to prevent any loss or misuse of resources.

The purpose of the policy and framework is to assist in developing and implementing an enterprisewide risk management system to manage the potential risks and unplanned events that could affect the group and provides a framework for building organisational capacity to effectively manage uncertainty and risk, safeguard stakeholder interests and ensure compliance with legal, regulatory and corporate governance requirements.

The group risk officer, assisted by divisional risk officers, is responsible for the implementation of the policy and framework across the group. Other operational managers have the responsibility to provide support for risk management, promote compliance within the scope of the group's risk appetite and to manage risks within their spheres of responsibility, consistent with their risk tolerances and the overall group appetite for risk. Internal audit, in consultation with the group risk officer, has the responsibility to formally review the overall effectiveness of the group risk management process and to report to the board.

The policy on enterprisewide risk management encompasses all significant business risks of the group, including but not limited to strategic, financial, operational, environmental, information technology-related, market, compliance and general risks.

The revised enterprisewide risk management policy and framework is still in the process of being implemented.

The board is ultimately accountable for the governance of risk management within the group and for ensuring compliance. At each board meeting the board monitors the adequacy and effectiveness of Steinhoff's risk management policies and procedures, reviews the significant risks identified and considers the possible exploitation of opportunities revealed. The executive team is responsible for implementing risk management strategy, for integrating risk and for embedding a risk management culture throughout the group.

The audit committee oversees group risk management and the role of internal audit is to examine, evaluate and report and make recommendations to the audit committee and the board regarding the adequacy and efficacy of the group's risk management process.

The board recognises that some elements of risk management can only be achieved on an integrated basis. For example as reported in the financial report section of the integrated report, financial risks such as exchange rate risk, interest rate risk, liquidity risk and commodity price risk are largely controlled centrally.

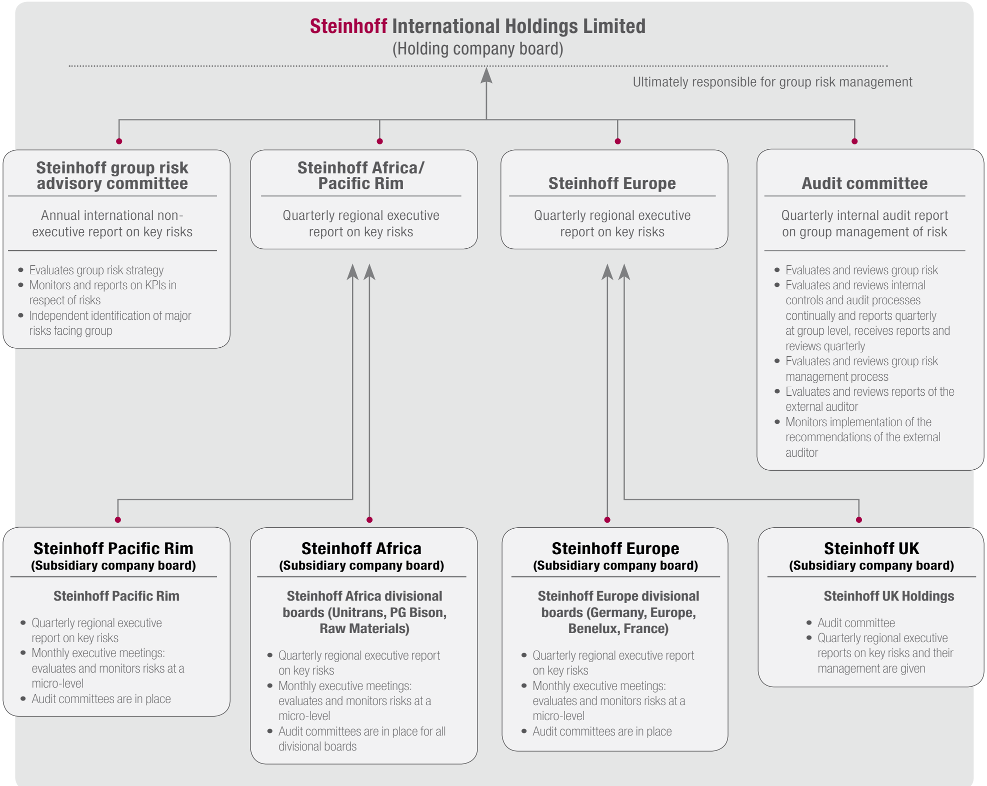
Information technology (IT) forms an integral part of the group's risk management approach. Reports and IT risk assessments from the divisional IT executives are tabled at the quarterly divisional board meetings and to the board, to enable the board to satisfy itself that there are appropriate structures, processes and mechanisms in place to enable IT to deliver value to the group's businesses and to mitigate IT risk. Internal audit assists the board in fulfilling this function and internal audit conducts IT audits during operational and divisional audits. Certain IT risks are audited on a co-sourced basis, utilising external resources.

There is a framework and process in place to anticipate unpredictable risks. The group risk advisory committee reviews and considers unpredictable risks identified by management.

A compliance function has been established at group level and is assisted by internal audit. The group compliance manager during the period under review was Mr CT Grové, who possesses the requisite qualifications and experience for this position. A group legal compliance policy has been approved by the policy review committee. The group compliance manager interacts regularly with the board, the board committees and management on strategic compliance matters. In the different regions in which the group operates, where necessary, external specialists are engaged to provide advice on local requirements. Through quarterly divisional compliance reports, the board monitors the group's compliance with applicable laws, regulations, codes and standards. It is group policy that compliance with all applicable laws, regulations, codes and standards is non-negotiable.

The ethics, risk management and compliance functions have been integrated at group level.

The group structure for the reporting of risks through to board level is as follows:



The board has confidence in the effectiveness of the group's overall risk management processes.

Internal control systems

The systems of internal control, which are embedded in all key operations, provide reasonable albeit not absolute assurance that the company's business objectives will be achieved within the risk tolerance levels defined by the board. The responsibility for ensuring the effectiveness of the group's systems of internal control rests with the board.

The internal control system adopted covers the following areas:

The control environment

The board has established a documented organisational structure with clearly defined and communicated lines of responsibility and delegation of authority to operating units. Policies and procedures have been established at both group and divisional level to foster a climate of sound corporate governance and control.

Main control procedures

The board has formally adopted a schedule of matters which it requires to be brought to it for consideration, ensuring that it maintains full and effective control over strategic, financial, organisational, ethical and compliance issues. The board has identified a number of key areas that require regular reporting to the board. These areas include, treasury, legal, environmental, IT and human resources related matters. Financial controls and procedures are in place and are documented. These controls include procedures for the approval of capital expenditure, major transactions and organisational changes, and the segregation of incompatible duties and controls to ensure the safeguarding of the group's assets.

Identification and evaluation of business risks and control objectives

The group's strategy on risk is to assume prudent risk, which is appropriately managed and mitigated, in exchange for measurable rewards. The board has the primary responsibility for identifying the major business risks facing the group and for developing appropriate policies to manage such risks. The risk management approach adopted is to focus the attention of directors on the group's most significant areas of risk and to determine key control objectives. This process is supported by group risk advisory services.

Monitoring

The board has delegated implementation of the group's systems of risk management and internal financial control to executive management. The operation of the systems is monitored and a programme of reviews, focusing on key aspects of the group's businesses is undertaken.

During the period under review, the board conducted an annual review of the operation and effectiveness of the group's system of internal financial control. Following this review and after making reasonable enquiries, the board believes that there were no weaknesses in the system that failed to bring any material losses or contingencies to the attention of the board during the period under review, or during the period from the end of the 2011 financial year to the date of the integrated report, except where specifically noted elsewhere in this report or in the financial statements.

The directors accept responsibility for maintaining appropriate internal control systems to ensure that the company's assets are safeguarded and managed, and that losses arising from fraud or other illegal acts are minimised. Control systems are constantly monitored and improved, in accordance with generally accepted best practice.

Information systems

The group undergoes a comprehensive annual planning and budgeting system and all divisional annual budgets are approved by the board. There is a financial reporting system which compares actual results achieved with monthly budgets, to identify any deviations from approved plans and to allow for swift corrective action to be taken.

Reports include a monthly cash flow analysis, projected for 12 months, which assists in determining whether the group has, or will have, adequate funding for its future needs.

Internal audit

Internal audit is responsible for assessing the effectiveness of the risk management and internal control framework. As reported under 'Application of King III' above, a written assessment from internal audit on Steinhoff's risk management, internal controls and internal financial control systems is in process and will be submitted to the board and to the audit committee.

The internal audit department is an independent assurance function and forms an integral part of the enterprisewide risk management framework. Internal audit reports directly to the audit committee and to the respective divisional management and audit committees. It assists executive management and the respective audit and risk committees in the effective discharge of their responsibilities by means of independent financial and information technology, internal controls and operational system reviews. Compliance with applicable legislation is an item on board agendas and is evaluated by internal audit as part of their audit programme and is formally reported on.

Internal audit evaluates and assesses the adequacy of risk management processes and internal control frameworks and reports any significant issues, making recommendations to enhance or improve these processes. Compliance with applicable legislation is an item on the board agendas, is evaluated by internal audit as part of their audit programme and is formally reported on. Internal audit assists executive management and the respective divisional audit committees in the effective discharge of their responsibilities by means of independent financial and IT internal control and operational system reviews. In line with the recommendations contained in King III, internal audit has moved from a compliance-based approach to an increased focus on risk analysis and governance. The continuous improvement across the group in internal controls, and compliance with applicable policies and legislation, has provided a platform from which a shift of emphasis towards the assessment of the enterprisewide risk framework, fraud sensitivity and corporate governance can be implemented.

The internal audit function operates in terms of an internal audit charter approved and regularly reviewed by the audit committee. The chief internal auditor has a direct reporting line to the chairman of the audit committee and meet regularly with executive management and the CE. The internal audit plan is approved by the audit committee.

There is an informal information exchange process in place with the external auditors to ensure the efficient coverage of internal controls and to eliminate any duplication of effort.

During the period under review, the internal audit process did not highlight any material breakdowns in internal controls across the group.

An independent quality review on internal audit is scheduled for the end of the 2011 calendar year.

External audit

The audit committee has reviewed and confirmed the independence of Deloitte & Touche and has recommended their reappointment as auditors of the group. This recommendation has been endorsed by the board. Deloitte & Touche have confirmed that there were no matters during the period under review which could be held to have compromised, or which could compromise, their independence. The reappointment of Deloitte & Touche, with Udo Böhmer, a registered auditor and member of Deloitte & Touche, as the individual who will undertake the audit for the financial year ending 30 June 2012, will be a matter for consideration by shareholders at the annual general meeting to be held on 5 December 2011.

The external auditors report on their audit findings to the various divisional audit and risk committees and to the audit committee of Steinhoff International. Should the external auditors wish to discuss any findings, they have unrestricted access to the chairman of the audit committee and are afforded the opportunity, at the divisional and group level audit committees to meet with the committee members without any executives or management being present.

The group has adopted a policy to regulate the use of the external auditors for non-audit services, including consulting services. The policy details the non-audit services which may not be performed by the external auditors and prescribes pre-approval requirements for non-audit services that, subject to approval, may be undertaken by the external auditors. The principles for this policy have been determined by the audit committee.

Information technology (IT)

The responsibility for IT for the group's operations in the southern hemisphere has been delegated by the CE to Mr Ben la Grange and, for the northern hemisphere, to Mr Siegmar Schmidt, both of whom are suitably qualified and experienced. Ms M Nel has oversight of global strategic IT initiatives, with emphasis on the efficient and effective use of technology across the group.

The value delivery of IT across the group is driven by an informal process at divisional level. A standardised group IT internal framework has not been adopted, due to the greatly varying IT requirements across the group's divisions. Opportunities to improve IT across the group are discussed in the quarterly IT forum meetings attended by divisional IT executives. IT assurance forms part of internal audit and external partners are used where more technical expertise is required. A project for independent assurance on the effectiveness of IT internal controls is currently in the design phase. The internal IT control framework currently adopted is based on financial control. The group's IT information security strategy has been delegated to divisional level.

An e-legal project is being developed and implemented under the guidance of external advisors. Among other initiatives, the project will incorporate the development of a formal IT charter, the intellectual property policy (which is signed by every employee to protect the intellectual property of the company), compliance with IT legislation and regulations and the retention of personal information. Current systems are being reviewed to obtain confirmation that requirements for access to information, security and privacy are complied with.

IT forms an integral part of the group's risk management processes. Reports on the IT risks and business resilience arrangements for disaster recovery are tabled and reviewed by the divisional and regional boards and are noted at board level. The group risk advisory committee obtains assurance that appropriate controls are in place and are effective in addressing the IT risk across the group. The reports are reviewed by internal audit and the audit committee implicitly considers IT risk in discharging its duty to oversee financial reporting, the integrated report and the going concern statement.

Stakeholder communications and investor relations

The board believes that timeous, balanced and understandable communication of the group's activities to stakeholders is essential, regardless of any positive or negative impact. The interests and concerns of stakeholders are addressed wherever possible by communicating material information as it becomes known.

The company encourages the active participation of shareholders at shareholder meetings and arranges for corporate and divisional executives to attend regular meetings with shareholders and potential investors. The annual general meeting is normally attended by all directors and shareholders are encouraged to attend and to ask questions. Shareholders are afforded the opportunity to meet with the directors and senior executives after the formal proceedings have ended.

The group values its relationships with both institutional and private investors and adopts a proactive approach to ensure that communications are handled appropriately. There is regular two-way communication with investors and analysts, including presentations after the year-end and interim results, together with site visits. The results for the year under review were presented digitally on 6 September 2011 and, at the same time, also via digital medium, to invited global institutional shareholders.

The board ensures that all directors, including the non-executive directors, develop an understanding of the views of major shareholders through attendance at analyst presentations and through meetings with institutional investors and their representative bodies.

The group takes a proactive stance in disseminating appropriate operational information to stakeholders through print and electronic news releases in addition to the regulatory publication of the group's financial performance and announcements require in terms of the listings requirements of the JSE Limited.

The monitoring of relationships between divisional stakeholders and the group is conducted at divisional level and reported on at group level.

Ms Mariza Nel, head of global stakeholder communication, is responsible for stakeholder and investor communications and relations for Steinhoff International. (email: investors@steinhoffinternational.co.za). Ms Nel is available to answer investor questions on the group's businesses, including questions on corporate governance and corporate responsibility.

Further information on stakeholder communication is contained in the corporate responsibility report and integrated report which are available on the company's website. The website gives access to results presentations and detailed information on the group and its activities.

Ethics

Steinhoff has adopted a code of ethics, which is regularly reviewed, committing the group, its directors and its employees to the highest standards of conduct. This code has been endorsed by the directors and a formal ethics programme has been rolled out across the group under the guidance of the company secretary and the group compliance officer.

Employees, in performing their duties, are required to act in good faith and in a manner promoting the group's aspiration to be a good corporate citizen. Employees are required to undergo training on ethical behaviour.

Compliance with the code is monitored by divisional management and any infringements are dealt with at that level. Serious contraventions of the code are reported at board level.

The code addresses *inter alia:*

- **conflicts of interest.** There are specific policy statements and guidelines on the disclosure of any conflicts of interest and on making payments of a sensitive nature;
- **the acceptance of gifts.** With the exception of small gifts, which must be recorded in a register, no employee may accept any gift, payment incentive or facilitation payment, favour or any other business courtesy that may affect his/her actions, or those of Steinhoff International, with regard to a third party. The code includes a list of prohibited transactions ;
- **bribes and political contributions.** The adherence to anti- corruption laws and regulations is non-negotiable;
- **record keeping.** The books and records of the group must reflect all business transactions accurately and timeously;
- **promotion of competition.** Steinhoff International believes in the principles of free competitive enterprise and the code of ethics incorporates the group's competition/anti-trust policy and contains guidelines detailing specific prohibitions;
- **non-discrimination.** Steinhoff International expects all of its employees to treat their fellow employees with respect and consideration;
- **the group's commitment** to the interests of all stakeholders; and
- **policies and guidelines** on the personal conduct of management officials and other employees.

No significant breaches of the code were reported during the period under review.

A confidential whistle-blowing facility, using dedicated hotlines for the reporting of suspected frauds or irregularities, has been established across the group. There were no reports or misdemeanours of any significance reported during the period under review and the majority of reports received related to human resource and employee issues. All reports received are followed up on a confidential basis. Employees are regularly reminded of this facility and are urged to report all circumstances or situations where they have reason to suspect that a fraud or irregularity is being, or has been, committed.

Fraud and illegal acts

The group does not engage in or accept or condone the engaging in of any illegal acts in the conduct of its businesses. The board's policy is to actively pursue and encourage the prosecution of any perpetrators of fraudulent or other illegal activities, should they become aware of any such acts. A zero-tolerance approach has been adopted.

Reports are made quarterly to the divisional and regional audit committees and boards and in turn to the Steinhoff International audit committee and board.

Insider trading

The group has an insider trading policy which prohibits directors and officers of the company and its material subsidiaries from dealing in the company's shares, either directly or indirectly, on the basis of unpublished price-sensitive information concerning the business and affairs of the group and its subsidiaries. Employees are cautioned not to deal, directly or indirectly, in the company's shares or warrants, or shares of any listed subsidiary of the group on the basis of unpublished price-sensitive information.

No director or officer who is privy to such information may trade in the company's shares or warrants during embargo periods determined by the board, or during closed periods, and all dealings by directors and officers in the company's shares, or shares of any listed subsidiaries of the group, must receive the approval of the CE. Dealings in such shares by the CE must receive the prior approval of the compliance officer and dealings in such shares by the chairman must receive the prior approval of the CE and the compliance officer.

Closed periods are the periods between the end of the interim and annual reporting periods and the announcement of financial and operating results for such periods, together with any periods during which the company may be trading under a cautionary announcement.

A report of any dealings by directors and officers in the shares of the company is tabled at each board meeting of the company. All share dealings by directors of the company and its major subsidiaries, including the company secretary, are notified to the JSE Limited for publication on the Stock Exchange News Service (SENS).

Interests in contracts

The group has a policy regulating disclosure of interests in contracts, subject to the provisions of section 75 of the Act. The policy stipulates that all employees must disclose any interest in contracts to allow for the assessment of any conflict of interest. The policy also covers directors and senior officers of the group.

During the year under review, save as may be disclosed in the annual financial statements, none of the directors had a significant interest in any material contract or arrangement entered into by the company or its subsidiaries.

Going concern statement

The directors report that, after making enquiries, they have a reasonable expectation that the group has adequate resources to continue its operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual financial statements.

Corporate information

Registration number
1998/003951/06

Registered office
28 Sixth Street
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Sandton, 2090
(PO Box 1955, Bramley, 2018)

Website
http://www.steinhoffinternational.com

Auditors
Deloitte & Touche, Registered auditors
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Waterkloof, 0181
(PO Box 11007, Hatfield, 0028)

Secretary
Steinhoff Africa Secretarial Services Proprietary Limited
28 Sixth Street
Wynberg
Sandton, 2090
(PO Box 1955, Bramley, 2018)

Sponsor
PSG Capital Proprietary Limited
(Registration number 2002/017362/06)
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Ground Floor, DM Kisch House
Inanda Green Business Park
54 Wierda Road West
Wierda Valley
Sandton, 2196
(PO Box 987, Parklands, 2191)

Transfer secretaries
Computershare Investor Services Proprietary Limited
(Registration number 2004/003647/07)
Ground Floor, 70 Marshall Street
Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)

Commercial bank
Standard Corporate and Merchant Bank
(A division of The Standard Bank of South Africa Limited)
(Registration number 1962/000738/06)
Ground Floor, 3 Simmonds Street
Johannesburg, 2001
(PO Box 61150, Marshalltown, 2107)
In addition, the group has commercial facilities with various other banking and financial institutions worldwide.

www.steinhoffinternational.com

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