



**STEINHOFF**  
INTERNATIONAL HOLDINGS LTD



## **CORPORATE GOVERNANCE REPORT**

### ***About this report***

The aim of this report is to provide shareholders with an overview of the group's approach to corporate governance at both divisional and group level, and to demonstrate that the group's businesses and assets across the globe are managed responsibly.

### ***Introduction***

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 remains 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.

### ***Corporate responsibility***

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. Steinhoff remains committed to ensuring the maintenance of effective and sustainable corporate governance and ethical practices across all group operations to create value in the short, medium and long term for its stakeholders in a balanced, ethical and sustainable manner and to ensure compliance with the applicable laws and regulations governing its operations.

### ***Compliance with the King Code on Corporate Governance (King III)***

Where practicable, the group has complied with and applied the principles contained in King III. Reasons for partial areas of non-compliance are detailed below, together with, where applicable, details of the progress being made towards compliance:

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1. **Principle 1.3: The board should ensure that the company's ethics are managed effectively.**

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Assessment of ethics risk profile

**Paragraph 37:** *The board should ensure that the company's ethics risks and opportunities are assessed and that an ethics risk profile is obtained.*

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Comment

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 gives assurance 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. The Steinhoff code of ethics is reviewed on a regular basis.

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2. **Principle 5.1: The board should be responsible for Information Technology (IT) governance.**

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**Paragraph 4:** *The board should ensure that an IT governance charter and policies are established.*

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Comment

Steinhoff's existing IT policy documents incorporate the essential elements of an IT charter, which has been approved by the board and IT policies have been established.

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Standardisation of IT

**Paragraph 5:** *The board should ensure promotion of an ethical IT governance culture and awareness and a common IT language.*

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Comment

Due to the diversity and geographical spread of the group's businesses, the decision has been taken not to standardise IT throughout the group. With the assistance of external advisors and group IT charters, the promotion of an ethical IT governance culture has been facilitated.

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Independent assurance of IT

**Paragraph 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.*

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Comment

IT assurance forms part of internal audit and external partners are co-sourced where more technical expertise is required. An independent IT assurance function, with oversight over certain elements of IT, has been developed and independent reports generated are submitted to the relevant audit committees.

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**3. Principle 8.4: Companies should ensure the equitable treatment of shareholders.**

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Comment

The board of Steinhoff, in its capacity as the majority shareholder of the JD Group Limited ("JD Group") and as the major shareholder of KAP Industrial Holdings Limited ("KAP"), receives quarterly financial reports, including reports from JD Group and KAP on a quarterly basis. This flow of information is well regulated and robust systems are in place to prevent any possible abuse or misuse of such information. In all other respects, shareholders of Steinhoff, KAP and JD Group are treated on an equitable basis.

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**4. Principle 9.3: Sustainability reporting and disclosure should be independently assured.**

Sustainability reporting: assurance

**Paragraph 17:** *A formal process of assurance with regard to sustainability reporting should be obtained.*

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Comment

The responsibility for review and approval of the full integrated report currently rests with the audit committee and, ultimately, the board. A combined assurance framework for the group has been adopted. Within this framework a combined assurance model for independent assurance on material sustainability issues is being developed and will be implemented when the group's data collation systems and reporting on sustainability issues reach a more mature stage. The diversity and geographical spread of the group's operations are being taken into account in the formulation of the assurance process, to ensure the integrity of the data reported.

The coordination of the group's combined assurance activities are undertaken by a combined assurance Forum. The objective of the Forum is to implement and execute the combined assurance plan. The Forum consists of core members (e.g. applicable management representation, IT, compliance, Health and Safety, legal, tax, Internal Audit, External Audit and invitees).

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## **The Board**

### **Board charter**

The detailed responsibilities of the board are set out in a formal board charter. 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.

### **Composition**

Details of the current board of directors, including a brief curriculum vitae of each director, are given on pages 28 to 31 of the integrated report. The board consists of seven executive directors and ten non-executive directors, eight of whom are classified as independent non-executive directors. Steinhoff International's directors collectively possess a wide range of business-related expertise and significant experience in financial, commercial, manufacturing, retail, logistics and furniture industry, timber and related raw material activities. 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 demonstrating that such other directorships have not, or will not, impede the discharge of their duties to the Steinhoff International board but rather could add value by bringing a broader dimension to board deliberations. The board is satisfied that the chairman and each of the non-executive directors, in their respective roles, comply with this requirement.

### **Chairman and the chief executive officer**

The chairman of the board is Deenadayalen Konar, an independent non-executive director. The chief executive officer is Markus Jooste. The roles of the chairman of the board and the chief executive officer have been formally defined and separated. The chief executive officer is appointed by the board.

### **Appointment process**

Directors are appointed through a formal and transparent 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 considered by the nomination committee only 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 allows the board to remove any director by written notice, signed by the majority of that director's co-directors, without the requirement to obtain shareholder approval.

**Non-executive directors:**

**Classification and appointments**

Stefanes (Steve) Francois Booysen,  
David (Dave) Charles Brink,  
Claas Edmund Daun,  
Deenadayalen (Len) Konar,  
Marthinus Theunis (Theunie) Lategan,  
Johannes (Jannie) Fredericus Mouton,  
Heather Joan Sonn\* and  
Christoffel (Christo) Hendrik Wiese

\* Appointed 3 December 2013.

These directors are classified as independent non-executive directors in accordance with the classification specifications contained in King III.

Bruno Ewald Steinhoff and Paul Denis Julia van den Bosch are classified as non-executive directors. The board has appointed Dave Brink as the senior independent non-executive director.

At the annual general meeting of shareholders to be held on Tuesday 2 December 2014, shareholders will be asked to confirm the reappointment 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:

Dave Brink\*  
Claas Daun\*,  
Jannie Mouton,  
Bruno Steinhoff\* and  
Christo Wiese\*

*\* In terms of clause 25.3.2.1.1. of the company's memorandum of incorporation, these directors are required to retire at each annual general meeting of the company.*

The following executive directors will stand for re-appointment in terms of the company's memorandum of incorporation:

Stephanus (Stéhan) Grobler; and  
Hendrik Johan Karel (Piet) Ferreira

Brief curricula vitae of the directors standing for re-election at the forthcoming annual general meeting are available on pages 28 to 31 of the integrated report and in the notice to shareholders of the annual general meeting. The proposed re-election of the above directors has received the support of the nomination committee.

### **Progressive renewal of the board**

The board has critically assessed and carefully considered the independence of Len Konar, Jannie Mouton and Claas Daun, all of whom have served as independent non-executive directors for more than ten 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 judgement 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 interests of these directors have not impeded them in the fulfilment of their duties to the board but have assisted in bringing balanced input to board discussions. Len Konar and Claas Daun joined the board in 1998 and Jannie Mouton joined the board in 2002. The board considers that each of these directors brings integrity, wisdom and experience to the board's deliberations and that the individual contributions made by these directors have played, and continue playing, a valuable role in shaping the group's growth and in assisting the group in attaining its strategic objectives.

### **Financial director**

The financial director of the company is Fredrik (Frikkie) Johannes Nel. A review of this function was undertaken at the audit committee meeting held on 9 September 2014 and the committee is satisfied that Frikkie 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 recommendations for appointments 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. There is a formal process in place for the succession of the chairman and for the chief executive.

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

	10 September 2013	3 December 2013	4 March 2014	2 June 2014
<b>SF Booyesen</b>	✓	✓	✓	✓
<b>DC Brink</b>	✓	✓	✓	✓
<b>YZ Cuba*</b>	Apology	✓	-	-
<b>CE Daun</b>	✓	✓	✓	✓
<b>HJK Ferreira</b>	✓	✓	✓	✓
<b>SJ Grobler</b>	✓	✓	✓	✓
<b>TLJ Guibert</b>	✓	✓	✓	✓
<b>MJ Jooste</b>	✓	✓	✓	✓
<b>D Konar (Chairman)</b>	✓	✓	✓	✓
<b>AB La Grange</b>	✓	✓	✓	✓
<b>MT Lategan</b>	✓	✓	✓	✓
<b>JF Mouton</b>	✓	✓	✓	✓
<b>FJ Nel</b>	✓	✓	✓	✓
<b>FA Sonn*</b>	✓	✓	-	-
<b>HJ Sonn#</b>	-	✓	✓	✓
<b>BE Steinhoff</b>	✓	✓	✓	✓
<b>PDJ van den Bosch</b>	✓	✓	✓	✓
<b>DM van der Merwe</b>	✓	✓	✓	✓
<b>CH Wiese</b>	Apology	✓	✓	✓
<b>JNS du Plessis (Alternate)</b>	✓	✓	✓	✓
<b>KJ Grové (Alternate)</b>	✓	✓	✓	✓
<b>A Krüger-Steinhoff (Alternate)</b>	✓	✓	✓	✓
<b>M Nel (Alternate)</b>	✓	✓	✓	✓



*\*Retired from the Board on 3 December 2013*

*# Appointed Independent Non-Executive Director to the Board, effective 3 December 2013*

*YZ (Yolanda) Cuba and FA (Franklin) Sonn retired from the board on 3 December 2013. Save for the apologies tendered by Yolanda Cuba and Christo Wiese for the board meeting held on 10 September 2013 and taking into account the retirement of Y Cuba and F Sonn on 3 December 2013, all directors attended the board meetings scheduled during the period under review.*

## **Director development**

Steinhoff assists with the continuing professional development of its directors and provides briefings on topics that may influence the group's businesses and strategies. Comprehensive formal induction programmes, including risk governance, are in place for new directors.

## **Directors' access to information**

All directors have unrestricted access to management, including the company secretariat, 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.

## **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 members are required to assess the performance of the chairman. The board is satisfied with the performance of its individual directors, the chairman, the board and its committees. All related board and committee minutes and approvals are made available to the group's external auditors.

## **Directors' remuneration**

The governance of directors' remuneration is undertaken by the human resources and remuneration committee. The responsibility for ensuring that the executive directors and executives are fairly and responsibly remunerated has been formally delegated to this committee. Details of the responsibilities and the 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 and share rights granted for the period under review are detailed in the annual financial statements in note 34.

### **Executive directors' remuneration**

Remuneration for executive directors consists of a base salary, a performance-related incentive bonus, retirement contributions, medical scheme membership and participation in long-term incentive schemes, and 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 travel and accommodation expenses to attend board and committee meetings. In order 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 the necessity to attract and retain high-calibre non-executive directors possessing the requisite skills and experience. 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 regularly and are amended where required.

<b>Executive committee:</b>		
Members	Composition	Meetings
Markus Jooste (chairman) Johann du Plessis Piet Ferreira Stéhan Grobler Jo Grové Ben la Grange Mariza Nel Frikkie Nel Danie van der Merwe Hein Odendaal Sean Summers Thierry Guibert Dirk Schreiber Peter Pohlman David Sussman*	Comprises 14 members 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.  <b>Attendance</b> The members of the executive committee attended all 11 meetings of the committee held between July 2013 and June 2014
* Retired from the executive committee on 14 April 2014.		
<b>Purpose</b>		
<ul style="list-style-type: none"> <li>• Responsible for assisting and advising the chief executive officer 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.</li> <li>• 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.</li> <li>• Responsible for reviewing and monitoring the company's system of internal control and an effective risk management process.</li> <li>• Reviews merger and acquisition opportunities.</li> </ul>		
<b>Audit committee:</b>		
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. The board elects the chairman of the committee. As the audit committee is a statutory committee under the Companies Act 71 of 2008, as amended (the Companies Act), 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 2 December 2014. Audit committee members are kept up to date with the developments affecting the skillset required for committee membership. The committee and/or individual members are permitted to consult with specialists in any related field, subject to board approval.		

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 of these executives.

Audit committee members attend divisional meetings as well as the audit committee meeting of listed subsidiary companies. The audit committee, from time to time, invites members of listed subsidiaries' audit committee to attend meetings of the Steinhoff audit committee, as invitees.

The chairman of the audit committee participates in setting and agreeing the agenda for meetings of the committee and attends the annual general meetings of the company.

Members	Composition	Meetings
Steve Booysen (Chairman) Dave Brink Theunie Lategan	Comprises three members, all of whom are independent non-executive directors, under the chairmanship of the independent non-executive director, Steve Booysen.  Len Konar, in his capacity as chairman of the board, regularly attends committee meetings as an invitee.	Meets formally at least four times per annum, with external auditors and the chief internal auditor(s) attending the meetings.  <b>Attendance</b> There was full attendance by serving committee members during the year. Four committee meetings were held during the year.

**Purpose**

- Responsible for the integrity of financial reporting, including the published annual financial statements, summarised integrated information and interim results, 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' report 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 reviews the effectiveness of the internal audit function and cooperation between parties, approves the internal audit plan.
- Recommends the external auditors' appointment and approves the terms of engagement, fees, scope of work process of annual audit, applicable levels of materiality, reviews the independence of external auditors and the services they provide.
- Responsible for overall compliance with corporate governance principles regarding external audit functions and for monitoring the internal control and audit function, 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.

**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 2 December 2014.

Members	Composition	Meetings
<p>Dave Brink (chairman) Len Konar Theunie Lategan* (* Appointed with effect from 3 December 2013, following the retirement of Franklin Sonn)</p>	<p>Comprises three independent non-executive directors under the chairmanship of the senior independent non-executive director, Dave Brink.</p> <p>Divisional remuneration committees have been established to deal with management remuneration at all operating 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.</p>	<p>Meets at least twice a year with ad hoc meetings convened as and when required. two meetings were held during the period under review.</p> <p><b>Attendance</b></p> <p>There was full attendance by serving committee members at the Steinhoff human resources and remuneration committee at the two meetings held during the year.</p>

**Purpose**

- 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, on a regular basis, the company's code of ethics.
- Reviews, on a regular basis, the remuneration committee's charter and recommends amendments thereto 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 incentive 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.
- Undertakes a regular assessment of the effectiveness of the committee, reporting findings to the board and the committee.
- Reviews the charters of the group's significant subsidiaries' remuneration committees, and their assessment of compliance with these charters to establish if the Steinhoff remuneration committee can rely on the work of the subsidiary companies' remuneration committees.
- Prepares an annual remuneration report for inclusion in the company's integrated annual report.

**Nomination committee:**

Members	Composition	Meetings
Len Konar (chairman) Christo Wiese* * Appointed with effect from 3 December 2013, following the retirement of Franklin Sonn.	Comprises two independent non-executive directors, under the chairmanship of Len Konar. Meets once a year, or as required.	The committee met in August 2013.

**Purpose**

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.

**Group risk advisory committee:**

Members	Composition	Meetings
Len Konar (chairman) Steve Booysen Dave Brink Claas Daun Theunie Lategan Jannie Mouton Heather Sonn* Angela Krüger-Steinhoff Bruno Steinhoff Paul van den Bosch Christo Wiese	Comprises eight independent non-executive directors, two non-executive directors and one non-executive alternate director, under the chairmanship of Len Konar.	Meets after every board meeting, if required. <b>Attendance</b> There was full attendance by serving committee members at the four meetings held during the year other than at the meeting held on 10 September 2013 for which apologies were accepted from Yolanda Cuba and Christo Wiese.

*Yolanda Cuba and Franklin Sonn retired at the annual general meeting held on 3 December 2013*

*\*Appointed 3 December 2013*

**Purpose**

- 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.

**Social and Ethics Committee:**

The members of the Steinhoff social and ethics committee are Len Konar, independent non-executive chairman, Stéhan Grobler, executive director, Thembinkosi (Themba) Siyolo, executive: group corporate affairs: Steinhoff Africa and Mariza Nel.

The committee has been tasked with ensuring that the requirements of regulation 43 of the Companies Act are communicated and monitored at both group and divisional level so that the group continues to operate in a socially-aware and ethical manner. As permitted under the provisions of regulation 43(2)(a) of the Companies Act, this committee fulfils the function of a social and ethics committee for the Steinhoff group, including JD Group and JD Group's operating subsidiaries. Through Themba Siyolo, the JD Group's divisions are afforded representation on the Steinhoff social and ethics committee, to channel communication, establish reporting procedures and to report back to the group committee on divisional level compliance with related group policies. A meeting of the Steinhoff committee was held on 25 June 2014, with an apology received from S Grobler. During the period under review, the committee also fulfilled the function of a social and ethics committee for KAP. Subsequent to year end, KAP has established a separate social and ethics committee since it is no longer a subsidiary of Steinhoff.

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**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 Companies Act and for ensuring compliance with the listing requirements of the JSE Limited. The certificate required to be signed in terms of Section 88(2)(e) of the Companies Act appears on page 9 of the annual financial statements.

The company secretary is a juristic person, Steinhoff Africa Secretarial Services Proprietary Limited, a company within the Steinhoff group of companies. The board has satisfied itself that the directors of this company are appropriately qualified and competent to fulfil this function and that the individual directors and the board of the secretary have performed, and continue to perform, the role of gatekeeper of good governance in the company.

The company secretary has at its disposal, directors who possess a wide variety of long standing experience and professional skills.

The relationship between the shareholder of the company secretary and the company secretary has been reviewed by the board and the board is satisfied that there have been no circumstances that have arisen which have brought into question the existence of an arms-length relationship between the company and the company secretary.

### **Remuneration: Share incentive schemes**

Full details of the group's remuneration policy, for which approval will be sought at the annual general meeting to be held on 2 December 2014, are available in the remuneration report on page 94 of the group's integrated report, together with details of the group's share incentive schemes .

### **Financial control and reporting**

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

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).

### **Internal control and risk management**

The board is ultimately accountable for the governance of risk management within the group and for ensuring compliance with all applicable legislation and regulations. Management is responsible for the integration of the risks identified.

The board, with input from the group risk advisory committee, determines the group's appetite for risk. In making this determination, the board reviews and evaluates the major risks facing the group, as identified and reported by divisional management and the group risk advisory committee.



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

Financial risks such as exchange rate risk, interest rate risk and liquidity risk are largely controlled centrally.

The group has adopted a COSO-based enterprise-wide risk management policy and framework, to facilitate the timely identification, measurement, analysis and evaluation of risk. 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 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 group risk officer, assisted by divisional risk officers, is responsible for the implementation of the policy and framework across the group. 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 enterprise-wide 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.

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 continue 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 includes IT audits during operational and divisional audits. Certain IT risks of a specialised nature 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. The group compliance manager for 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.

The board has confidence in the effectiveness of the group's overall risk management processes, which are regularly monitored and reviewed.

During the period under review, there were no material fines, penalties or prosecutions relating to non-compliance with regulations or legislation applicable to the group's operations.

### **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;
- main control procedures;
- identification and evaluation of business risks and control objectives; and
- monitoring Information systems.

### **Internal audit**

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

with the recommendations contained in King III, internal audit has migrated from a compliance-based approach to an increased focus on group objectives, risk analysis and governance. Improvement across the group in internal controls and compliance with applicable policies and legislation continues to provide a platform from which a shift of emphasis towards the assessment of the enterprise-wide risk framework, fraud sensitivity and corporate governance is being implemented.

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

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

### **External audit**

The audit committee has reviewed and confirmed the independence of Deloitte & Touché and has recommended their reappointment as auditors of the group. This recommendation has been endorsed by the board. Deloitte & Touché has 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 & Touché, with Xavier Botha, a registered auditor and member of Deloitte & Touché, as the individual who will undertake the audit for the financial year ending 30 June 2015, will be a matter for consideration by shareholders at the annual general meeting to be held on 2 December 2014.

The external auditors report on their audit findings to the various divisional audit and risk management committees and the audit committee and are afforded unrestricted access to the chairman of the audit committee.

The group has adopted a policy to regulate the use of the external auditors for non-audit services, including consulting services.

## **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 monitoring of relationships between stakeholders and the group is conducted at divisional level and is reported at group level.

Mariza Nel is responsible for stakeholder and investor communications and relations for Steinhoff International. (email: [investors@steinhoffinternational.com](mailto:investors@steinhoffinternational.com)).

Information on stakeholder communication is contained on page 106 of the group's integrated report.

## **Ethics**

Steinhoff has adopted a code of ethics, which is reviewed regularly, committing the group, its directors and its employees to the highest standards of conduct. This code, which is available on the company's website, has been endorsed by the directors and a formal ethics programme has been rolled out across the group.

Compliance with the code is monitored by divisional management and any infringements are dealt with at that level. Any material contraventions of the code are reported at board level. During the period under review there were no material incidences of non-compliance with the code of ethics that were brought to the attention of the board.

A confidential whistle-blowing facility, utilising dedicated hotlines for the reporting of suspected frauds or irregularities, remains in place across the group. Reports are reviewed by internal audit.

## **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 adopting the going concern basis in preparing the annual financial statements.