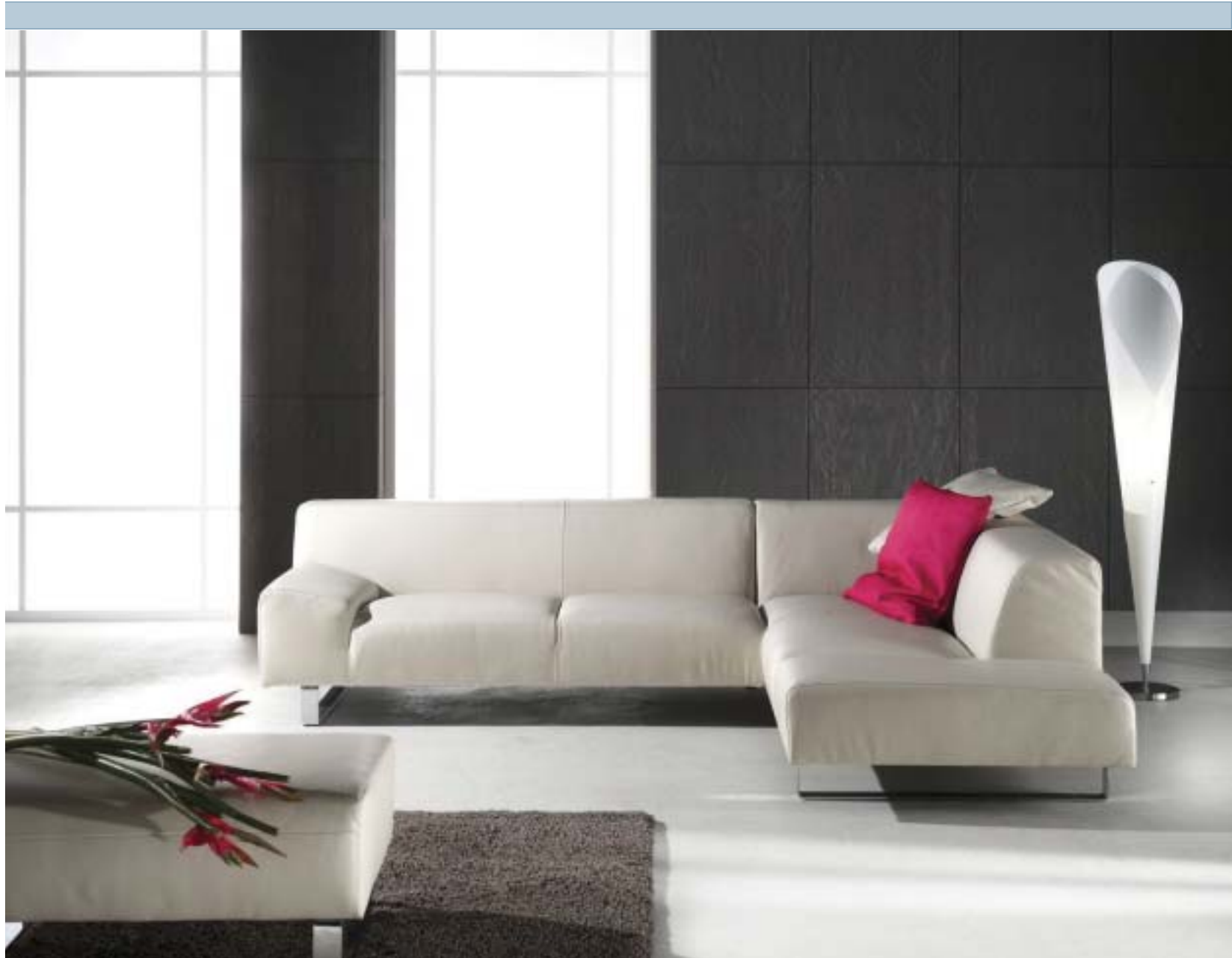
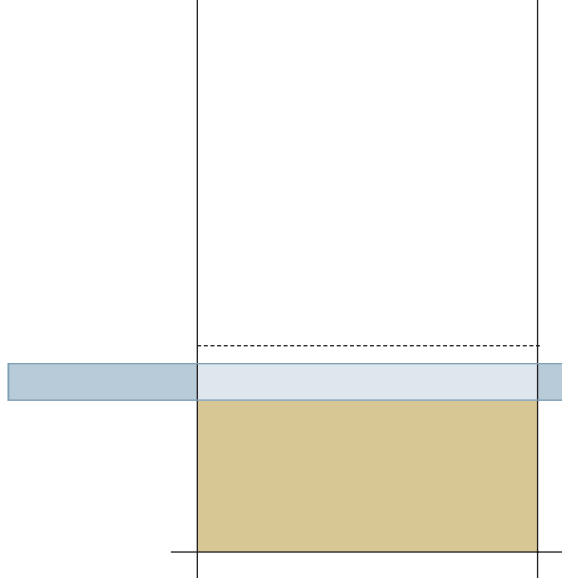


# vertical integration to the Steinhoff Group

means the consolidating all our points of contact throughout our extensive product offering with a single goal in mind – integrated end-to-end solutions for ultimate customer satisfaction through our strategically allied retail customers and our ventures into the retail space.

- **Group revenues increased 70% in rand and 72% in euro**
- **Headline earnings for ordinary shares increased 25% in rand and 27% in euro**
- **R3,3 billion cash generated from operations**
- **Net cash flow (adjusted for dividends and capital distributions) per share of 237 cents, up from 95 cents in 2005**
- **Distribution to shareholders increased 25% to 37,5 cents per share**





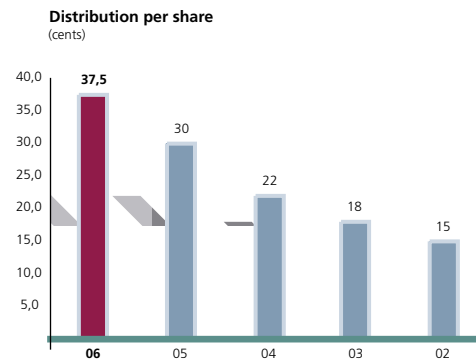
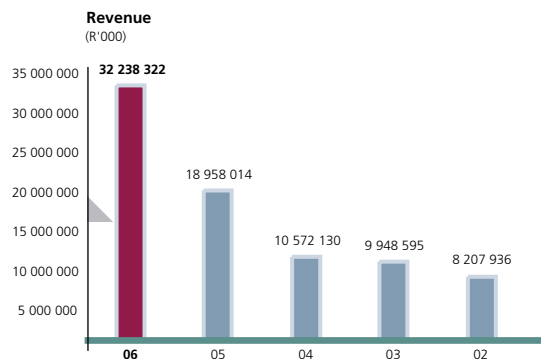
# Vertical integration

## – the Steinhoff way

Since listing in 1998, Steinhoff's strategy has been to consider each of its operating markets independently and to assess the most suitable value supply chain model for that market. The group has developed strategies with each business unit forming building blocks to successfully compete in specific markets and to extract synergies from vertical integration in each geographical area or enlarged market. Strategically, vertical integration ensures the production and sourcing of raw materials, manufacturing and distribution as well as the retail of household goods become complementary inputs and not merely merged processes.

Guided by the ultimate target of a seamless and cost-effective value chain from raw material to retail outlet, our vertical integration model has been adjusted to account for critical factors that differentiate markets in Europe, the Pacific Rim and southern Africa. Our strategy has unfolded through organic growth, acquisition and strategic alliances.

In a globally competitive market, Steinhoff is focused on assessing and reassessing this integration model to compete successfully and create wealth for all stakeholders, including our customers, suppliers, employees, communities and, importantly, our shareholders.



Through investments and partnerships, the supply of household goods adds value and luxury to the family. Products include kitchen appliances, lifestyle products, bathroom and bedroom.



### Timber and wood products

One of the most extensive divisions in the group, the timber division owns the newly acquired interest in the plantations in the eastern Cape and throughout its many locations, produces and manufactures wood products and by-products including furniture frames, bedding bases, household goods, pallets, treated poles, etc.

### Foam products and raw materials

Foam products, inner springs and related products are manufactured and used in our own furniture and for the export market, allowing us to secure a cost-effective and reliable source of inputs for our manufacturing operations, drawing on intragroup synergies.

### Textiles and upholstery

Our textile manufacturing plants supply upholstery and drapery fabrics as well as mattress ticking.

### Leather

Through our joint venture in Kolkata, India, the Alam Tannery manufactures leather cut and sewn upholstered furniture covers, produces upholstered leather furniture as well as other small leather items.

### Particle board

PG Bison is the largest producer of particle board (chipboard) and medium-density fibre board in South Africa. Our investment in chipboard is an important component used in the production of household goods. PG Bison has enhanced synergies within the group and accelerated growth.

### Decorative laminates

Part of the timber division produces this highly durable decorative surface material which is used with particle board in the kitchen, office, commercial, furniture and shopfitting industries.

### Case goods

A wide range of solid timber case goods includes tables, chairs, dining and bedroom suites and non-solid timber case goods are made of particle board upgraded with foil or veneer.

### Soft furnishings

The furniture division also produces a range of soft furnishings including pillows, duvets, and linen.

### Manufacturing and upholstered goods

Global production facilities produce a wide range of static and motion lounge furniture and bedding under well-known brand names.

Vertical integration optimises synergies at all levels of the value chain, improving supply chain management and enhancing service to customers.



### Accessories

Steinhoff Living imports and supplies accessories to furniture.

### Packaging

Flexible polyurethane foam produced in our raw material division is also used in the packaging industry.

### Logistics and distribution

The efficient and reliable transportation of all goods in the supply chain are equally important, starting with transportation of raw materials through to delivery of final product to the retailer or consumer.

### Warehousing

Our warehouses are strategically located to manage logistical needs and requirements. It also provides better control over stock levels, rendering more efficient service, and reduces delivery times.

### Retail

The motivation to purchase by any consumer varies from necessity to luxury. By adding retail outlets in certain geographical areas to our operations, we have now ensured maximum benefits to our shareholders and customers. Through Unitrans we also retail motor vehicles.