

22 December 2016

This notice is important and requires your immediate attention.

EDCON HOLDINGS LIMITED (“EDCON”)
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AND QUARTERLY REPORT
FOR THE SIX-MONTH PERIOD ENDED 24 SEPTEMBER 2016

SUMMARY OF FINANCIAL AND OTHER DATA

The following Summary of Financial and Other Data should be read in conjunction with the Condensed Consolidated Financial Statements and related notes thereto in the second half of this notice.

The unaudited historical financial data in the Summary of Financial and Other Data and the Condensed Consolidated Financial Statements of Edcon Holdings Limited and its subsidiaries (the "Group") attached hereto, 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 first quarter 2017, 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.

The statements in this section regarding industry outlook, our expectation regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward looking statements. These forward looking statements are subject to numerous risks and uncertainties, some of which are described in more detail in our annual report for fiscal 2016, which we recommend you review in connection with this quarterly report. Our actual results may differ materially from those contained in or implied by any forward looking statements.

Management discussion and analysis of financial performance

Key features

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

- ❖ Transaction with creditors announced 20 September 2016 and approved by the Competition Commission Tribunal on 23 November 2016.
- ❖ Bridge financing secured of R1.5 billion.
- ❖ Net profit for the quarter of R411 million, up R2,555 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 R411 million in the second quarter 2017, up R2,555 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 8 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:

Rm	Second quarter (unaudited)		
	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 customary closing conditions.

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

Rm	Second quarter
	(unaudited)
	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.

Rm	Second quarter (unaudited)		
	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

Rm	Second quarter (unaudited)		
	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

Rm	Second quarter (unaudited)		
	2016 ⁽¹⁾	2017	% change
Edgars	47	33	
<i>Expansion</i>	30	11	
<i>Refurbishment</i>	17	22	
Discount	27	25	
<i>Expansion</i>	22	16	
<i>Refurbishment</i>	5	9	
Specialty	43	9	
<i>Expansion</i>	36	(1)	
<i>Refurbishment</i>	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.

Rm ⁽¹⁾	Second quarter (unaudited)			
	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	(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.

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.

Consolidated Financial Statements
Edcon Holdings Limited (“Edcon”)

Consolidated Statement of Financial Position (unaudited)

	2016 24 September Rm	2016 26 March Rm	2015 26 September Rm
ASSETS			
Non-current assets			
Properties, fixtures, equipment and vehicles	2 986	3 147	3 246
Intangible assets	10 935	11 054	15 987
Investment in associates		6	7
Deferred taxation	127	127	1 138
Employee benefit asset	96	96	110
Total non-current assets	14 140	14 430	20 488
Current assets			
Inventories	4 706	4 717	4 787
Trade receivables	798	966	519
Sundry receivables and prepayments	1 137	912	1 388
Derivative financial instruments			1 682
Cash and cash equivalents	1 297	1 693	1 544
	7 938	8 288	9 920
Assets classified as held-for-sale			369
Total current assets	7 938	8 288	10 289
Total assets	22 082	22 718	30 777
EQUITY AND LIABILITIES			
Equity attributable to shareholders			
Share capital & share premium	2 155	2 155	2 155
Warrants issued	135	135	
Other reserves	65	66	60
Retained loss	(24 667)	(24 359)	(19 296)
Shareholder's loan derecognised in equity	8 311	8 311	8 311
	(14 001)	(13 692)	(8 770)
Non-controlling interests	219	254	182
Total equity	(13 782)	(13 438)	(8 588)
Non-current liabilities – shareholder's loan			
Shareholder's loan	1 034	982	845
Total equity and shareholder's loan	(12 748)	(12 456)	(7 743)
Non-current liabilities – third parties			
Interest-bearing debt	26 043	26 503	24 503
Finance lease liability	285	305	326
Lease equalisation	661	648	604
Onerous lease liability	291	145	110
Employee benefit liability	125	125	160
Deferred taxation	79	108	66
Deferred revenue	66	51	48
	27 550	27 885	25 817
Total non-current liabilities	28 584	28 867	26 662
Current liabilities			
Interest-bearing debt	855	179	4 332
Deferred option premium			1 077
Finance lease liability	38	35	33
Current taxation	48	68	29
Deferred revenue	105	103	87
Option liability	14	50	54
Derivative financial instruments			
Trade and other payables	6 220	6 854	7 091
Total current liabilities	7 280	7 289	12 703
Total equity and liabilities	22 082	22 718	30 777
Total managed capital per IAS 1	14 473	14 566	21 451

Consolidated Quarterly Statement of Comprehensive Income (unaudited)

		2016 13 weeks to 24 September Rm	2015 13 weeks to 26 September Rm
	Note		
Total revenues	3	6 274	6 845
Revenue - retail sales		5 761	6 181
Cost of sales		(3 927)	(3 994)
Gross profit		1 834	2 187
Other income		365	386
Store costs		(1 665)	(1 572)
Other operating costs		(1 272)	(1 104)
Share of profits of associates and insurance business	4	124	264
Trading (loss)/profit		(614)	161
Derivative gain			952
Foreign exchange gains/(losses)		2 009	(2 491)
Expenses relating to the Exchange Offer			(39)
Fair value adjustment for put option		(6)	(12)
Impairment of intangible assets			(57)
Profit/(loss) before net financing costs		1 389	(1 486)
Finance income		23	12
Profit/(loss) before financing costs		1 412	(1 474)
Financing costs		(988)	(1 270)
Profit/(loss) before taxation		424	(2 744)
Taxation		(13)	600
PROFIT/(LOSS) FOR THE PERIOD		411	(2 144)
Other comprehensive income after tax:			
Exchange differences on translating foreign operations		(2)	48
Gain on cash flow hedges			45
Other comprehensive income for the period after tax		(2)	93
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		409	(2 051)
Profit/(Loss) for the period attributable to:			
Owners of the parent		408	(2 153)
Non-controlling interests		3	9
		411	(2 144)
Total comprehensive income for the period attributable to:			
Owners of the parent		434	(2 084)
Non-controlling interests		(25)	33
		409	(2 051)

Consolidated Half-year Statement of Comprehensive Income (unaudited)

		2016 26 weeks to 24 September Rm	2015 26 weeks to 26 September Rm
	Note		
Total revenues	3	12 801	13 839
Revenue - retail sales		11 734	12 681
Cost of sales		(7 747)	(8 024)
Gross profit		3 987	4 657
Other income		701	708
Store costs		(3 368)	(3 155)
Other operating costs		(2 520)	(2 054)
Share of profits of associates and insurance business	4	323	425
Trading (loss)/profit		(877)	581
Derivative gain			899
Foreign exchange gains/(losses)		2 441	(3 074)
Expenses relating to the Exchange Offer			(39)
Fair value adjustment for put option		(6)	19
Impairment of intangible assets			(57)
Profit/(loss) before net financing costs		1 558	(1 671)
Finance income		38	23
Profit/(loss) before financing costs		1 596	(1 648)
Financing costs		(1 870)	(2 134)
Loss before taxation		(274)	(3 782)
Taxation		(31)	810
LOSS FOR THE PERIOD		(305)	(2 972)
Other comprehensive income after tax:			
Exchange differences on translating foreign operations		(1)	59
Gain on cash flow hedges			79
Other comprehensive income for the period after tax		(1)	138
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(306)	(2 834)
(Loss)/profit for the period attributable to:			
Owners of the parent		(308)	(2 978)
Non-controlling interests		3	6
		(305)	(2 972)
Total comprehensive income for the period attributable to:			
Owners of the parent		(271)	(2 870)
Non-controlling interests		(35)	36
		(306)	(2 834)

Consolidated Statement of Changes in Equity (unaudited)

	Share capital, share Premium and warrants Rm	Foreign currency translation reserve Rm	Cash flow hedging reserve Rm	Revaluation surplus Rm	Retained loss Rm	Shareholder's loan Rm	Non-controlling interests Rm	Total equity Rm
Balance at 28 March 2015	2 155	20	(76)	8	(16 318)	8 311	146	(5 754)
Loss for the period					(2 978)		6	(2 972)
Other comprehensive income for the period		29	79				30	138
Total comprehensive income		29	79		(2 978)		36	(2 834)
Balance at 26 September 2016	2 155	49	3	8	(19 296)	8 311	182	(8 588)
Balance at 26 March 2016	2 290	58		8	(24 359)	8 311	254	(13 438)
(Loss)/Profit for the period					(308)		3	(305)
Other comprehensive income for the period		(1)					(38)	(39)
Total comprehensive income		(1)			(308)		(35)	(344)
Balance at 24 September 2016	2 290	57		8	(24 667)	8 311	219	(13 782)

Consolidated Quarterly Statement of Cash Flows (unaudited)

	2016 13 weeks to 24 September Rm	2015 13 weeks to 26 September Rm
Cash retained from operating activities		
Profit/(loss) before taxation from operations	424	(2 744)
Finance income	(23)	(12)
Finance costs	988	1 270
Impairment of intangible assets		57
Derivative gain		(952)
Deferred revenue – loyalty programme	(6)	6
Foreign exchange (gains)/losses	(2 024)	2 494
Fair value adjustment for put option	6	12
Amortisation of intangible assets	58	60
Depreciation	181	191
Net loss on disposal of properties, fixtures, equipment and vehicles	-	3
Onerous leases	157	14
Gain on exchange offer		(118)
Fees accrued	(50)	
Losses from associates	5	2
Other non-cash items	(4)	30
Operating cash (outflow)/inflow before changes in working capital	(288)	313
Working capital movement	33	434
Decrease/(increase) in inventories	138	(296)
Decrease/(increase) in trade accounts receivable	36	(11)
Decrease/(increase) in sundry receivables and prepayments	46	(70)
(Decrease)/increase in trade and other payables	(187)	811
Cash (outflow)/inflow from operating activities	(255)	747
Finance income received	22	6
Financing costs paid	(137)	(999)
Taxation paid	(10)	(21)
Net cash outflow from operating activities	(380)	(267)
Cash utilised in investing activities		
Investment in property, plant and equipment	(113)	(185)
Investment in associates		(7)
Acquisition of subsidiaries		(7)
Net cash outflow from investing activities	(113)	(199)
Cash effects of financing activities		
Increase in current interest-bearing debt	727	301
Increase in non-current interest-bearing debt	18	24
Settlement of option premium		(50)
Settlement of option liability	(42)	
Decrease in finance lease liability	(20)	(7)
Net cash inflow from financing activities	683	268
Increase/(decrease) in cash and cash equivalents	190	(198)
Cash and cash equivalents at the beginning of the period	1 112	1 733
Currency adjustments	(5)	9
Cash and cash equivalents at the end of the period	1 297	1 544

Consolidated Half-year Statement of Cash Flows (unaudited)

	2016 26 weeks to 24 September Rm	2015 26 weeks to 26 September Rm
Cash retained from operating activities		
Loss before taxation from operations	(274)	(3 782)
Finance income	(38)	(23)
Finance costs	1 870	2 134
Derivative gain		(899)
Deferred revenue – loyalty programme	6	5
Foreign exchange (gains)/losses	(2 519)	3 074
Fair value adjustment for put option	6	(19)
Amortisation of intangible assets	118	120
Impairment of intangible assets		57
Depreciation	365	380
Net loss on disposal of properties, fixtures, equipment and vehicles	5	8
Onerous leases	144	3
Gain on exchange offer		(118)
Fees accrued	97	
Losses from associates	5	2
Other non-cash items	30	40
Operating cash (outflow)/inflow before changes in working capital	(185)	982
Working capital movement	(102)	596
Increase in inventories	(25)	(333)
Decrease in trade accounts receivable	98	29
Increase in sundry receivables and prepayments	(187)	(220)
Increase in trade and other payables	12	1 120
Cash (outflow)/inflow from operating activities	(287)	1 578
Finance income received	37	16
Financing costs paid	(432)	(1 229)
Taxation paid	(71)	(37)
Net cash (outflow)/inflow from operating activities	(753)	328
Cash utilised in investing activities		
Investment in property, plant and equipment	(286)	(355)
Investment in associates		(7)
Acquisition of subsidiaries		(7)
Net cash outflow from investing activities	(286)	(369)
Cash effects of financing activities		
Increase in current interest-bearing debt	693	339
Increase in non-current interest-bearing debt	28	18
Settlement of option premium		(50)
Settlement of option liability	(42)	
Decrease in finance lease liability	(32)	(13)
Net cash inflow from financing activities	647	294
(Decrease)/increase in cash and cash equivalents	(392)	253
Cash and cash equivalents at the beginning of the period	1 693	1 288
Currency adjustments	(4)	3
Cash and cash equivalents at the end of the period	1 297	1 544

Condensed notes to the Consolidated Financial Statements (unaudited)

1. Basis of preparation

Edcon Holdings Limited's Consolidated Financial Statements ("Financial Statements") are prepared in accordance with International Financial Reporting Standards ("IFRS") and stated in Rands ("R").

These Financial Statements are presented in accordance with IAS 34 *Interim Financial Reporting*. Accordingly, note disclosures normally included in the annual financial statements have been condensed or omitted.

These Financial Statements have not been audited or reviewed by an auditor. In the opinion of management, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods have been made.

In preparing these Financial Statements, the same accounting principles and methods of computation are applied as in the Audited Group Consolidated Financial Statements of Edcon Holdings Limited on 26 March 2016 and for the period then ended except those relating to new and amended standards and interpretations where applicable.

These Financial Statements should be read in conjunction with the audited Consolidated Financial Statements as at and for the period ended 26 March 2016 as included in the 2016 Audited Consolidated Annual Financial Statements of Edcon Holdings Limited.

Comparability

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial period, except for certain amendments to IFRS standards and interpretations effective as of 26 March 2016, as follows:

- Annual Improvements to IFRS.

These amendments have had no material impact on the Financial Statements.

Restatement and reclassification

Restatement

Commencing on 27 March 2016, the Group has implemented a restructuring of its internal divisions which affects its divisional reporting segments. The Edcon Group segments now comprise of the Edgars division, Discount division, Specialty division, Edgars Zimbabwe, Manufacturing division, Credit and Financial Services and Group Services. These reporting segments show the realignment of our operational divisions to accomplish the objectives laid out in the Group's strategic plan. The Edgars division now comprises Edgars, the Discount division comprises Jet and Jet Mart and the Specialty division comprises CNA, Red Square, Boardmans, Edgars Active, Edgars Shoe Gallery, Legit and our mono-branded stores.

The comparative financial data in note 2 has been restated for the change in divisional structure. As a result of this change in divisional reporting, the financial results for the second quarter 2017 are not directly comparable to the results for fiscal year 2016.

Reclassification

As a result of the restructure of divisions and amount of R15 million has been reclassified from other operating costs to store costs for the 26 weeks ending 24 September 2016.

Reclassification

The equity investment in the insurance business was reported in investment of associates as at 26 September 2015 together with newly acquired investments in associates of the Group. The investment in the insurance business has been reclassified back to sundry receivables and prepayments where this investment was previously classified and which is considered more correct based on the nature of the investment in the insurance business. The amount of the reclassification is R55 million.

1. Basis of preparation *(continued)*

Reclassification *(continued)*

Additionally sundry receivables and prepayments and investment in associates in the Consolidated Statement of Financial Position have been reclassified with R66 million as at 26 September 2015 relating to amounts due from the equity investment partner at that date. The Group has furthermore reclassified R39 million below trading profit on the Statement of Comprehensive Income for the quarter and year to date ending 26 September 2016 for costs relating to the Exchange Offer concluded in November 2015.

Operating cash inflow before changes in working capital is reclassified by R2 million outflow, working capital movement for sundry receivables and prepayments is restated by R62 million inflow respectively.

Re-presentation

The Group has ceased to classify its trade receivables store card portfolio in Lesotho, Namibia, Botswana and Swaziland as held-for-sale as no buyer could be found at an acceptable price as from 26 March 2016 the Group concluded these store card portfolios were no longer deemed to be recovered through a highly probable sale transaction. Accordingly, the results of operations previously presented in discontinued operations in the consolidated statement of comprehensive income have been represented and included in income from continuing operations for all periods presented. These assets are no longer disclosed as held-for-sale in the statement of financial position and the comparative periods are not restated in line with the requirements of IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

Disclosures for Statement of Comprehensive Income, Segmental results (note 2) and Revenues (note 3) is re-presented for the 13 weeks and 26 weeks ending 26 September 2015.

1.2 Significant movements in the Consolidated Statement of Financial Position

Trade and other payables

Trade and other payables decreased by R634 million from R6 854 million as at 26 March 2016 to R6 220 million as at 24 September 2016. The decrease is mainly attributable to a decrease in interest accruals related to non-current interest-bearing debt as a result of concluding the Exchange Offer in November 2015 and the capital refinancing in November and December 2015.

Interest bearing debt

Non-current interest bearing debt decreased by R460 million from R26 503 million as at 26 March 2016 to R26 043 million as at 24 September 2016. The decrease is attributable to unrealised foreign exchange gains of R2 527 million offset by the capitalisation of interest accrued on debt instruments of R1 914 million.

Current interest bearing debt increased by R676 million from R179 million as at 26 March 2016 to R855 million as at 24 September 2016. The increase is mainly due to the new bridging secured on 8 July 2016 for a combined R1.5 billion, in U.S. dollars and Euros made available by a group of Noteholders and bank lenders in two tranches on satisfaction of certain conditions precedent. The first tranche of net R651 million was received on 12 July 2016 comprising R733 million, net of fees of R82 million.

1.3 Basis of accounting

The Consolidated Statement of Financial Position at 24 September 2016 reports share capital, share premium and warrants of R2 290 million (26 March 2016 and 26 September 2015: R2 290 million and R2 155 million respectively) in equity attributable to shareholders and a shareholder's loan which was derecognised in equity of R8,311 million (26 March 2016 and 26 September 2015: R8 311 million) offset by an accumulated retained loss of R24 667 million (26 March 2016: R24 359 million and 26 September 2015: R19 296 million) and a net credit of R65 million (26 March 2016: net credit of R66 million and 26 September 2015: net credit of R60 million) in other reserves, resulting in negative equity attributable to shareholders at 24 September 2016 of R14 001 million (26 March 2016: R13 692 million and 26 September 2015: R8 770 million). After considering non-controlling interests of R219 million (26 March 2016: R254 million and 26 September 2015: R182 million), total equity of the Group is a deficit of R13 782 million (26 March 2016: R13 438 million and 26 September 2015: R8 588 million).

Condensed notes to the Consolidated Financial Statements (unaudited)

1. Basis of preparation *(continued)*

1.3 Basis of accounting *(continued)*

The shareholder's loan of R1 034 million (26 March 2016: R982 million and 26 September 2015: R845 million) has been subordinated to the claims of all the creditors of the Group and the total negative equity and shareholder's loan at 24 September 2016 is R12 748 million (28 March 2016: R12 456 million and 26 September 2015: R7 743 million).

The Group in its current form with Edcon Holdings Limited as the parent company thereof, is not expected to continue into the foreseeable future as a result of a lock-up agreement (the "LUA") signed between the Group and certain of its existing creditors agreeing the comprehensive Restructuring of the Group's capital structure. To give effect to the basis of consolidation required under IFRS 10, Consolidated Financial Statements and to provide a consolidated view of the current Group on an appropriate accounting basis for Edcon Holdings Limited, presented as a single economic entity, the Consolidated Financial Statements have been prepared using the recognition and measurement criteria of IFRS which is consistent with those applied in the past.

In assessing using the recognition and measurement criteria as the accounting basis for the Consolidated Financial Statements, management has considered the following:

- (i) 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 12 July 2016, the Group received the first tranche being a net amount of R651 million. 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.
- (ii) On 20 September, 2016, certain entities in the Edcon Group and certain of the Group's creditors, accounting for at least 80% of the outstanding principal amount of the secured debt of the Group, provided signatures in respect of a LUA, pursuant to which the parties to the LUA agreed to the key terms of a comprehensive restructuring of the Edcon Group's entire capital structure (the "Restructuring"), including a significant decrease in the outstanding amount of third-party debt of Edcon Limited and a transfer of control over the Edcon Group's operating companies from Bain Capital to certain of the Edcon Group's existing creditors (the "Control Transfer"). The LUA became binding on 3 October 2016, and on 13 October 2016, the various conditions precedent to the occurrence of the effective date of the LUA were satisfied, such that, the LUA became binding on all parties thereto.
- (iii) Future sales growth, margin growth, expected operating costs, the tax settlement of the Group, the terms of the shareholder's loan and all guarantors and cross guarantors.
- (iv) The fair values of the Group's assets and liabilities and all maturities relating to liabilities for the following 12 months in assessing its ability to trade against its operating budget.
- (v) The basis of accounting applied to the parent company Edcon Holdings Limited, its subsidiaries, Staff Empowerment Trust and Edgars Stores Limited Zimbabwe individually.

In addition to the implementation of the Restructuring and the measures listed in sub-clauses (i) through (v) above, management additionally monitors the Group's cash requirements on an ongoing basis for uncertainties which may arise and takes appropriate action where necessary. For example, such uncertainties include, economic uncertainties that may arise which may affect the businesses ability to meet its objectives in terms of sales growth, credit sales, improvement in gross margins, performance of our own credit book introduced during the current financial period, various working capital initiatives and the timing thereof.

Condensed notes to the Consolidated Financial Statements (unaudited)

1. Basis of preparation *(continued)*

1.3 Basis of accounting *(continued)*

Management anticipates that repayments of debt within the Group's capital structure which will fall due over the following 12 months as presented in these consolidated financial statements, will be met out of operating cash flows, the bridge financing, and after taking into account and giving effect to the Restructuring and resulting cash flows. As a result of the Restructuring, the Group's gross third party debt is expected to decrease to approximately R7 billion at the Edcon Limited Group level (excluding newly issued debt at Holdco 1 and Holdco 2). In reaching the conclusion using the principles of going concern as the basis of accounting to present these consolidated financial statements, and in mitigation of the uncertainties outlined above, management has taken into consideration the probability of a successful Restructuring, a need to have an adequate basis of consolidation applied on a consistent basis, the various working capital initiatives and ongoing management of cash requirements undertaken by the Group. There can however be no certainty as to whether such mitigants will be successful, nor the timing thereof.

Management acknowledges that uncertainty remains over the ability of the Group to meet its future funding requirements and to refinance or repay its obligations as they fall due. However, as described above, management has a reasonable expectation, that the Group, taking into account the bridge financing, the Restructuring, and ongoing liquidity management, that the Group will have adequate resources to meet obligation requirements as they fall due albeit in a newly formed Group of companies as a result of the Restructure.

If for any reason the companies which collectively comprise the Group, with emphasis on Edcon Limited within the current Group structure, are unable to continue as a going concern, it would have an impact on the Group's ability to realise assets at their recognised values, in particular goodwill and other intangible assets and to extinguish liabilities in the normal course of business at the amount stated in these consolidated financial statements.

Condensed notes to the Consolidated Financial Statements (unaudited) *continued*

	2016 26 weeks 24 September Rm	Restated 2015 26 weeks 26 September Rm
2. SEGMENTAL RESULTS		
2.1 Revenues		
Edgars	4 856	5 299
Discount	4 288	4 625
Specialty	2 531	2 671
Edgars Zimbabwe ¹	416	432
Manufacturing	83	92
Credit and Financial Services	589	697
Group Services	38	23
	12 801	13 839
2.2 Retail sales		
Edgars	4 690	5 129
Discount	4 182	4 517
Specialty	2 531	2 671
Edgars Zimbabwe ¹	331	364
	11 734	12 681
2.3 Number of stores		
Edgars	206	205
Discount	518	522
Specialty	773	747
Edgars Zimbabwe ¹	51	53
	1 548	1 527
2.4 Operating profit before net financing costs		
Edgars	(172)	188
Discount	(162)	147
Specialty	(317)	(147)
Edgars Zimbabwe ¹	12	35
Manufacturing	(22)	6
Credit and Financial Services	352	467
Group Services ²	1 866	(2 367)
	1 557	(1 671)

¹ Edgars Zimbabwe is disclosed as a separate segment as the business activities are measured separately.

² Included in the allocation to the Group Services segment is derivative gains or losses, foreign exchange gains or losses and non-recurring related expenditure.

Condensed notes to the Consolidated Financial Statements (unaudited) *continued*

	2016	2015
	26 weeks	26 weeks
	24 September	26 September
	Rm	Rm
3. REVENUES		
Retail sales	11 734	12 681
Club fees	279	285
Finance charges on trade receivables	164	143
Share of profits from insurance business	328	427
Finance income	38	23
Administration fee	175	188
Manufacturing sales to third parties	83	92
	12 801	13 839
4. SHARE OF PROFITS OF ASSOCIATES AND INSURANCE BUSINESS		
Share of profits from insurance business	328	427
Share of losses from other associates	(5)	(2)
	323	425
5. FINANCIAL INSTRUMENTS		

The Group uses a three-level hierarchy to prioritise the inputs used in measuring fair value. Level 1 has the highest priority and level 3 has the lowest. Fair value is principally applied to financial assets and financial liabilities. These are measured at fair value on a recurring basis, aggregated by the level in the fair value hierarchy within which these measurements fall.

The following table presents the Group's assets and liabilities that are measured at fair value at the period end:

	Total Rm
24 September 2016	
Financial liabilities	
Option liability	14
Total financial liabilities	14
26 March 2016	
Financial liabilities	
Option liability	50
Total financial liabilities	50
26 September 2015	
Financial assets	
Cross currency swaps	5
Foreign currency forward contracts	4
Foreign currency call options	1 673
Total financial assets	1 682
Financial liabilities	
Option liability	54
Total financial liabilities	54

5. FINANCIAL INSTRUMENTS (continued)

The above instruments, excluding the option liability, were classified as level 2 inputs. The fair value under level 2 is based on observable inputs such as quoted prices for similar financial assets or financial liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the financial assets or financial liabilities.

The option liability is classified as level 3 inputs. The fair value under level 3 is based on unobservable inputs that are supported by little or no market activity and are financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgement or estimation.

All financial instruments have been recognised in the Consolidated Statement of Financial Position and there are no material difference between their fair values and carrying values, except for the notes issued.

The following methods and assumptions were used by the Group in establishing fair values:

Liquid resources, trade accounts receivable and loans: the carrying amounts reported in the Statement of Financial Position approximate fair values due to the short period to maturity of these instruments.

Short-term interest-bearing debt (excluding notes issued): the fair values of the Group's loans are estimated using discounted cash flow analyses applying the RSA yield curve. The carrying amount of short-term borrowings approximates their fair value, due to the short period to maturity of these instruments.

Notes issued: the notes issued are initially recognised at fair value and are reported at the exchange rate ruling at the reporting date. The market values at 26 September 2016 for the listed notes was R5 634 million (26 March 2016: R 6 540 million and 26 September 2015: R8 866 million) and have been determined based on the closing prices of the relevant stock exchange.

6. EVENTS AFTER THE REPORTING DATE

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* (resigned 15 December 2016), ZB Ebrahim†, RB Daniels*, M Osthoff*** (resigned 15 December 2016), TF Mosololi† (resigned 15 December 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), 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, resigned 15 December 2016)).

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

Group Secretary

CM Vikisi

Registered office

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Fax: +27 11 837-5019
Web site: www.edcon.co.za

Postal address

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Auditors

Deloitte & Touche
Buildings 1 and 2, Deloitte Place, The Woodlands
20 Woodlands Drive, Woodmead, 2052
Private Bag X6, Gallo Manor, 2052
Telephone: +27 11 806-5000
Fax: +27 11 806-5111

Trustee

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United Kingdom

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London E14 5AL
United Kingdom

Listing Agent & Irish Paying Agent

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