22 November 2016

This notice is important and requires your immediate attention.

EDCON HOLDINGS LIMITED ("EDCON")

UNAUDITED TRADING UPDATE

FOR THE 13 WEEKS ENDED 24 SEPTEMBER 2016

DISCLAIMER

Edcon Holdings Limited (together with its consolidated subsidiaries, the "Group" or the "Edcon Group") is providing the following trading update (the "Trading Update") which provides an update on the Group's financial performance for the 13-week period ended 24 September 2016.

This Trading Update or any part of it is for informational purposes only and does not constitute, and should not be construed as, part of any offer or invitation to sell, or any solicitation of any offer to purchase or subscribe for, any securities in the Group and it is not intended to provide the basis of any investment decision nor does it nor is it intended to form the basis of any contract for acquisition of or investment in the Group, financial promotion, or any offer or invitation in relation to any acquisition of or investment in the Group in any jurisdiction, nor should it be considered as legal, financial or tax advice in relation to the same.

This financial information contained in this Trading Update is based on management accounts, for the second quarter 2017 (as defined herein). Our independent auditors, Deloitte & Touche, have not audited, reviewed, compiled or performed any procedures with respect to the financial data included herein. Accordingly, our independent auditors do not express an opinion or any other form of assurance with respect thereto. The preliminary results presented herein are based on a number of assumptions that are subject to inherent uncertainties and subject to change. We cannot assure you that, upon completion of our financial statements for fiscal year 2017, and the review by our independent auditors of our results for fiscal year 2017, we will not report materially different results than those indicated herein.

This Trading Update includes forward-looking statements, including certain estimates which are based on the Group's current expectations and projections about future events. All statements other than statements of historical facts included in this Trading Update, including statements regarding the Group's future financial position, risks and uncertainties related to its business, strategy, capital expenditures, projected costs and our plans and objectives for future operations, including our plans for future costs savings and synergies may be deemed to be forward-looking statements. Words such as "believe," "expect," "anticipate," "may," "assume," "plan," "intend," "will," "should," "estimate," "risk" and similar expressions or the negatives of these expressions are intended to identify forward-looking statements. In the course of preparing such forward-looking statements, the Group has taken into account historical financial performance and made certain assumptions that management of the Group has deemed to be reasonable. None of the information contained in the forward-looking statements has been independently verified and no representation or warranty, express or implied, is made by the Group as to the information or opinions contained in any forward-looking statement. Any forward-looking statements contained in this Trading Update are made only as of the date of this Trading Update.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Edcon cautions you that forward-looking statements are not guarantees of future performance and that the actual results of operations, financial condition and liquidity and the development of the industry in which Edcon operates may differ materially from those made in or suggested by the forward-looking statements contained in this Trading Update. Consequently, you should not place undue reliance on these forward-looking statements. No member of the Group is under any obligation to keep current any of the information (including any forward-looking statements) contained in this Trading Update, and any opinions expressed in it are subject to change without notice. Furthermore, the Group disclaims any obligation to update their views of any of the risks and uncertainties presented in this Trading Update. Nothing in this Trading Update will create an obligation on behalf of the Group to provide information similar to the information contained in this Trading Update in the future. None of the information contained on the Group's website is incorporated by reference into or otherwise deemed to be linked to this Trading Update.

Prospective investors are reminded that past financial performance is not a reliable indicator of any potential future performance, and prospective and current investors are solely responsible for making their own independent appraisal of and investigations into the financial and other information presented in this Trading Update. No member of the Group assumes any obligation to review or confirm analyst expectations or estimates. Nothing in this Trading Update constitutes investment advice.

SUMMARY OF FINANCIAL AND OTHER DATA

This trading update relates to the unaudited consolidated financial statements for the 13-week period ended 24 September 2016.

The unaudited historical financial data in the Summary of Financial and Other Data of Edcon Holdings Limited and its subsidiaries (the "Group"), relates to the three-month period ended 26 September 2015 and the three-month period ended 24 September 2016. Unless the context requires otherwise, references in this notice to (i) "second quarter 2016" and "second quarter 2017" shall mean the 13-week period ended 26 September 2015 and the 13-week period ended 24 September 2016, respectively and (ii) "fiscal 2016" and "fiscal 2017" shall mean the 52-week period ended 26 March 2016 and the 52-week period ending 25 March 2017, respectively.

Following the full implementation of the previously announced changes to our reporting structure, which shows the realignment of our operational divisions to accomplish the objectives laid out in our new strategic plan starting with the 13-week period ended 25 June 2016, throughout these reports Edgars refers to the Edgars division, which comprises Edgars, Discount refers to the Discount division, which comprises Jet and Jet Mart and the Specialty division comprises of CNA, Red Square, Boardmans, Edgars Active, Edgars Shoe Gallery, Legit and our Mono-branded stores. As a result of the implementation of this new reporting structure, our divisional results for the second quarter 2017 are not directly comparable for our divisional results for fiscal year 2016.

Management discussion and analysis of financial performance

Highlights

Pertaining to the second quarter 2017 compared to second quarter 2016:

- Transaction with creditors announced 20 September 2016 - has received Competition Commission approval without conditions and has been referred to the Tribunal.
- Bridge financing secured of R1.5 billion.
- Net profit for the quarter of R163 million, up R2,307 million from the net loss of R2,144 million in the comparable quarter.
- Sale of Legit business announced for R637 million.
- Retail cash sales increased marginally by 0.8%.
- Retail credit sales decreased by 18.1%.
- Gross profit margin decreased 360 basis points (bps) from 35.4% in the second quarter 2016 to 31.8% in the second quarter 2017 mainly due to targeted reductions of aged inventory.
- Adjusted EBITDA significantly affected by inventory clearance and a decrease in insurance business profits, down 100.4%.

Introduction

Trading conditions during the second quarter 2017 remained challenging. The Group initiated focused action to improve the ageing profile of inventory leading into the peak trading period by launching increased clearance activities. Macro-economic factors continued to weigh heavily on the consumer and the Group's share of profits from the insurance business decreased by R141 million, or 53.0% as a result of an early dividend of R151 million received in the second quarter of 2016 not repeated in the second quarter of 2017. The foregoing factors led to a decrease in Adjusted EBITDA of 100.4% to negative R2 million from R516 million for the second quarter 2016. As a result of the clearance activity undertaken, gross profit decreased by R353 million, or 16.1%, whilst, the gross profit margin for the second quarter 2017 was 31.8%, down 360 bps from 35.4% in the second quarter 2016. Store costs continue to be well managed increasing R93 million, or 5.9% over the second quarter 2016 whilst other operating costs excluding store card credit administration costs and non-recurring costs decreased by R64 million mainly driven by the head office restructure completed earlier in calendar 2016.

The Group experienced marginal cash sales growth, increasing 0.8% compared to the second quarter 2016, while total retail sales declined by R420 million, or 6.8% to R5,761 million, from R6,181 million in the second quarter 2016, mainly as a result of the impact of negative credit sales of 18.1% over the second quarter 2016, a trend which has been impacting the top line since the sale of the trade receivables book to Absa in November 2012. The affordability regulations implemented in September 2015 has exacerbated this trend over the last 12 months with the impact on retail sales in the current quarter estimated at R159 million. Credit sales contributed 35.4% of total retail sales for the second quarter 2017, a decrease of 4.9%, from a 40.3% contribution in the second quarter 2016.

The strengthening of the Rand and lower finance cost charges have contributed to the Group achieving a net profit of R163 million in the second quarter 2017, up R2,307 million from a loss of R2,144 million reported in the second quarter 2016.

The total net debt decreased 4.3%, or R1,161 million, from R27,099 million at the end of the second quarter 2016 to R25,938 million as at 24 September 2016 due mainly to the debt refinancing concluded in November and December 2015 as well as the Exchange Offer in November 2015 combined with a favourable strengthening of the Rand in the current quarter to the Euro and U.S. dollar. Following the support of the Group's creditors received in April 2016, to defer up to R1.6 billion of certain cash interest payments under the Group's 9.5% Euro and US dollar denominated senior notes due in 2018 and its senior term loan facility to December 2016, Edcon's cash financing costs decreased by R862 million, from R999 million in the second quarter 2016 to R137 million for the second quarter 2017.

On 8 July 2016, the Group secured a combined R1.5 billion in bridge funding denominated in US dollars and Euros, made available by a group of Noteholders and bank lenders in two tranches of which the Group received a net amount of R651 million under the first tranche on 12 July 2016.

On 15 September 2016, the Group agreed to the sale of the Legit business for R637 million to Retailability Proprietary Limited. This sale is aligned with Edcon's strategic plan to create a simpler, more agile business focused on selected offerings where the Group can add value. The sale of Legit has been approved by the Competition Commission. The EBITDA table on page 9 reports pro-forma adjusted EBITDA which excludes the impact of the sale of Legit, as well as, the impact of further international brands planned for exit but not yet exited.

Trading update

Key operational data

	(unaudited) Retail sales growth (%)				(unaudited) Gross profit margin (%)		
	Q2:FY16 Actual	*Q2:FY17 Actual*	*Q2:FY16 LFL(1)*	*Q2:FY17 LFL(1)*	*Q2:FY16 Actual*	*Q2:FY17 Actual*	*pts change(2)*
Edgars	(2.2)	(6.8)	(3.5)	(8.5)	39.6	36.9	(2.7)
Specialty	2.2	(6.8)	(2.5)	(9.8)	31.6	30.9	(0.7)
Discount	(0.1)	(5.5)	(1.6)	(5.7)	32.0	25.7	(6.3)
Edgars Zimbabwe(3)	10.5	(19.5)	10.5	(19.6)	46.4	43.5	(2.7)
Total	(0.1)	(6.8)	(2.2)	(8.2)	35.4	31.8	(3.6)

	Q2:FY16 Actual	*Q2:FY17 Actual*	*% change*
Total number of stores	1 527	1 548	1.4
Average retail space ('000 sqm)	1 607	1 606	(0.1)
Customer credit accounts ('000s)(4)	3 311	2 960	(10.6)

(1) Like-for-like sales (same store sales).
(2) Q2:FY17 % change on Q2:FY16.
(3) On a constant currency basis retail sales decreased 27.8% and LFL growth was negative 27.8% in Q2:FY16.
(4) Excludes Edgars Zimbabwe customer credit accounts Q2:FY17 of 170 000 and Q2:FY16 of 173 000.

Edgars

Retail Sales in the Edgars division decreased by R167 million or, 6.8%, from R2,454 million in the second quarter 2016 to R2,287 million in the second quarter 2017. Cash sales increased by 0.7% over the second quarter 2016 whilst, credit sales decreased by 14.3%. Same-store sales decreased by 8.5% compared to the second quarter 2016. Sales continued to be impacted by the decline in credit sales during the current quarter with all merchandise categories in the Edgars division reporting negative growths.

Average space increased by 0.3% to 725,000 square meters when compared to the second quarter 2016. During the quarter, we opened three Edgars stores, bringing the total number of stores in the Edgars division to 206.

To improve the aged stock profile ahead of the third quarter, we undertook increased and focused clearance during the quarter which was in line with that undertaken in the second quarter 2016. The division has initiated a focus on better entry price points which has not had the traction expected. Input costs remained affected by the Rand and gross margin in the Edgars division was 36.9% for the second quarter 2017, down from 39.6% in the second quarter 2016.

Discount

The Discount division continued to be significantly affected by weak credit sales which decreased by 20.7% compared to the second quarter 2016 resulting in poor performance across all merchandise categories. Cash sales were positive, increasing 2.5%. Total retail sales decreased by R118 million, or 5.5%, from R2,156 million in the second quarter 2016 to R2,038 million for the current quarter. Same store sales decreased by 5.7% in the second quarter 2017 compared to the second quarter 2016.

Average space decreased by 0.9% to 582,000 square meters compared to the second quarter 2016. Only one Jet store was closed during the quarter with no new store openings, bringing the total number of stores in the Discount division to 518.

Gross profit margin decreased to 25.7% in the second quarter 2017 from 32.0% in the second quarter of 2016 mainly driven by aggressive clearance activity to improve the inventory ageing profile ahead of the peak trading quarter.

Specialty

Our Specialty division reported retail sales of R1,259 million, a decrease of 6.8% compared to R1,351 million in the second quarter 2016, and same store sales were down 9.8%. Credit sales decreased 24.9% while cash sales increased 0.7% on the second quarter 2016.

Average space increased 0.8% compared to the second quarter 2016. During the period, we opened two Edgars Active stores, one Red Square, one CNA and two mono-branded stores and closed one Edgars Active store, five Edgars Shoe Gallery stores, two Legit stores and five mono-branded stores bringing the total number of stores in the Specialty division to 773 stores.

Gross margin declined to 30.9% for the second quarter 2017 from 31.6% in the second quarter 2016 due to aggressive clearance activity ahead of the peak trading quarter to improve the age profile of inventory.

Africa expansion

Sales from countries other than South Africa decreased by 5.4% during the second quarter 2017 mainly as a result of tighter credit requirements implemented during fiscal year 2016 particularly affecting Namibia and Botswana, and contributed 12.9% (10.1% excluding Zimbabwe) of retail sales for the second quarter 2017, up from 12.7% (9.5% excluding Zimbabwe) in the prior comparative quarter. Zambia, Ghana and Mozambique showed positive growth for the quarter. Edcon now has 213 stores outside of South Africa (including 51 in Zimbabwe).

Credit and financial services

At 24 September 2016, excluding Edgars Zimbabwe, we had 351,000 fewer credit customers compared to the second quarter 2016. On a twelve month rolling basis, credit sales (excluding Zimbabwe) decreased from 40.3% of total retail sales in the second quarter 2016 to 37.1% in the second quarter 2017. The Group continued to be affected by the affordability regulations implemented by the National Credit Regulator in September 2015. The impact of the affordability regulations on the current quarter sales is estimated to be approximately R159 million. Edcon continues rolling out an in-house National Credit Act compliant credit solution to customers and Absa has agreed to the Group's initiative to drive future credit sales through increased limits and new account distribution between Absa and the Group. In terms of our arrangement with Absa, Absa will book roughly 20% of new accounts and the balance will be funded by the Group. The in-house trade receivables book at 24 September 2016 was R177 million and is expected to continue to grow on the back of credit initiatives being implemented.

Edcon's share of the profits from the insurance business decreased by R141 million, or 53.0% from R266 million to R125 million for the second quarter 2017. This decrease is largely due to the R151 million early dividend received in the second quarter 2016 which was not repeated in the current quarter, but will flow to the Group over the second half of the reporting period. Excluding the impact of the early dividend, the profit from the insurance business would have increased by R10 million compared to the second quarter 2016.

Financial review

Summary financial information

Rm	Second quarter (unaudited) 2016	2017	% change
Total revenues[(1)]	6 845	6 274	(8.3)
Retail sales	6 181	5 761	(6.8)
Gross profit	2 187	1 834	(16.1)
Gross profit margin (%)	35.4	31.8	(3.6pnt)
Adjusted EBITDA[(2)]	516	(2)	(100.4)
Pro forma adjusted EBITDA[(2)]	490	(20)	(104.1)
Capital expenditure	157	105	(33.1)
Net debt including cash and derivatives	27 099	25 938	(4.3)
LTM adjusted EBITDA (reported)	2 715	1 757	(35.3)
LTM pro forma adjusted EBITDA	2 530	1 652	(34.7)
Net debt/LTM adjusted EBITDA (times)	10.0x	14.8x	4.8x
Net debt/LTM pro forma adjusted EBITDA (times)	10.7x	15.7x	5.0x

(1) Q2:FY16 has been re-presented as a result of ceasing to classify the trade receivables card portfolio in Lesotho, Namibia, Botswana and Swaziland as held-for-sale.
(2) See table below which reconciles trading profit/loss to adjusted EBITDA and proforma adjusted EBITDA.

Revenues

Total revenues declined by R571 million, or 8.3%, from R6 845 million in the second quarter 2016 to R6,274 million in the second quarter 2017 mainly as a result of a R420 million decrease in retail sales significantly affected by the decline in credit sales of 18.1% caused by the new credit affordability regulations introduced in September 2015 as well as a R141 million decrease in the share of profits from the insurance business as a result of an early dividend received in the second quarter 2016 of R151 million. Additionally the macro economic environment remains challenging.

Retail gross profit

Gross profit margin declined 360 bps from 35.4% in the second quarter 2016 to 31.8% in the second quarter 2017. The decline in the gross margin was as a result of aggressive focused clearance activity across all divisions, higher input costs and lower price points introduced.

Pro forma adjusted EBITDA

The following table reconciles trading profit to adjusted EBITDA and pro forma adjusted EBITDA:

	Second quarter (unaudited)		
Rm	*2016*	*2017*	*% change*
Trading (loss)/profit(1)	161	(614)	(481.4)
Depreciation and amortisation	251	239	
Net asset write off(2)	3	-	
EBITDA losses from Edgars Shoe Gallery(3)	-	2	
EBITDA losses from brands exited(4)	7	10	
Non-recurring costs(5)	94	361	
Adjusted EBITDA	516	(2)	(100.4)
EBITDA (gains)/losses from brands planned to be exited(6)	(1)	-	
Legit EBITDA(7)	(25)	(18)	
Pro forma adjusted EBITDA	490	(20)	(104.1)

(1) Q2:FY16 has been re-presented as a result of ceasing to classify the trade receivable card portfolio in Lesotho, Namibia, Botswana and Swaziland as held-for-sale.
(2) Relates to assets written off in connection with store conversions, net of related proceeds in 2016.
(3) The Group has taken a decision to exit all Edgars Shoe Gallery stores.
(4) Adjustment to remove the EBITDA gain or loss from certain brands being Express, Geox, Lucky Brand, One Green Elephant and Tom Tailor which the Group is strategically exiting.
(5) Relates to a credit (provision release) in Q2:FY17 of R16 million previously raised for the head office restructure (Q2:FY16, credit of R1 million for release of restructuring provisions), onerous lease charges of R144 million in Q2:FY17 (Q2:FY16: R14 million), transitional project related expenditure of R51 million in Q2:FY17, strategic initiative costs of R182 million (Q2:FY16: R80 million) and lease cancellation costs of R1 million in Q2:FY16. Excluded from the non-recurring costs previously reported is R39 million which related to fees for the Exchange Offer concluded in November 2016 which, have been reclassified from other operating costs on the statement of Comprehensive Income to below trading profit and separately disclosed.
(6) The Group has strategically identified international brands it has planned to exit. This adjustment reflects the EBITDA profit or loss associated with these brands.
(7) EBITDA relating to the Legit business which the Group announced during the quarter it has agreed to sell.

As at 26 March 2016, the Group ceased to classify the trade receivables store card portfolio in Lesotho, Namibia, Botswana and Swaziland as held for sale on the Statement of Financial Position in the consolidated financial statements as a buyer could not be found at an acceptable price. Consequently, the Group no longer reports a pro-forma adjustment to EBITDA for discontinued operations, which reported normalised earnings on the basis of 100% of the trade receivables book accounted for as though all trade accounts receivable which were previously classified as held-for-sale had been sold and the Group had earned a fee similar to that under the Absa relationship. In addition, the Group has taken a strategic decision to exit certain international brands including Express, Geox, Lucky Brands, One Green Elephant and Tom Tailor. Adjusted EBITDA relating to each of these brands has been restated in the second quarter of 2016 to exclude the adjusted EBITDA relating to these brands. Pro-forma adjusted EBITDA has been included in the table above for the effect on the Group on the sale of the Legit business. The sale remains subject to various conditions precedent including Competition Commission approval, other customary closing conditions and the consent of the Group's lenders.

The table below reconciles previously reported pro-forma adjusted EBITDA in the second quarter 2016 to pro-forma adjusted EBITDA reported above:

	Second quarter (unaudited)
Rm	*2016*
Pro-forma adjusted EBITDA previously reported(1)	501
Net income from previous card programme(2)	36
Net income from new card programme(3)	(28)
Adjusted EBITDA previously reported(1)	509
EBITDA losses from brands exited(4)	7
Adjusted EBITDA(5)	516

(1) Q2:FY16 has been re-presented as a result of ceasing to classify the trade receivables card portfolio in Lesotho, Namibia, Botswana and Swaziland as held-for-sale.
(2) Net income/(loss) derived from 100% of the trade receivables including finance charges revenue, dad debts and provisions added back as no longer accounted for as a discontinued operation.
(3) Pro-forma fee earned by Edcon under the new arrangement with Absa, based on 100% of the trade receivables book, now excluded as the Group ceased to classify the trade receivables store card portfolio in Lesotho, Namibia, Botswana and Swaziland as held-for-sale.
(4) Adjustment to remove the EBITDA gain or loss from certain brands being Express, Geox, Lucky Brand, One Green Elephant and Tom Taylor which the Group is strategically exiting.
(5) Adjusted EBITDA as reported above.

Costs

Rm	Second quarter (unaudited) 2016	2017	% change
Store costs(1)	1 572	1 665	5.9
Other operating costs(1)	894	830	(7.2)
Store card credit administration costs(2)	116	81	(30.2)
Non-recurring costs(3)	94	361	284.0

(1) Other operating costs as per consolidated financial statements, before costs in notes (2) and (3) below. In Q2:FY16 store cost and other operating costs have been reclassified in line with the new Group structure by R7 million respectively.
(2) Relates to costs associated with the administration of the store credit card funded by Absa or Edcon and includes R23 million in Q2:FY16, previously reported in discontinued operations.
(3) Relates to a credit (provision release) in Q2:FY17 of R16 million previously raised for the head office restructure (Q2:FY16, credit of R1 million for release of restructuring provisions), onerous lease charges of R144 million in Q2:FY17 (Q2:FY16: R14 million), transitional project related expenditure of R51 million in Q2:FY17, strategic initiative costs of R182 million (Q2:FY16: R80 million) and lease cancellation costs of R1 million in Q2:FY16. Excluded from the non-recurring costs previously reported is R39 million which related to fees for the Exchange Offer concluded in November 2016 which, have been reclassified from other operating costs on the statement of Comprehensive Income to below trading profit and separately disclosed.

Total store costs were well managed increasing by R93 million, or 5.9%, from R1,572 in the second quarter 2016 to R1,665 million in the second quarter 2017, mainly due to higher rental costs (up 7.6%), and an increase in manpower costs (up 5.5%). Rental and manpower costs constituted 60.2% of total store costs for the second quarter of 2017. Rental costs are a function of space and contractual lease agreements. The Group continues to focus on managing rental costs by trying to optimize both space and contractual payment obligations.

Other operating costs, excluding non-recurring and store card credit administration costs, decreased by R64 million, or 7.2%, from R894 million in the second quarter 2016 to R830 in the second quarter 2017. The decrease was mainly due to lower manpower costs following the head office restructure earlier in the current calendar year.

Income of R91 million from Absa for administering the trade receivables book sold is included in other income.

Depreciation and amortisation

The depreciation and amortisation charge decreased by R12 million, or 4.8%, from R251 million in the second quarter 2016 to R239 million in the second quarter 2017 due to a reduction in the depreciation charge to profit and loss relating to information technology ("IT") capital expenditure which, the Group has continuously reduced over the past three years.

Net financing costs

Rm	Second quarter (unaudited) 2016	2017	% change
Interest received	12	23	
Financing costs(1)	(1 270)	(988)	
Net financing costs	(1 258)	(965)	(23.3)

(1) Includes R234 million PIK interest in Q2:FY17 (Q2:FY16 R254 million).

Net financing costs decreased by R293 million, or 23.3%, from R1,258 million in the second quarter 2016 to R965 million in the second quarter 2017. The decrease is primarily the result of an acceleration of fee amortisation to financing costs of R193 million following the derecognition of the €425,000,000 13.375% Senior Notes due 2019 under the Exchange Offer in the second quarter 2016 and lower debt levels in the second quarter 2017 compared to the second quarter 2016.

Foreign exchange management

Edcon applies a strategy of hedging all committed foreign denominated inventory orders, the impact of which appears below the trading profit line. These forward contracts and some inflation in selling prices absorb the impact of a fluctuating Rand.

	Second quarter (unaudited)		
Rm	*2016*	*2017*	% change
Derivative gains/(losses)	952		
Foreign exchange (losses)/gains	(2 491)	2 009	
Fair value adjustment for put option	(12)	(6)	
Net movement	(1 551)	2 003	(229.1)

Edcon manages its foreign exchange risk on liabilities on an ongoing basis. At the end of the second quarter 2017, 29% of the Group's total gross debt is hedged by virtue of it being denominated in local currency, whilst 71% is unhedged. The net positive exchange movement during the second quarter 2017 is the result of the ZAR appreciating against the EUR from EUR:R16.81 as at 25 June 2016 to EUR:R15.20 as at 24 September 2016 and against the USD from USD:R15.19 to USD:R13.55. The Rand strengthened when compared to the second quarter 2016, appreciating against the EUR from EUR:R15.60 to EUR 15.20 and against the USD from USD:R13.92 to USD:R13.55.

The gain of R2,003 million represents unrealised gains on foreign denominated liabilities and may reverse in the future following any devaluation of the Rand.

Cash flow

	Second quarter (unaudited)		
Rm	*2016*	*2017*	% change
Operating cash (outflow)/inflow before changes in working capital	313	(288)	(192.0)
Working capital movement	434	33	(92.4)
Net cash outflow from operating activities	(267)	(380)	(42.3)

Operating cash inflow before changes in working capital decreased by R601 million from R313 million inflow in the second quarter 2016 to a R288 million outflow in the second quarter 2017 mainly due to the weak trading performance.

Cash inflow from working capital amounted to a R33 million inflow in the second quarter 2017, compared to an inflow of R434 million in the second quarter 2016, attributable to:

(i) A net decrease in trade receivables of R36 million in the second quarter 2017 compared to an increase of R11 million in the second quarter 2016, mainly due to declining credit sales compared to the prior quarter;

(ii) A decrease in sundry receivables and prepayments of R46 million in the second quarter 2017 compared to an increase of R70 million in the second quarter 2016;

(iii) A decrease in inventory of R138 million in the second quarter 2017 compared to an increase of R296 million in the second quarter 2016 as a result of aggressive clearance activity and a reduction in purchases; and

(iv) A decrease in trade and other payables of R187 million in the second quarter 2017 compared to an increase of R811 million in the second quarter 2016. The decrease of R998 million is due to a reduction in the value of purchases of approximately R441 million compared to the second quarter 2016 and R331 million income received in advance in the second quarter 2016 which related to fees received in that quarter not yet recognised in profit and loss.

Net cash outflow from operating activities declined by R113 million from an outflow of R267 million in the second quarter 2016 to an outflow of R380 million in the current quarter, mainly as a result of a R862 million reduction in finance costs paid following the conclusion of the Exchange Offer in November 2015 and the agreement by Noteholders to defer the payment of cash interest on the senior secured fixed rate notes which set off the decrease of R1,002 million in cash flows generated from operating activities after working capital, compared to the second quarter 2016.

Capital expenditure

	Second quarter (unaudited)		
Rm	*2016*(1)	*2017*	*% change*
Edgars	47	33	
Expansion	*30*	*11*	
Refurbishment	*17*	*22*	
Discount	27	25	
Expansion	*22*	*16*	
Refurbishment	*5*	*9*	
Specialty	43	9	
Expansion	*36*	*(1)*	
Refurbishment	*7*	*10*	
Edgars Zimbabwe(1)	6	(8)	
IT	24	36	
Other corporate capex	10	10	
	157	105	(33.1)

(1) Accruals raised and subsequently reversed.
(2) Q2:FY16 comparatives have been re-classified for the changes made to the divisions.

Capital expenditure decreased by R52 million to R105 million in the second quarter 2017, from R157 million in the second quarter 2016 in line with lower average space growth. In the second quarter 2017, we opened eight new stores (excluding one conversion) which, combined with store refurbishments, resulted in investments in stores of R67 million (excluding Zimbabwe), compared to the second quarter 2016 during which we opened twelve new stores (excluding one conversion), resulting in an investment in stores of R117 million (excluding Zimbabwe). Edcon invested R36 million in information systems infrastructure in the second quarter 2017 compared to R24 million in the second quarter 2016.

The Group is planning to spend around R600 million for the fiscal year 2017.

Net debt, liquidity and capital resources

The primary source of short-term liquidity is cash on hand. The amount of cash on hand is influenced by a number of factors, including retail sales, working capital levels, supplier and debt service payment terms, timing of payments for capital expenditure projects and tax payment requirements. Working capital requirements fluctuate during each month, depending on when suppliers are paid and when sales are generated, and throughout the year depending on the seasonal build-up of net working capital. Edcon funds peaks in its working capital cycle, which is typically in October and March, with cash flows from operations, drawings under its various facilities and other initiatives.

			Second quarter (unaudited)	
Rm(1)	***Cash***	***PIK***	*2016*	*2017*
Super senior debt				
ZAR Revolving credit facility			3 144	
ZAR Super Senior RCF Term Loan due 31 December 2017	*J+5.00%*	*3.00%*		3 297
EUR Super Senior Refinancing Facility due 31 December 2019(2)	*E+4.00%*	*8.00%*		1 880
ZAR Super Senior Hedging Debt due 31 December 2017	*JIBAR*	*8.00%*		689
EUR Super Senior Term Loan due 31 December 2017	*EURIBOR*	*8.00%*		597
ZAR Floating rate notes due 4 April 2016	*J+625bps*		1 007	
EUR Super senior PIK notes due 30 June 2019		*8.00%*	338	1 753
EUR Bridging facility(3)	*E+4.00%*	*8.00%*		315
USD Bridging facility(3)	*L+4.00%*	*8.00%*		372
Senior secured debt				
ZAR term loan due 31 December 2017(4)	*J+700bps*	*4.00%(5)*	4 147	3 299
EUR fixed rate note due 1 March 2018	*9.5%*		9 440	10 179
USD fixed rate note due 1 March 2018	*9.5%*		3 455	3 701
EUR Senior secured PIK notes due 30 June 2019	*9.75% (no toggle)*	*12.75% (toggle)*		483
Deferred option premium			1 077	
Lease liabilities			359	323
Senior				
EUR fixed rate notes due 30 June 2022(6)		*5.0%*	52	46
Option A EUR fixed rate PIK notes due 30 June 2019	*13.375%*		3 120	
Option B EUR fixed rate PIK notes due 30 June 2019	*13.375%*		3 763	
Other loans(6)			369	287
Gross debt			**30 271**	**27 221**
Derivatives			(1 628)	14
Cash and cash equivalents			(1 544)	(1 297)
Net debt			**27 099**	**25 938**

(1) FX rates at end Q2:FY16 were R13.92 :$ and R15.60:€ and at the end of Q2:FY17 were R13.55:$ and R15.20:€.
(2) Will spring to mature on the same date as the Super Senior RCF Term Loan and Super Senior LC Facility.
(3) Represents the first tranche of bridge funding secured on 8 July 2016, net of fees capitalised.
(4) The ZAR term loan was extended from 16 May 2017 to 31 December 2017 during the fiscal year 2016.
(5) Increased from 3% to 4% from 30 June 2016.
(6) The maturity of the original 2019 Notes not tendered has been extended to 30 June 2022 and the interest rate reduced to 5.0% as part of the amendments with respect to the Exchange Offer concluded in the fiscal year 2016.
(7) The portion of this debt relating to Zimbabwe was R216 million in Q2:FY17 and R343 million in Q2:FY16.
(8) At the end of the period R226 million of the Super Senior LC facility were utilised for guarantees and LC's.

The total net debt decreased 4.3%, or R1,161 million, from R27,099 million at the end of the second quarter 2016 to R25,938 million as at 24 September 2016 mainly due to the debt refinancing concluded in November and December 2015 as well as the Exchange Offer in November 2015 combined with a favourable strengthening of the Rand.

On 14 April 2016, the Group obtained creditor support to defer up to R1.6 billion of certain cash interest payments under its 9.5% Euro and US dollar denominated senior notes due in 2018 and its senior term loan facility to December 2016.

On 8 July 2016, the Group secured a combined R1.5 billion in bridge funding denominated in U.S. dollars and Euros, made available by a group of Noteholders and bank lenders in two tranches. On 12 July 2016, the Group received a net amount of R651 million under the first tranche resulting in an increase in net debt on that date. However comparing net debt as at 12 July 2016 to net debt reported as at 25 June 2016, net debt only increased by R280 million as a result of the stronger Rand as at 24 September 2016.

Events after the reporting period

Bridge Funding

On 8 July 2016, the Group secured a combined R1.5 billion in bridge financing denominated in US dollars and Euros, which was made available by a group of Noteholders and bank lenders in two tranches upon the satisfaction of certain conditions precedent. On 24 October 2016 and 25 October 2016 the Group received a net amount of R574 million and R103 million respectively being the second tranche under the bridge financing.

Corporate Information

Edcon Holdings Limited
Incorporated in the Republic of South Africa
Registration number 2006/036903/06

Non-executive directors
DM Poler* (Chairman), EB Berk*, ZB Ebrahim₸, RB Daniels*, M Osthoff***,TF Mosololi₸, J Schreiber*** (appointed as Non-executive director 18 August 2015; resigned with effect from 26 March 2016), KDM Warburton₸ (appointed 1 February 2016), A Alvarez III*₸ (appointed 22 April 2016), D Frauman*₸ (appointed 1 June 2016).

Executive directors
BJ Brookes **** (Managing Director and Chief Executive Officer, appointed 30 September 2015), Dr U Ferndale and RB Daniels (interim joint Chief Executive Officers, appointed 18 August 2015, resigned 30 September 2015), J Schreiber***(resigned 18 August 2015), R Vaughan (Chief Financial Officer, appointed 14 June 2016), T Clerckx** (Chief Financial Officer, resigned 14 June 2016), Dr U Ferndale (Chief Executive: Discount Division).

*USA ** BELGIUM ***GERMAN ****AUSTRALIA
₸ Independent Non – Executive Director

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