7 March 2018

This notice is important and requires your immediate attention.

EDCON ACQUISITION PROPRIETARY LIMITED

UNAUDITED TRADING UPDATE

FOR THE 13 WEEKS ENDED 23 DECEMBER 2017

DISCLAIMER

Edcon Acquisition Proprietary Limited ("Edcon" and, 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 Edcon Group's financial performance for the 13-week period ended 23 December 2017.

This Trading Update and 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 Edcon Group and it is not intended to provide the basis of any investment decision, nor does it or is it intended to form the basis of any contract for acquisition of, or investment in, the Edcon Group, financial promotion, or any offer or invitation in relation to any acquisition of or investment in the Edcon Group in any jurisdiction, nor should it be considered as legal, financial or tax advice in relation to the same.

This Trading Update contains "inside information" with respect to K2016470260 (South Africa) Limited and K2016470219 (South Africa) Limited, the indirect parent companies of the Edcon Group, for the purposes of Article 7 of the Market Abuse Regulation (EU) No 596/2014.

The financial information contained in this Trading Update is based on management accounts, for the third quarter 2018 (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 the fiscal year ending 31 March 2018 ("fiscal 2018"), and the review by our independent auditors of our results for fiscal 2018, we will not report materially different results than those indicated herein.

This Trading Update includes forward-looking statements, including certain estimates that are based on the Edcon 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 Edcon 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 its 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, Edcon has taken into account historical financial performance and made certain assumptions that management of the Edcon 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 Edcon 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 Edcon 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 Edcon 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 Edcon Group to provide information similar to the information contained in this Trading Update in the future. None of the information contained on Edcon'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 Edcon Group assumes any obligation to review or confirm analyst expectations or estimates. Nothing in this Trading Update constitutes investment advice.

INDEX

	Page
PART A – TRADING UPDATE FOR THE 13 WEEKS ENDED 23 DECEMBER 2017	
Summary of Financial and Other Data	4
Management's Discussion and Analysis of Unaudited Trading Update	5
Corporate Information	19
ANNEX –FORECAST AND PRELIMINARY BUDGET INFORMATION	20

SUMMARY OF FINANCIAL AND OTHER DATA

This Trading Update relates to the unaudited financial data for the 13-week period ended 23 December 2017.

The unaudited historical financial data in the Summary of Financial and Other Data of Edcon Acquisition Proprietary Limited ("Edcon" and, together with its subsidiaries, the "Edcon Group"), relates to the three-month period ended 24 December 2016 and the three-month period ended 23 December 2017. Unless the context requires otherwise, references in this notice to (i) "third quarter 2017" and "third quarter 2018" shall mean the 13-week period ended 24 December 2016 and the 13-week period ended 23 December 2017, respectively and (ii) "fiscal 2017" and "fiscal 2018" shall mean the 52-week period ended 25 March 2017 and the 53-week period ending 31 March 2018, respectively.

Following the senior management changes announced in the Annual Report of the Edcon Group for the 52-weeks ended 25 March 2017, the Boardmans and Red Square operations were moved to the Edgars division and the Edgars Active operation was moved to the Jet division. As a result, throughout this Trading Update, "Edgars" refers to the Edgars division, which comprises our Edgars, Red Square and Boardmans operations, "Jet" refers to the Jet division, which comprises our Jet, Jet Mart and Edgars Active operations, and "Specialty" refers to the Specialty division, which comprises our CNA and mono-branded operations as well as profits and/or losses from associates in the third quarter 2018, whilst the third quarter 2017 additionally includes Edgars Shoe Gallery and Legit. In connection with this reorganisation of our divisions, we have restated our segmental results within this Trading Update for the third quarter 2017 but not our segmental results for fiscal year 2017. As a result of the implementation of this new reporting structure, our divisional results for the third quarter 2018 are not directly comparable with our divisional results for fiscal year 2017. The third quarter 2017 includes the operational results for the Legit and Edgars Shoe Gallery unless otherwise stated.

Management discussion and analysis of unaudited trading update

Key features

Pertaining to the third quarter 2018 compared to the third quarter 2017.

- Retail sales decreased by 9.4% to R7,646 million from R8,441 million impacted by the sale of our Legit business, the exit of non-profitable international brands and the closure of unprofitable stores whilst like-for-like retail sales decreased by 4.9%
- Excluding Legit, Edgars Shoe Gallery, unprofitable international brands being exited and the alignment[1] of the trading period, retail sales decreased by 3.8% to R7,710 million
- Gross profit margin up 190bps from 36.1% to 38.0%
- Excluding the impact of Legit, Edgars Shoe Gallery, brands being exited and the alignment[1] of the third quarter 2018 trading period to the third quarter 2017, gross profit increased by 2.3% to R2,952 million. The gross profit margin increased 230bps from 36.0% to 38.3%
- Pro-forma Adjusted EBITDA decreased by 31.4% to R619 million
- Operating cash before changes in working capital increased by R397 million in third quarter 2018 compared to an increase of R449 million in the third quarter 2017
- Ladieswear continues to trade up in both Edgars and Jet
- The super senior liquidity facility was extended to 30 September 2018 and Edcon is in discussions with stakeholders on options to refinance the Edcon Group's indebtedness
- Edcon has secured the consent of all lenders under its super senior credit facilities and super senior liquidity facilities to waive a breach of the financial covenant and certain information covenants and defer any cash pay interest falling due during the waiver period, which interest will be capitalised. The continued effectiveness of the waivers and deferrals is subject to Edcon satisfying certain information undertakings and conditions subsequent by the agreed dates

[1]*Includes 24 December 2017 and excludes 24 September 2017 (the "alignment of the third quarter 2018 trading period").*

Introduction

In our third quarter 2018, consumer confidence remained low with the FNB/BER Consumer Confidence Index (CCI) recorded below zero for the third consecutive year. The Bureau for Economic Research (BER) reported the negative CCI over the last three years to be the longest uninterrupted negative streak since the FNB/BER CCI started in 1982. Macro-economic factors continue to be impact consumers and the Edcon Group is experiencing increased competition from established market participants as well as new market entrants. Our trading environment remains challenging with increased competition and weaker consumer demand on the back of tight credit conditions and low growth in consumer disposable income on the back of high food prices, record high unemployment rates and high fuel prices experienced.

Excluding the Legit business, Edgars Shoe Gallery, the exiting of unprofitable brands and the alignment of the third quarter 2018 trading period, sales volumes remained under pressure, with retail sales decreasing by R308 million, or 3.8%, to R7,710 million in the third quarter 2018 from R8,018 million in the third quarter 2017. While retail sales were affected by weak consumer demand and fierce price competition through ongoing promotions and clearance activity by competitors, both Edgars and Jet continued to trade positively in ladieswear and footwear in Edgars. Our strategy of exiting non-profitable international brands and the optimisation of merchandise categories and store rationalisation has impacted on our retail sales performance with like-for-like retail sales decreasing by 4.9%. Average retail space excluding Legit decreased by 2.0% compared to the third quarter 2017.

Credit sales decreased by 11.2% (excluding Legit and Edgars Shoe Gallery 9.2%) compared to a decrease of 8.7% in the third quarter 2017 as the Group tightened its credit scorecards during the quarter. Our in-house trade receivables book as at 23 December 2017 was R790 million, up R460 million from R330 million as at 24 December 2016 and has increased by R372 million compared to R418 million as at 25 March 2017. Credit sales contributed 34.6% of total retail sales for the third quarter 2018, a decrease of 0.7%, from 35.3% in the third quarter 2017. Cash sales including the Legit business, Edgars Shoe Gallery and the exit of unprofitable international brands decreased by 8.4% (excluding Legit and Edgars Shoe Gallery cash sales decreased 3.5%) as a result of low consumer demand in the third quarter 2018. The Group has made good progress in respect of finding a securitisation solution for the Group's own book.

The gross profit margin for the third quarter 2018 was 38.0%, up 190bps from 36.1% in the third quarter 2017. The improvement in the gross profit margin was achieved through improved input costs, negotiated supplier rebates and settlement discounts as well as a reduction in clearance and promotional markdowns. First margins, being margin before promotional and clearance markdowns, improved 70bps in the third quarter 2018 as a result of well managed input costs. Gross profit decreased by R139 million to R2,907 million from R3,046 million in the third quarter 2017. Excluding the impact of Legit, Edgars Shoe Gallery, brands being exited and the alignment of the third quarter 2018 trading period, gross profit increased by R66 million or, 2.3% from R2,886 million in the third quarter 2017 to R2,952 million in the third quarter 2018, while gross profit margin increased 230bps from 36.0% in the third quarter 2017 to 38.3% in the third quarter 2018.

Operating cash before changes in working capital decreased by R52 million from a cash inflow of R449 million in the third quarter 2017 to a cash inflow of R397 million in the third quarter 2018. The decrease was a result of subdued trading performance and was impacted further by the fact that 24 December 2017 was excluded from the third quarter 2018 (whereas in fiscal 2017, 24 December 2016 fell in the third quarter 2017). Working capital generated a R988 million cash inflow in the third quarter 2018 compared to a R1,341 million inflow in the third quarter 2017 impacted by higher inventory levels on hand following weaker than expected peak trade retail sales and a reduction in trade accounts payable.

Pro-forma adjusted EBITDA decreased by R283 million, or 31.4%, from R902 million in the third quarter 2017, to R619 million in the third quarter 2018. After the alignment of the third quarter 2018, pro-forma adjusted EBITDA increased by R43 million to R662 million in third quarter 2018, a decrease of 26.6% from R902 million in the third quarter 2017. Pro forma adjusted EBITDA was impacted by weak trading performance and additional operating costs in our credit and financial services division of R153 million, of which R23 million relates to additional costs of administering our own funded trade receivables book and R130 million relates to net bad debts and an increase in the trade receivable provisions from R187 million as at 23 September 2017 to R260 million as at 23 December 2017.

The Edcon Group extended the super senior liquidity facility (the "SSLF") during the third quarter 2018 and is currently in discussions with its stakeholders with respect to options to refinance the Group's financial indebtedness (further details on page 17).

Trading review

Key operational data

	Retail sales growth (%) (unaudited)				Gross profit margin (%) (unaudited)		
	Q3:FY18 Actual	***Q3:FY17 Actual***	***Q3:FY18 LFL[(1)]***	***Q3:FY17 LFL[(1)]***	***Q3:FY18 Actual***	***Q3:FY17 Actual***	***Pts change[(2)]***
Edgars	(6.9)	(1.8)	(6.7)	(3.2)	41.0	40.0	1.0
Jet	(2.7)	(4.5)	(3.9)	(3.5)	35.0	33.0	2.0
Specialty[(3)]	(44.6)	(1.5)	(9.2)	(1.7)	33.8	31.2	2.6
Edgars Zimbabwe[(4)]	21.3	0.5	21.3	2.7	46.1	41.0	5.1
Total	(9.4)	(2.8)	(4.9)	(3.0)	38.0	36.1	1.9

	Q3:FY18 Actual	***Q3:FY17 Actual***	***% change***
Total number of stores	1 292	1 545	(16.4)
Average retail space ('000 sqm)	1 516	1 600	(5.3)
Customer credit accounts ('000s)[(5)]	2 527	2 891	(12.6)

(1) Like-for-like sales (same store sales).
(2) Q3:FY18 % change on Q3:FY17
(3) Excluding Legit, Edgars Shoe Gallery and non-profitable brands being exited, retail sales decreased by 11.1% in Q3:FY18 and a decrease of 2.8% in Q3:FY17 . Financial gross profit margin in Q3:FY18 was 34.9% and 27.0% in Q3:FY17
(4) On a constant currency basis retail sales increased 27.7% and LFL growth increased by 27.7% in Q3:FY18.
(5) Excludes Edgars Zimbabwe customer credit accounts Q3:FY18 of 156 000 and Q3:FY17 of 165 000.

Edgars

Retail sales in the Edgars division decreased by R262 million, or 6.9%, from R3,787 million in the third quarter 2017 to R3,525 million in the third quarter 2018. Retail sales for the October and November months combined, decreased by 2.9%, whilst December decreased by 11.4% when compared to the same periods of the third quarter 2017. Aligning the third quarter 2018 trading period, retail sales decreased by 6.3%. Our Edgars division, achieved positive retail sales growth in ladieswear and footwear for the third consecutive quarter, realising benefits from our new strategies in these categories. Cosmetics, menswear, childrenswear, homeware, cellular and active clothing retail sales decreased when compared to the third quarter 2017. Edgars cash sales decreased by 4.8% compared to the third quarter 2017, whilst credit sales decreased by 9.5% over the same period as a result of tightened credit scorecards introduced during the quarter. Same store sales decreased by 6.7% compared to the third quarter 2017.

Average space decreased by 2.9% to 740 thousand square meters compared to the third quarter 2017. During the third quarter 2018 we opened 1 Edgars Cosmetics Emporium store and 1 Red Square store and closed 1 Edgars store, 2 Boardmans stores and 4 Red Square stores, bringing the total number of stores in the Edgars division to 286.

Gross margin improved by 100bps from 40.0% for the third quarter 2017 to 41.0% (41.4% after aligning the third quarter 2018 period) for the third quarter 2018. The increase is due to better input costs, increased supplier discounts and a marginal reduction in markdown activity in the third quarter 2018, compared to the third quarter 2017.

Jet

Retail sales in the Jet division decreased by R90 million, or 2.7%, from R3,383 million in the third quarter 2017, to R3,293 million in the third quarter 2018. Aligning the third quarter 2018 trading period, retail sales decreased by 1.3%. Credit sales in the Jet division decreased by 9.5% as credit scorecards were tightened during the quarter, whilst cash sales increased slightly by 0.1%. Ladieswear performed positively compared to the third quarter 2017 following strategic initiatives introduced in the division, whilst the remaining categories, including menswear, childrenswear, footwear, homeware and hardlines, continued to underperform in a competitive market. Same store sales decreased by 3.9% compared to the third quarter 2017.

Average space decreased by 0.3% to 648 thousand square meters compared to the third quarter 2017. During the quarter, we opened 31 Jet stores and closed 10 Jet Mart stores and 1 Edgars Active store, bringing the total number of stores in the Discount division to 737.

Gross profit margin increased 200bps to 35.0% (35.1% after aligning the third quarter 2018 period) in the third quarter 2018 from 33.0% in the third quarter 2017 due to improved input costs, higher supplier rebates received and a reduction in markdown activity.

Specialty

Specialty includes CNA and our mono-branded stores in the third quarter 2018. The third quarter 2017 includes the Legit business, the majority of which was sold in January 2017 and the sale of the remaining business in Botswana was sold effective 30 April 2017, as well as the Edgars Shoe Gallery stores which were closed during fiscal 2017.

Total retail sales for the third quarter 2018 was R600 million, a decrease of R483 million, or 44.6% compared to retail sales of R1,083 million in the third quarter 2017. Excluding Legit, Edgars Shoe Gallery and unprofitable brands being exited such as Lucky Brand, Tom Tailor, River Island, One Green Elephant, Geox, Express and others, retail sales for the third quarter 2018 was R587 million, a decrease of R73 million, or 11.1% (10.2% after aligning the third quarter 2018 trading period), compared to the third quarter 2017. Retail sales in CNA decreased by 9.8% whilst the mono-branded stores retail sales decreased by 37.0% (15.0% excluding the exiting of non-profitable brands).

Average store space decreased by 40.9% to 88 thousand square meters compared to the third quarter 2017, as a result of the Legit sale, closure of Edgars Shoe Gallery and the exit of unprofitable international brands. Excluding Legit, average space decreased by 8.6% as unprofitable stores were closed or converted. During the quarter, we opened 1 CNA store and closed 42 mono-branded stores, bringing the total number of stores for Specialty to 218 representing 196 CNA stores (includes 11 Samsung stores) and 22 mono-branded stores.

Supplier discounts and increased rebates contributed to an increase in gross margin of 2.6% from 31.2% in the third quarter 2017 to 33.8% (34.9% after aligning the third quarter 2018 period) in the third quarter 2018. Excluding Legit, Edgars Shoe Gallery and unprofitable brands being exited, gross margin increased 790bps to 34.9% for the third quarter 2018 from 27.0% in the third quarter 2017.

Africa

Sales from countries other than South Africa decreased by 3.7% (10.3% excluding Zimbabwe) compared to the third quarter 2017, and contributed 11.3% (8.5% excluding Zimbabwe) of retail sales for the third quarter 2018, up from 10.6% (down from 8.6% excluding Zimbabwe) in the third quarter 2017. All territories except Zimbabwe and Ghana reported a decrease in retail sales with the biggest decline experienced in Namibia. Retail sales in Swaziland, Lesotho, Namibia, Zambia and Botswana were impacted by the sale of the Legit business. Zimbabwe, Ghana and Zambia reported an increase in local currency sales. Edcon now has 186 stores outside of South Africa (including 51 in Zimbabwe).

Credit and financial services

At 23 December 2017, excluding Edgars Zimbabwe, we had 364 thousand fewer credit customers compared to the third quarter 2017 due to credit account closures. On a twelve-month rolling basis, credit sales (excluding Zimbabwe) decreased from 36.5% of total retail sales in the third quarter 2017 to 35.3% in the third quarter 2018. Edcon's in-house trade receivables book as at 23 December 2017 was R790 million, up R460 million from R330 million as at 24 December 2016 and up by R372 million compared to R418 million as at 25 March 2017, following our revised arrangement with Absa, implemented in the third quarter 2017. Our new arrangement with Absa will continue to take time to drive meaningful new credit customers and grow the number of credit accounts. Good progress has been made with respect to finding a securitisation solution for the Group's own book.

On 31 January 2017, in connection with the Restructuring, Edcon Acquisition Proprietary Limited acquired the investment in Hollard Business Associates Proprietary Limited ("HBA") from Edcon Holdings Limited as contemplated in the Restructuring Agreement. The table below presents the consolidated share of insurance profits for the current and prior comparative third quarter 2017 as if Edcon Acquisition Proprietary Limited had included the third quarter 2017 share of profits from the insurance business in its Consolidated Statement of Comprehensive Income:

	Third quarter (unaudited)		
Profits from insurance business - Rm	***2018***	***2017***	***pts change*** (1)
Share of profits from insurance business third quarter 2018 as reported	139		
3 months share of profits from the insurance business third quarter 2017 (2)		197	
Share of profits from insurance business	139	197	(29.4)

(1) Q3:FY18 % change on Q3:FY17.

(2) Share of profits from the insurance business for the 3 months ending 24 December 2016 previously included in the Consolidated Statement of Comprehensive Income of Edcon Holdings Limited.

Edcon's share of the profits from the insurance business as presented in the table above, decreased by R58 million, or 29.4%, from R197 million for the third quarter 2017 (as reported in the Consolidated Statement of Comprehensive Income of Edcon Holdings Limited for third quarter 2017) to R139 million for the third quarter 2018. The decrease is due to an increase in insurance claims and a reduction in our share of profits following the re-insurance completed in fiscal 2016.

Included in other income for the third quarter 2017, was R118 million which related to a brand and administration fee received from Hollard by Edcon Limited, an indirect subsidiary of Edcon Acquisition Proprietary Limited. This fee is not recognised in other income for the third quarter 2018, as Edcon Acquisition Proprietary Limited acquired the investment in HBA on 31 January 2017, where after the Edcon Group consolidates its share of the insurance business profits.

Financial review

Summary financial information

Rm	Third quarter (unaudited) 2018	2017	% Change(1)
Total revenues	8 187	8 899	(8.0)
Retail sales	7 646	8 441	(9.4)
Gross profit	2 907	3 046	(4.6)
Gross profit margin (%)	38.0	36.1	1.9 pt
Pro forma adjusted EBITDA(2)	619	902	(31.4)
Capital expenditure	118	236	(50.0)
Net third party debt including cash and derivatives	4 166	24 703	(83.1)
LTM pro forma adjusted EBITDA	1 165	1 477	(21.1)
Net third party debt/LTM pro forma adjusted EBITDA (times)	3.6x	16.7x	(13.1x)

(1) Q3:FY18 % change on Q3:FY17.

(2) Gross profit is derived from retail sales less cost of sales which excludes advertising costs.

(3) See table on page 11 which reconciles trading profit/loss to adjusted EBITDA and proforma adjusted EBITDA.

Revenues

Total revenues decreased by R712 million, or 8.0%, from R8,899 million in the third quarter 2017 to R8,187 million in the third quarter 2018, due to a decrease in retail sales of R795 million, compared to the prior period, whilst like-for-like retail sales decreased by 4.9%. Retail sales decreased primarily as a result of a reduction in promotion activity compared to the third quarter 2017, following the introduction of better entry price points in fiscal 2017. The Edcon Group continued to experience aggressive competition through additional promotional activities on offer by competitors. Retail sales, excluding Legit, Edgars Shoe Gallery, unprofitable international brands being exited and after the alignment of the trading period for the third quarter 2018, decreased by 3.8% to R7,710 million from R8,018 million in the third quarter 2017. Credit sales decreased by 11.2% compared to the prior period, while cash sales decreased by 8.4%. Club fees decreased by R28 million as club membership exits continued across both the Edgars and Jet division, which were not offset by new club membership drives and finance income decreased by R5 million. The decreases in retail sales, club fees and finance income was partially offset by an increase of R54 million from manufacturing sales to third parties as third party retailers re-engineer their supply chains to shorten the lead time of products, an increase in finance charges on trade receivables of R11 million as a result of the growth in our own book, an increase in the Absa administration fee of R30 million due to a provision raised in the third quarter 2017 not repeated in the current quarter, and an increase of R21 million on consolidating the share of profits from the insurance business of R139 million in the third quarter 2018 compared to R118 million received as a brand and administration fee in the third quarter 2017.

Retail gross profit

Gross profit margin increased by 190bps from 36.1% in the third quarter 2017 to 38.0% in the third quarter 2018. The increase in the gross profit margin was due to improved input costs, better negotiated supplier rebates and discounts, as well as a reduction in clearance and promotional markdowns, although still higher than anticipated, as competitors continued with promotional and clearance activity. Gross profit decreased by R139 million to R2,907 million from R3,046 million in the third quarter 2017 on the back of a weaker than anticipated third quarter 2018 retail sales performance. First margin in the third quarter 2018 improved 70bps as input costs were well managed over the period.

Excluding the impact of Legit, Edgars Shoe Gallery, brands being exited and the alignment of the trading period for the third quarter 2018, gross profit increased by R66 million, or 2.3%, from R2,886 million in the third quarter 2017 to R2,952 million in the third quarter 2018. The gross profit margin increased 230bps from 36.0% in the third quarter 2017 to 38.3% for the third quarter 2018.

Pro forma adjusted EBITDA

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

	Third quarter (unaudited)		
Rm	***2018***	***2017***	***% Change[(1)]***
Trading (loss)/profit[(2)]	(127)	493	(125.8)
Depreciation and amortisation	256	234	
Net asset write off[(3)]	70	10	
EBITDA losses/(gains) from brands exited[(4)]	15	66	
EBITDA losses from Edgars Shoes Gallery[(5)]		1	
EBITDA gains from the Legit business[(6)]		(72)	
Other non-recurring costs[(7)]	405	91	
Adjusted EBITDA	619	823	(24.8)
Brand and administration fee income from insurance business[(8)]		(118)	
Share of profits from insurance business[(8)]		197	
Pro forma adjusted EBITDA	619	902	(31.4)

(1) Q3:FY18 % change on Q3:FY17.

(2) Represents trading profit or loss before derivative gains or losses, foreign exchange gains or losses, fair value adjustments for put options, Restructuring costs incurred, impairments and any gains or losses from the sale of the Legit business.

(3) Relates to assets written off in connection with the closure of stores, net of related proceeds where applicable.

(4) Adjustment to remove the EBITDA gains or losses achieved from certain brands being exited such as: Express, Geox, Lucky Brand, One Green Elephant, River Island, Tom Tailor and other international brands which the Edcon Group has strategically committed to exit.

(5) Adjustment to remove the EBITDA losses or gains from the Edgars Shoe Gallery retail format which the Edcon Group closed in fiscal 2017.

(6) Adjustment to remove the EBITDA gains or losses relating to the Legit business sold.

(7) Non-recurring costs in Q3:FY18 related to a debit of R11 million for employee restructure costs, R17 million relating to strategic costs, R18 million of costs for the launch of our revamped customer loyalty Programme, onerous lease costs of R10 million, IT strategy costs of R289 million as the Edcon Group transitions from an outsource IT model to a hybrid of outsourcing and in-sourcing model as part of the IT strategy to simplify and upgrade the IT environment, R63 million incurred in respect of our agreement with Absa and a R3 million insurance refund. Non-recurring costs in Q3:FY17 relate to an R42 million credit which reversed a provision raised in fiscal 2016 relating to a penalty which was not incurred, R7 million relating to a brand penalty cost, non-recurring costs of R20 million incurred in respect of our agreement with Absa, transitional costs incurred of R55 million and strategic initiative costs of R51 million (excludes costs of R319 million relating to the Agreement with creditors and the Restructuring).

(8) The investment in HBA prior to the Restructuring completed in fiscal 2017 was held by Edcon Holdings Limited which was a related party company of Edcon Acquisition Proprietary Limited and the profits from the insurance business were previously consolidated by Edcon Holdings Limited. Previously Edcon Limited received a brand and administration fee from the insurance business arrangement. On 31 January 2017, in connection with the Restructuring, Edcon Holdings Limited sold its investment in HBA to Edcon Acquisition Proprietary Limited and such investment was consolidated from that date. Pro forma adjusted EBITDA is intended to show adjusted EBITDA as if the Edcon Group had always consolidated the share of profits from the insurance business instead of Edcon Holdings Limited.

The third quarter 2018 did not include 24 December 2017 (which is a high-volume retail sales trading day), whereas the third quarter 2017 did. Aligning the trading period of the third quarter 2018 with the same period for the third quarter 2017 would impact pro forma adjusted EBITDA as follows:

	Third quarter (unaudited)		
Rm	***2018***	***2017***	***% Change[(1)]***
Pro forma adjusted EBITDA as reported[(2)]	619	902	
Adjustment to align to the third quarter 2017 trading calendar[(3)]	43		
Pro forma adjusted EBITDA aligned to the third quarter 2017 trading calendar[(4)]	662	902	(26.6)

(1) Q3:FY18 % change on Q3:FY17.

(2) Proforma adjusted EBITDA as reported in the table above.

(3) Represents additional income to the Edcon Group adjusted to include 24 December 2017 and excluding 24 September 2017 to align to the third quarter 2017 trading calendar.

(4) Proforma adjusted EBITDA aligned to the third quarter 2017 trading calendar.

The table below reconciles previously reported pro-forma adjusted EBITDA by Edcon Holdings Limited and its consolidated subsidiaries for the third quarter 2017 to pro-forma adjusted EBITDA reported on page 11:

	Third quarter (unaudited)
Rm	***2017***
Pro forma adjusted EBITDA previously reported(1)	900
EBITDA losses from additional brands exited(2)	2
Pro forma adjusted EBITDA(3)	902

(1) Refer to the Unaudited Condensed Consolidated Financial Statements and Quarterly Report of Edcon Holdings Limited for the nine month period ended 24 December 2016.

(2) Relates to EBITDA losses from additional international brands targeted and agreed to exit during fiscal 2017 and fiscal 2018.

(3) Proforma Adjusted EBITDA as reported above.

Costs

	Third quarter (unaudited)		
Rm	***2018***	***2017***	***% change(1)***
Store costs	1 849	1 813	2.0
Other operating costs(2)	1 303	1 084	20.2
Non-recurring costs(3)	405	91	345.1

(1) Q3:FY18 % change on Q3:FY17.

(2) Other operating costs as per consolidated financial statements, before costs in note (3) below.

(3) Non-recurring costs in Q3:FY18 related to a debit of R11 million for employee restructure costs, R17 million relating to strategic costs, R18 million of costs for the launch of our revamped customer loyalty Programme, onerous lease costs of R10 million, IT strategy costs of R289 million as the Edcon Group transitions from an outsource IT model to a hybrid of outsourcing and in-sourcing model as part of the IT strategy to simplify and upgrade the IT environment, R63 million incurred in respect of our agreement with Absa and a R3 million insurance refund. Non-recurring costs in Q3:FY17 relate to an R42 million credit which reversed a provision raised in fiscal 2016 relating to a penalty which was not incurred, R7 million relating to a brand penalty cost, non-recurring costs of R20 million incurred in respect of our agreement with Absa, transitional costs incurred of R55 million and strategic initiative costs of R51 million (excludes costs of R319 million relating to the Agreement with creditors and the Restructuring).

Total store costs increased by R36 million, or 2.0%, from R1,813 million in the third quarter 2017, to R1,849 million in the third quarter 2018. Higher rental costs in both Edgars and Jet contributed to the increase in store costs as well as higher asset write-offs as non-performing stores were closed during the period. These store cost increases were partially offset by store employee remuneration and other store cost savings as a result of the sale of Legit and operational efficiencies achieved through the closure of unprofitable stores. Rental and manpower costs constituted 60.2% of total costs for the third quarter of 2018.

Other operating costs, excluding non-recurring costs, increased by R219 million, or 20.2%, from R1,084 million in the third quarter 2017 to R1,303 million in the third quarter 2018. The Credit and Financial Services division's operating costs increased by R153 million, of which R23 million relates to additional costs as the own funded trade receivables book has continued to grow and R130 million relates to bad debts and an increase in provisioning levels related to the growth and performance of the own trade receivables book.

Non-recurring costs increased by R314 million, or 345.1% in the third quarter 2018 to R405 million, from R91 million for the third quarter 2017. The increase in non-recurring costs includes IT transitional costs of R289 million, of which R156 million relates to costs which were capitalised in fiscal 2017 and impaired during the current quarter. The Edcon Group is currently re-evaluating its IT strategy following weaker than expected trading performance in the third quarter 2018. Additionally, non-recurring costs increased by R63 million incurred in respect of our agreement with Absa, R10 million for onerous leases, R18 million incurred re-launching our customer loyalty programme and R11 million employee restructure costs incurred. The third quarter 2017 included a R42 million credit provision release which related to a penalty provision raised in fiscal 2016 which was subsequently not incurred. These costs were offset by a reduction in non-recurring costs related to the Edcon Group's strategy of R34 million, and a R55 million reduction in transitional expenditure in third quarter 2018 compared to third quarter 2017. Additionally, the third quarter 2017 included a R7 million brand penalty and R20 million fee incurred with respect to our agreement with Absa.

Depreciation and amortisation

The depreciation and amortisation charge for the third quarter 2018 increased by 9.4% to R256 million from R234 million in the third quarter 2017. The depreciation charge to profit and loss increased by R15 million, driven by increased investment in information technology and new store openings, whilst the amortisation charge increased by R7 million following management's re-assessment of the useful lives of the Edgars and Jet brands at the end of fiscal 2017, whereby management concluded that a finite useful life of 20 years more appropriately reflects the period over which management is able to estimate the probability of expected future economic benefits resulting from these brands.

Net financing costs

	Third quarter (unaudited)		
Rm	***2018***	***2017***	***% change***
Interest received	18	23	
Financing costs	(389)	(949)	
Net financing costs	(371)	(926)	59.9

Net financing costs decreased by R555 million, or 59.9%, from R926 million in the third quarter 2017 to R371 million in the third quarter 2018. This decrease is as a result of the Agreement with Creditors and Restructuring concluded in fiscal 2017, whereby existing debt of Edcon Holdings Limited and its subsidiaries at that time (other than super senior bank debt outstanding under the ZAR Super Senior RCF Term Loan and LC Facility and the EUR Super Senior Liquidity Facility) was delegated up to K2016470260 (South Africa) Limited ("Holdco 1"), the indirect parent of Edcon, and K2016470219 (South Africa) Limited ("Holdco 2"), the ultimate parent of Edcon, respectively.

Foreign exchange management

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

	Third quarter (unaudited)		
Rm	***2018***	***2017***	**% change**
Foreign exchange gains	270	453	
Net movement	270	453	(40.4)

Edcon manages its foreign exchange risk on liabilities on an ongoing basis. At the end of the third quarter 2018, 60% of the Edcon Group's total third party gross debt is hedged by virtue of it being denominated in local currency, whilst 40% is unhedged. The net positive foreign exchange movement during the third quarter 2018 is the result of the Rand appreciating against the U.S. dollar from USD:R13.08 as at 23 September 2017 to USD:R12.75 as at 24 December 2017 and likewise the Rand appreciated against the Euro from EUR:R15.61 as at 23 September 2017 to EUR:R15.12 over the same period.

Impairment of intangible assets

IAS 36 Impairment of Assets, requires an entity assess at the end of each reporting period, whether there is any indication that an asset may be impaired and if such indication exists, the entity is required to estimate the recoverable amount of the asset. The trading performance in the third quarter 2018 was worse than expected and as such, provides an indication that the carrying value of intangible assets on the Statement of Financial Position as at 23 December 2017, of R8,556 million will be materially impaired. The Edcon Group is in the process of quantifying the value of the impairment which is dependent on final budget approvals for fiscal 2019 and forward looking business plans.

Cash flow

Operating cash inflow before changes in working capital decreased by R52 million from an inflow of R449 million in the third quarter 2017 to an inflow of R397 million in the third quarter 2018. The decrease was due to weaker trading performance during third quarter 2018 compared to the third quarter 2017 and further impacted by the 24^{th} of December 2017 falling into the fourth quarter 2018 whereas, in fiscal 2017, the 24^{th} of December 2016 fell within the third quarter 2017.

The Edcon Group reported a working capital inflow of R988 million in the third quarter 2018, compared to an inflow of R1,341 million in the third quarter 2017, attributable to:

(i) an increase in trade accounts receivable of R139 million, compared to an increase of R127 million in the third quarter 2017;

(ii) an increase in sundry receivables and prepayments of R33 million in the third quarter 2018 compared to an increase of R154 million in the third quarter 2017. The decrease is as a result of improved collection on amounts owing by strategic partners;

(iii) no movement on amounts owing to Group companies and related parties compared to a cash inflow of R9 million in the third quarter 2017;

(iv) an increase in inventory of R179 million in the third quarter 2018 compared to an increase of R35 million in the third quarter 2017 as a result of weaker than expected retail sales performance; and

(v) an increase in trade and other payables of R1,339 million in the third quarter 2018 compared to an increase of R1,648 million in the third quarter 2017 as the value and volume of purchases in the current quarter decreased compared to the third quarter 2017.

Net cash from operating activities decreased by R351 million from an inflow of R1,414 million in the third quarter 2017 to an inflow of R1,063 million in the current quarter, mainly due to the negative working capital movements during the quarter coupled with a weaker trading performance during the quarter.

Capital expenditure

	Third quarter (unaudited)		
Rm	***2018***	***2017*[(1)]**	***% change***
Edgars	31	6	
Expansion[(2)]	*24*	*(18)*	
Refurbishment[(3)]	*7*	*24*	
Jet	69	45	
Expansion[(2)]	*14*	*(2)*	
Refurbishment[(3)]	*55*	*47*	
Specialty	*5*	13	
Expansion	*-*	*10*	
Refurbishment[(3)]	*(36)*	*3*	
Edgars Zimbabwe	8	9	
IT	43	153	
Other corporate capex	3	10	
	118	236	(50.0)

(1) Q3:FY17 comparatives have been re-classified for the restructuring of the divisions.
(2) The credits in Q3:FY17 for the Edgars and Jet division expansions related primarily to contributions received from landlords in the period which exceeded expenditure incurred during the period.
(3) In Q3:FY18, the Edgars and Jet divisions include R7 million and R25 million respectively for assets transferred from the Specialty division during the quarter.

Capital expenditure decreased by R118 million to R118 million in the third quarter 2018, from R236 million in the third quarter 2017. In the third quarter 2018, we opened 34 new stores which, combined with store refurbishments, resulted in investments in stores of R105 million (excluding Zimbabwe), compared to the third quarter 2017 during which we opened 17 new stores, resulting in an investment in stores of R64 million (excluding Zimbabwe). Edcon invested R43 million in information systems infrastructure in the third quarter 2018 compared to R153 million in the third quarter 2017 which related to costs incurred to simplify and upgrade our information systems infrastructure. The Edcon Group is revisiting the IT simplification and upgrade strategy and as a result, R156 million of IT costs capitalised in fiscal 2017 were impaired in the current period and included in other non-recurring costs (refer to table of costs on page 12).

The Edcon Group has planned total capital expenditure of approximately R500 million to R600 million for fiscal year 2018.

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 and drawings under its various facilities and other initiatives.

			Third quarter (unaudited)	
Rm[1]	**Cash**	**PIK**	***2018***	***2017***
Super senior debt				
EUR Refinanced Facility A1 due 30 September 2018[2]	*E+9.00%*	*8.00%*	**690**	
EUR Super Senior Facility due 30 September 2018 – Facility A2[2,3]	*E+9.00%*	*8.00%*	**2 186**	1 903
ZAR Super Senior RCF Term Loan due 31 December 2019[4]	*J+5.00%*	*3.00%*	**2 163**	3 347
ZAR Converted revolving credit Facility until 31 December 2019[4,5]	*J+5.00%*	*3.00%*	**1 704**	
ZAR Super Senior Hedging Debt due 31 December 2017[6]	*JIBAR*	*8.00%*		702
EUR Super Senior Term Loan due 31December 2017[6]	*EURIBOR*	*8.00%*		576
EUR Super Senior PIK notes due 30 June 2019[6]		*8.00%*		1 706
EUR Bridging facility[7]	*E+4.00%*	*8.00%*		606
USD Bridging facility[7]	*L+4.00%*	*8.00%*		771
Senior secured debt				
ZAR term loan due 31 December 2017[6]	*J+7.00%*	*3.00%*		3 460
EUR fixed rate note due 1 March 2018[6]	*9.50%*			9 836
USD fixed rate note due 1 March 2018[6]	*9.50%*			3 841
EUR Senior secured PIK Toggle notes due 30 June 2019[6]	*9.75% (no toggle)*	*12.75% (toggle)*		477
Lease liabilities			**273**	315
Other loans[8]			**153**	277
Gross third party debt			**7 169**	27 817
Cash and cash equivalents			**(3 003)**	(3 114)
Net third party debt			**4 166**	24 703

(1) FX rates at end Q3:FY18 were R12.75:$ and R15.12:€; and at the end of Q3:FY17 were R14.05:$ and R14.67:€.
(2) The maturities were extended effective 28 November 2017 in exchange for a cash margin uplift from 4.0% to 9.0%.
(3) The maturity was extended to 30 September 2018 during the quarter. The RCF term loan springs to mature on 30 September 2018).
(4) The maturity may be extended to 31 December 2020 if certain refinancing conditions are satisfied. The ZAR Converted revolving credit Facility springs to mature on 30 September 2018.
(5) The total available facility is R1,825 million of which R121 million was undrawn at 23 December 2017.
(6) This debt was restructured or amended as part of the Restructuring.
(7) Represented the first tranche of bridge funding secured on 8 July 2016, net of fees capitalised.
(8) The portion of this debt relating to Zimbabwe was R99 million in Q3:FY18 and R209 million in Q3:FY17.
(9) At the end of the period R207 million of a Super Senior LC facility were utilised for guarantees and LC's.

The total net third party debt decreased by R20,537 million, or 83.1%, from R24,703 million as at 24 December 2016 to R4,166 million as at 23 December 2017, as a result of the Agreement with Creditors and the Restructuring effective 1 February 2017.

Net third party debt decreased by R888 million compared to reported net third party debt as at 23 September 2017 of R5,054 million. The decrease is due to an increase of R1,383 million of cash and cash equivalents on hand as at 23 December 2017, compared R1,620 million of cash and cash equivalents on hand as at 23 September 2017, offset by an increase in gross third party debt of R495 million as the Rand appreciated against the Euro from 23 September 2017 to 23 December 2017.

Effective 28 November 2017, the maturities of the EUR Refinanced A1 Facility and the EUR Super Senior Facility were extended from 31 December 2017 until 30 September 2018 in exchange for a cash margin uplift from 4.0% to 9.0%.

Contingent liability

The National Credit Regulator ("NCR") referred a complaint to the National Consumer Tribunal ("NCT") in terms of section 140(2) (b) of the National Credit Act, 32 of 2005 ("NCA") wherein the NCR asked for a declaration by the NCT that Edcon had contravened the NCA by requiring the payment of club fees in terms of it credit agreements. The NCT issued a judgement of 24 April 2017, which the Edcon Group has appealed to the High Court on 10 May 2017 following consultation with Senior Counsel. The Appeal, as filed, has the effect of staying the Sanctions hearing until the Appeal process has been finalised. The matter will be heard by the High Court on 15 March 2018.

Based on the above, there is a possible financial obligation which may or may not arise depending on the outcome of the Appeal process.

Events after the reporting period

The Edcon Group is in discussions with its stakeholders with regards to its super senior liquidity facility (the "SSLF"), which is due to mature on 30 September 2018, and its super senior credit facilities (the "SSCF"), which springs to mature on 30 September 2018, including options to refinance the Edcon Group's indebtedness and strengthen the balance sheet.

In order to provide a stable platform from which to continue those discussions, the Edcon Group has secured the consent of all lenders under the SSLF and SSCF to (i) waive a breach of the financial covenant and certain information covenants and (ii) defer any cash pay interest falling due during the waiver period until the expiry of the waiver period, which interest will be capitalised (together, the "**OpCo Waivers**").

The waiver period under each of the SSLF and SSCF waiver letters terminates on 24 September 2018, unless terminated early as a result of, among others: (i) the Group not being in a position to satisfy any information undertaking or satisfy any conditions subsequent; or (ii) if Edcon Limited, the super majority SSCF lenders and super majority SSLF lenders agree that there is no reasonable prospect of the Restructuring Milestone (as defined below) being reached on or before 31 May 2018.

Edcon Limited has undertaken to the SSLF and SSCF lenders to: (i) provide customary financial information undertakings; (ii) commence customary preparation for the implementation of a financial restructuring (including the appointment of relevant additional advisers); and (iii) update them as to the progress of the Group's financial restructuring. In addition:

(a) by 12 March 2018, the Group must deliver to the SSLF and SSCF lenders a supplemental indenture in respect of each series of notes issued by K2016470260 (South Africa) Limited ("**HoldCo 1**") and K2016470219 (South Africa) Limited ("**HoldCo 2**") (the "**Notes**") to (A) defer the requirement to deliver the report of the Group for the fiscal year ended 31 March 2018 for as long as the OpCo Waivers are in effect (B) defer the requirement to deliver the reports of the Group for the fiscal quarters ended 23 December 2017 and 30 June 2018 for as long as the OpCo Waivers are in effect and waive the requirement to hold conference calls in respect thereof; (C) waive existing defaults and events of default (if any) under the Notes indentures; (D) increase the Group's borrowing flexibility by permitting the incurrence of up to an additional R1 billion of credit facilities indebtedness; and (E) amend the limitation on affiliate transactions to permit financing under credit facilities provided by shareholders of HoldCo 2 (or their affiliates) (the "**Notes Consents**"); and

(b) by 31 May 2018, the relevant Group companies must have (i) entered into a lock-up agreement, committed term sheet or similar agreement regarding the restructuring or refinancing of the Group's financial indebtedness with the SSCF lenders, the SSLF lenders and holders of each series of Notes holding the requisite majority in aggregate principal amount of each series of Notes, and (ii) secured commitments from any other material stakeholders of the Group reasonably required by the SSLF and SSCF lenders to support the restructuring of the Group's financial indebtedness (the "**Restructuring Milestone**").

As noted above, the Group is seeking the consent from the holders of the Notes to incur up to an additional R1 billion of credit facilities indebtedness to allow the Group greater flexibility in managing its liquidity and working capital needs, to the extent required.

In accordance with the agreed conditions subsequent, Management expects HoldCo 1 and HoldCo 2 to obtain the Notes Consents from a majority in aggregate principal amount of each series of Notes, and deliver the supplemental indentures, by 12 March 2018. In addition, HoldCo 1 and HoldCo 2 intend to launch a public consent solicitation process on 12 March 2018, or as soon as possible thereafter, in respect of the Notes Consents.

We believe that the SSCF lenders' and SSLF lenders' decision to grant the Opco Waivers and Opco Deferral demonstrates their continuing support for the Group.

Corporate Information

Edcon Acquisition Proprietary Limited
Incorporated in the Republic of South Africa
Registration number 2007/000518/07

Executive directors
BJ Brookes* (Managing Director and Chief Executive Officer, resigned on 31 January 2018), G Pattison (Managing Director and Chief Executive Officer, appointed on 1 February 2018), R Vaughan (Chief Financial Officer, appointed 27 July 2016).

*AUSTRALIAN

Group Secretary
CM Vikisi

Registered office
Edgardale, Press Avenue
Crown Mines, Johannesburg, 2092
Telephone: +27 11 495-6000
Fax: +27 11 837-5019
Web site: www.edcon.co.za

Postal address
PO Box 100, Crown Mines, 2025

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
GLAS Trust Corporation Limited
45 Ludgate Hill
London EC4M 7JU
United Kingdom

Transfer Agent and Principal Paying Agent
The Bank of New York Mellon Limited
1 Canada Square
London E14 5AL
United Kingdom

Listing Agent & Irish Paying Agent
The Bank of New York Mellon (Ireland) Limited
Hanover Building,
Windmill Lane, Dublin 2,
Republic of Ireland
Telephone: + 353 1 900 6991

ANNEX

Forecast and Preliminary Budget Information

The following forecast and preliminary budget information is derived from management's internal forecasts and preliminary budgets and was provided to certain stakeholders of the Edcon Group in connection with discussions concerning the consents, deferrals and refinancing. The preliminary fiscal 2019 budget and key trends are preliminary and subject to change at any time. The Edcon Group cautions you that the following forecast and preliminary budget information is not a guarantee of future performance and that the actual results of operations, financial condition and liquidity and the development of the industry in which the Edcon Group operates may differ materially from those made in or suggested by the following forecast and preliminary budget information. Consequently, you should not place undue reliance on these forward-looking statements. For a more detailed discussions of the limitations of the forecast and preliminary budget information provided herein, please also refer to "—Disclaimer" in the main body of the Trading Update. Additionally, the Edcon Group urges you to refer to the section entitled "Risk Factors" in its annual report for 52-week period ended 25 March 2017.

FISCAL 2018 FORECASTS

The Edcon Group has faced, and expects to continue to face, a difficult macroeconomic environment that has affected Christmas trading and resulted in increased pressure on the Edcon Group's operating performance. Fiscal 2018 retail sales are estimated to be approximately R23 billion while gross margin for the year is expected to be in line with fiscal 2017. Pro forma adjusted EBITDA for fiscal 2018 adjusted for one-off costs is expected to be approximately R1.1 billion. Cash and cash equivalents at the end of the third quarter amounted to R3,003 million (including approximately R900 million of trapped cash and cash in transit) and as a result of working capital movements, available cash is estimated to be between R300 million to R400 million as at the end of March 2018. Working capital absorption relating to the payment of Christmas trading season trade payables and operating costs of approximately R8,400 million in aggregate are the key drivers to the reduction of the Edcon Group's expected cash position as at the end of fiscal 2018. Remaining cash inflows and outflows are expected to comprise of approximately R6,900 million in retail sales receipts and approximately R300 million in other cash outflows (including investing and financing cash outflows).

FINANCIAL BUDGET

The Edcon Group is currently in initial stages of devising a preliminary business plan focused on addressing the current challenges affecting profitability and longer-term prospects for the business. Currently, the Edcon Group is primarily focusing on: (i) improving sales density to align with the industry standard, with targeted sales density improvement in the region of 20% to 30%; (ii) reviewing its store portfolio with regards to a possible leasehold estate restructuring, that could seek, *inter alia*, a selective consolidation of certain stores across the various divisions and a potential re-sizing of the existing rental space in light of the trading environment and market positioning of the various brands, and possible rent reductions or store closures for over-rented stores; (iii) improving its stockturn to enhance use of capital resources and seek to free up cash; and (iv) expanding its credit and financial services value proposition to support top line growth while maintaining a disciplined approach to risk management.

Preliminary Fiscal 2019 Budget

EBITDA under the preliminary budget for the 52-week period ending 30 March 2019 ("fiscal 2019") is currently estimated to be approximately R1.2 billion to R1.35 billion, underpinned by a currently budgeted growth in credit sales, a return growth in cash sales that is in line with inflation, savings in procurement, conversion of the Group's loyalty program to a rewards program and a reduction in IT expenses. The Edcon Group is currently budgeting its EBITDA margin in fiscal 2019 to be approximately 6% of sales.

Key Trends

By focusing on implementation of the initiatives currently under discussion as part of the initial business plan development stage, the Edcon Group is targeting an improvement in its business model over the near-to-medium term. The Edcon Group believes its performance and results of operations will be impacted by certain key trends over this period. On the retail sales evolution, the annual retail sales growth is forecast to reach approximately 4% to 5% per annum, driven primarily by a 2% to 3% market growth assumption and a market share stabilisation that could marginally increase in certain divisions. With regards to gross margin, the preliminary business plan would target a modest improvement towards 38% to 40% of net sales as a result of cash and credit sales growing at a slightly faster pace than cost of goods sold. Pro forma adjusted EBITDA would be forecast to remain in the region of 5.5% to 6.0% of retail sales, mostly benefiting from an improved level of gross profit generation. Additional initiatives around operating expenses could increase pro forma adjusted EBITDA margin in the range of 8.0% to 9.0%, but there are a number of challenges that the Edcon Group is currently assessing to understand whether these actions could be realistically implementable, including with respect to potential further store consolidations. Annual capital expenditure for the Edcon Group is forecast to be in the region of R350 million to R500 million over the next three years, while positive movements are expected in the Edcon Group's working capital position, principally driven by increased stock rotation (around R150 million to R250 million per year). Annual tax expenses are forecast to remain in line with current tax expenses. To support the positive credit card evolution, the Edcon Group will seek to increase factoring and securitisation transactions year-on-year, including receivables financings, together with increases in the Edcon Group's own-book credit offering and related provisions. As a result of the various initiatives contemplated, Edcon Group's cash flow available for debt service would be expected to range from between R500 million to R650 million per year.