Annual Report

Edcon Holdings Proprietary Limited

For the period ended 31 March 2012

You should read the following discussion in conjuction with the audited group financial statements and related notes thereto included with this annual report. The statements in this discussion regarding industry outlook, our expectations 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 described in the "Risk Factors" section of this annual report. Our actual results may differ materially from these contained or implied by any forward looking statements.

BUSINESS

Overview

We are the largest non-food retailer in South Africa with a market share of the South African clothing and footwear ("C&F") market nearly twice that of our nearest competitor, and have been in operation for more than 80 years. Since opening our first *Edgars* store in 1929, we have expanded our footprint to include 1,167 stores under 12 retail brands throughout southern Africa. Our leading brands include *Edgars, Jet, CNA, Boardmans* and *Red Square,* which are among the most recognisable retail brands in the region. We are the number one or number two retailer in the majority of our product lines, including clothing, footwear, mobile phones, cosmetics, stationery and books. We also have the largest base of consumer credit customers in southern Africa, with 3.8 million active private label credit cards.

Our primary operations are in South Africa, where in fiscal year 2012 we generated 94% of our retail sales. According to the Retailers' Liaison Committee (RLC), C&F sales in South Africa, which accounted for 60% of our retail sales in fiscal year 2012, grew at a CAGR of 8.4% from fiscal year 2007, despite three quarters of recession when South Africa was facing the effects of the global economic downturn and a tightening of credit granting policies during fiscal year 2010. C&F spend as a percentage of household expenditure has also increased, in part as a result of a rapidly emerging black middle class, which has more than doubled in size since 2000. Our large retail footprint positions us to continue to benefit from this growth in the South African market. The balance of our operations are in neighbouring Namibia, Botswana, Lesotho, Swaziland and Zambia.

Our strong operating performance generated revenue of R27,884 million (excluding OntheCards Investments II (Pty) Ltd ("OtC") R27,345 million), including retail sales of R24,664 million, and adjusted EBITDA of R4,041 million (excluding OtC R3,548 million) in fiscal year 2012. From fiscal year 2007, we have increased our retail sales by a CAGR of 6.0% and our adjusted EBITDA by a CAGR of 8.8%. As of 31 March 2012 we employed approximately 18,590 permanent employees.

History

We opened our first *Edgars* store in 1929 and we launched our *Jet* brand in 1979. Edgars Stores Limited, our predecessor, listed on the Johannesburg Stock Exchange in 1946 and, in 1982, we became a subsidiary of The South African Breweries. Since separating from The South African Breweries in 1999, we have strengthened our position in the retail sector, in part through the completion of several carefully selected acquisitions, including Boardmans and CNA. On 14 May 2007, Edcon became a private company after it was acquired by Edcon Acquisition (Pty) Ltd, a company beneficially controlled by funds advised by affiliates of Bain Capital. Edcon delisted from the Johannesburg Stock Exchange and the Namibian Stock Exchange on 25 May 2007. Edcon listed Eurobonds on the Irish Stock Exchange in 2007. During fiscal year 2012, Edcon listed ZAR bonds on the Johannesburg Securities Exchange (JSE).

Strategy

The group aims to stay the top performing retailer in South Africa. The group believes that the ability to operate in a disciplined and sustainable fashion over the long-term is central to maintaining a competitive advantage in both buoyant and challenging market conditions.

The group intends to pursue the following key elements of our business strategy.

Focus on highly profitable categories and customers

In recent years, management has initiated aggressive steps to reduce risk, improve cash flow and position Edcon for future growth. As part of that effort, we stopped selling selected products on credit, notably mobile phone air time and food. Through these initiatives we have reduced our impairment of receivables from 12.9% in fiscal year 2010 to 6.7% in fiscal year 2012. In addition, we have taken steps to optimise our store footprint by converting a number of underperforming *Discom* stores to *Edgars Active* stores. We plan to open 7 and 47 of our higher margin *Edgars* and *Jet* stores, respectively, in fiscal year 2013.

Further enhance brand differentiation in Edgars and Jet

In recent years, we increased our knowledge of our customer profiles and shopping habits. We are planning to capitalise further on this initiative to improve our store segmentation and offer products that are responsive to current trends and consumer preferences in all market segments, which we believe, will result in increased sales. For example, in our premium store segment, we have added high-end local apparel brands, including Jo Borkett and Marion and Lindie, as well as a number of well known international apparel brands, such as Calvin Klein in apparel and extended our Chanel offering in cosmetics. *Jet* carries almost exclusively private label products with a focus on everyday low prices and great value for money for the lower- to middle-income shopper with a focus on serving basics for the family and household.

Further improve supply chain efficiencies

We began centralising procurement across divisions in 2008 to capture scale efficiencies, move to more of a direct sourcing model and consolidate our vendor base and relations. In August 2009, we opened an office in Hong Kong to better facilitate such consolidation. While some benefits have been realised, given our conservative, low risk approach to centralising this function, there remains significant room for improvement. We intend to continue optimising our supply chain by reducing lead times for delivery of imported merchandise, and will continue migrating major local suppliers to a business-to-business e-commerce platform to achieve integration of supply and distribution. These initiatives will enable us to react quicker to customer demand and to increase sales by improving product availability and reducing markdowns. We are in the process of opening offices in China, Singapore and Bangladesh.

Capitalise on market rebound

We are well positioned to benefit from the continued recovery in South African consumer spending, with our dominant store presence and broad appeal across income groups and product offerings. In 2011, the South African consumer benefited from a revival in net wealth due to strong bond and equity markets, high real-wage growth as inflation remained low, and lower debt-servicing costs as a result of a cumulative 6.5% reduction in the South African interest rates from June 2008 to December 2010.

Maximise value and efficiency of credit and financial services business

As the global economic downturn took hold in 2009, we decided to tighten our credit scoring criteria and better target higher income and lower risk customer segments. This resulted in significant cash flow savings for the group and substantial improvements in loss rates as evidenced by a year-on-year reduction in bad debt handover from 2011 to 2012 of 27%. In mid-2010, we refocused and refined our collections processes to drive productivity and effectiveness resulting in improved collection results and further improving loss rates by the end of 2010. Additionally, the establishment of the Edcon telesales unit in 2009, introduction of service to sales initiatives and the creation of an Edcon business intelligence unit has allowed us to begin to more fully leverage our extensive customer database for insurance product cross selling to become a market leader in this area.

Africa Expansion

In an effort to continue meeting its strategic growth imperatives and deliver incremental value to its stakeholders, Edcon recently completed an assessment of southern African markets in close geographic proximity to South Africa to identify regions strongly matching our value proposition. A key outcome of the analysis was the conclusion that southern Africa holds a plethora of growth potential that has opportunities in retail segments aligned with the merchandise/product and value offerings that certain of Edcon’s trading brands provide. In light of this Edcon will embark on further expansion in Zambia and commence operations in Mozambique towards the latter part of 2012.

Attract and maintain a high quality workforce

We believe that our focus on employee training and satisfaction will allow us to continue to attract and retain a high quality workforce, reduce employee turnover, improve our customer satisfaction and increase the efficiency of our stock management. Through our extensive training programs, competitive pay packages and comprehensive employee wellness strategy, we have increased employee satisfaction and contained employee turnover. In 2010, Edcon was voted the best company to work for in the retail sector by Deloitte‘s survey of South African employers.

We maintain positive labour relations, and we have not lost any man-days from industrial action against us in more than ten years. We are committed to maintaining our positive relationship with our employees, and believe our continued ability to attract and retain quality employees will give us a key advantage over our competitors.

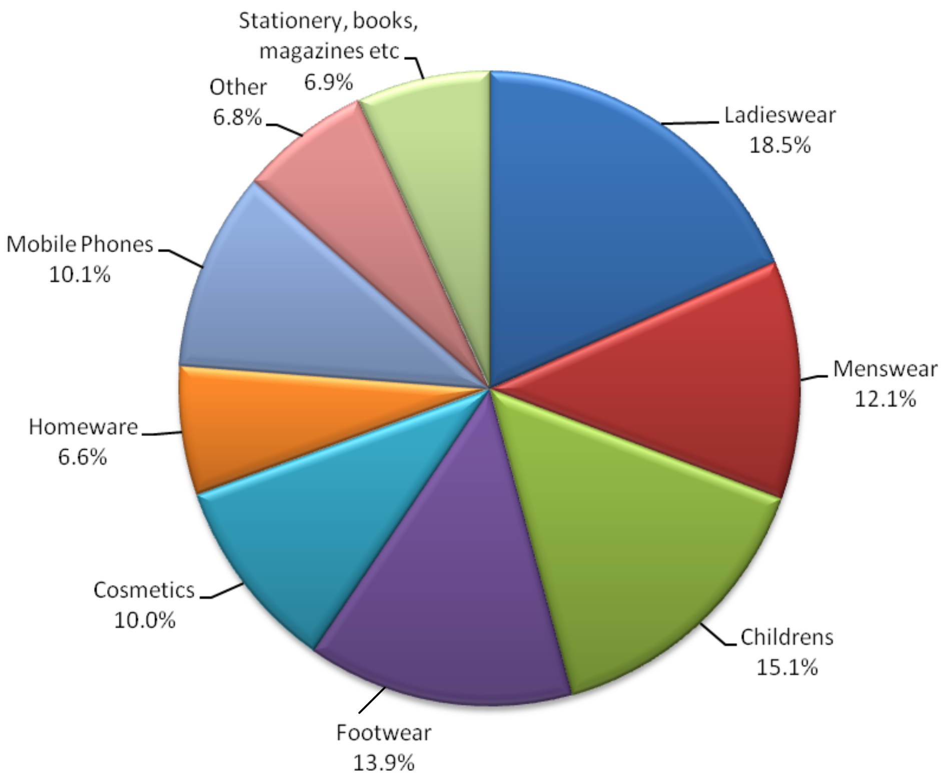
Although our industry is not subject to sector specific regulation under the Broad Based Black Economic Empowerment (BBBEE) legislation, we proactively implement policies that are in accordance with BBBEE guidelines.

Our operations

Our operations consist of our retail business and our credit and financial services business, both of which are supported by our centralised group services. Our retail business comprises three retail divisions: the department store division, the discount division and *CNA*, which together offer a diverse product portfolio of private label and branded products. Our credit and financial services business provides consumer credit and other financial and insurance products to holders of our credit cards. With 3.8 million customer credit accounts, we are the largest provider of credit in southern Africa by number of customers. The responsibilities of our group services include logistics, IT, property, human resources, finance and treasury management.

The split of our retail sales in fiscal year 2012 by category is shown below.

Retail product mix



Retail Business

Department Store Division

The department store division is targeted at middle- to upper-income consumers and accounted for 52% of our retail sales in fiscal year 2012. In addition to *Edgars*, our largest chain by retail sales, our department store division has expanded into complementary specialty store formats, including *Boardmans*, *Red Square*, *Edgars Active, Temptations* and *Prato*. Our six department store division chains are centrally managed, with all marketing and merchandising decisions executed at our head offices.

- *Edgars*, which began trading in 1929, is our chain of full-line department stores carrying a range of clothing, footwear, cosmetics, mobile phones, homewares and accessories. The *Edgars* chain (including in store

Boardmans) comprises 175 stores with an average size of approximately 3,500 sqm. In fiscal year 2012, *Edgars* generated R11,724 million, or 48% of our retail sales.

- *Boardmans* is our chain of homewares specialty stores that we acquired in 2004 to strengthen our position in the fast-growing home-living retail segment. *Boardmans* carries homewares products such as kitchenwares, DIY, household appliances and textiles. The *Boardmans* chain comprises 35 stores with an average size of approximately 1,200 sqm. In addition, we sell homewares products under our *Boardmans* brand in our *Edgars* department stores.

- *Red Square* is our chain of cosmetics stores carrying international branded cosmetics, skin care products and fragrances. The *Red Square* brand was launched in 1996. The *Red Square* chain comprises 36 stores with an average size of approximately 150 sqm.

- *Edgars Active* is a sportswear chain launched in 2005 as an extension of the sportswear product lines offered at our *Edgars* department stores. Currently, *Edgars Active* comprises 55 stores with an average size of approximately 400 sqm. In addition, we sell sportswear under our *Edgars Active* brand in our *Edgars* department stores.

- *Temptations* is our ladies intimatewear specialty chain that we launched in 2005. The *Temptations* chain comprises 4 stores with an average size of approximately 250 sqm.

- *Prato* is our chain of casual footwear specialty stores. The *Prato* brand was launched in 2004 and comprises 3 stores with an average size of approximately 150sqm.

CNA

CNA is our chain of stores offering stationery, books, music, magazines, toys, photographic equipment, greeting cards, movies, computer accessories and communications. *CNA* commenced trading in 1896 and is one of the region's oldest and best known retail brands. We acquired *CNA* in October 2002 and it generated R2,051 million, or 8% of our retail sales, in fiscal year 2012. *CNA* comprises 194 stores with an average size of approximately 450 sqm.

Discount Division

The discount division sells value merchandise targeted at lower- to middle-income consumers and accounted for 40% of our retail sales in fiscal year 2012. The largest chain in our discount division is *Jet*. In addition to *Jet* and its associated brands (*Jet Mart* and *Jet Shoes*), our discount division also operates specialty stores under the *Legit,* and *Discom* chains. Our five discount division chains are centrally managed, with all marketing and merchandising decisions executed at our head offices.

- *Jet*, which began trading in 1979, is a discount C&F retailer serving value-seeking customers. The *Jet* chain comprises 318 stores with an average size of approximately 900 sqm and in fiscal year 2012 generated R5,095 million, or 21% of our retail sales.

- *Jet Mart* is our discount general merchandise store offering a variety of product lines including clothing, footwear, kitchenwares, music, DIY, household appliances, textiles, stationery, and health and beauty products. The *Jet Mart* chain began trading in 2004 and comprises 121 stores with an average size of approximately 1,900 sqm.

- *Legit* is our youth ladieswear specialty store that caters to value-seeking fashionable women. The *Legit* brand was launched in 2001 and currently comprises 170 stores with an average size of approximately 250 sqm.

- *Discom* is a leading provider of health and beauty products and household appliances to lower-income consumers which we acquired in 2007. The *Discom* chain comprises 54 stores with an average size of approximately 350 sqm.

- *Jet Shoes* is our footwear specialty store which we launched in 2004 and which currently comprises 2 stores with an average size of approximately 200 sqm. In addition, we sell footwear under our *Jet Shoes* brand in our *Jet* and *Jet Mart* stores.

Credit and financial services business

We offer consumer credit and insurance products through our credit and financial services business, which in fiscal year 2012 generated operating profit of R1,311 million (R818 million excluding OtC).

Through our private label credit card programme, we issue *Edgars* and *Jet* credit cards to qualifying customers, who can use our private label credit cards across 11 of our brands (excludes Discom). Credit card accounts are activated against sophisticated scoring mechanisms which evaluate the customer's ability to manage their credit. After generating an internal application score, we cross-metric the score with a credit bureau score and derive a profitability metric, which forms the basis for our credit decision. In fiscal year 2012, purchases completed with our private label credit cards accounted for 51% of our retail sales and we had 3.8 million customer credit accounts.

We sell eligible accounts in our credit and financial services business to OtC. Accounts that meet the eligibility criteria may be sold at a discount to their face value. Our credit management team retains responsibility for interfacing with our credit customers whose accounts have been sold to OtC, performing all administration and all collections for those accounts. Receivables sold to OtC are consolidated in our audited group financial statements, but we retain no rights to such receivables. As of 31 March 2012, the outstanding receivables balance of OtC was R6,005 million, the purchase of which was financed primarily by the issuance by OtC of R4,300 million in notes and a subordinated loan made to OtC by Edcon (Pty) Ltd of R2,062 million.

In addition to our private label card operations, we partner with financial institutions and insurance providers to offer products in respect of which we only act as a sales agent and we do not bear any underwriting risk including:

- *Edgars* and *Jet* branded insurance products, pursuant to a joint venture with Hollard Insurance, which underwrites each policy. We offer a range of insurance products including credit life, funeral plans and mobile phone insurance. Under the provisions of the joint venture agreement, if the policy premiums exceed the claims, the net profit is distributed as a dividend to us and Hollard Insurance. As of 31 March 2012, there were 5.6 million insurance policies generating annual gross premiums of R1,287 million.
- The Group has a closed book for the *Edgars* and *Jet* Legal Plan underwritten by Zurich Insurance Ltd. Europ Assistance provides risk management and policy fulfillment services. Under the provisions of the joint venture agreement, if the policy premiums exceed the claims and expenses, the net profit is distributed as a dividend. New business on the Legal Plans is underwritten by Hollard Insurance as from 13 April 2011. Hollard Insurance replaced Zurich as the underwriter from the start of fiscal year 2011. As of 31 March 2012, annual gross premiums amounted to R44 million.
- *Edgars* and *Jet* co-branded *MasterCards* in association with Standard Bank of South Africa are offered to selected *Edgars* and *Jet* cardholders. We have 228,000 active co-branded credit cards with a balance of R1.6 billion, fully underwritten by Standard Bank. During fiscal year 2012 the association with Standard Bank of South Africa was terminated with effect from 5 April 2012. These co-branded cards will be absorbed by the bank into their own credit card base.

Our in-house credit management team, which operates out of three regional offices in Johannesburg, Cape Town and Durban, manages the complete credit cycle, including vetting, activation, administration and collection.

Events after the reporting period

On 5 June 2012 Edcon concluded a series of agreements with Absa Bank forming the establishment of a long-term strategic relationship for the provision of credit to Edcon customers as well as the sale of Edcon's Private Label store card portfolio to Absa Bank.

Edcon and Absa Bank have further agreed to enter into a long-term, strategic relationship under which Absa Bank will provide retail credit to Edcon customers and Edcon will be responsible for all customer facing activities (the "Program").

Absa Bank will acquire the Card Portfolio, consisting of approximately 3.8 million active card accounts, for a cash consideration equal to the net book value of the Card Portfolio receivables at the effective date of the Acquisition. Absa Bank and Edcon expect the purchase price of the Card Portfolio to be approximately R10 billion. The transaction is expected to close in the second half of calendar 2012.

In terms of the Program, Absa Bank will have responsibility for credit, management of fraud, risk, finance, legal and compliance operations of the store card business, while Edcon will retain all customer facing activities, including sales and marketing, customer services and collections. This should ensure a seamless customer experience. Edcon and Absa Bank will balance continued growth of the credit book with appropriate credit quality.

The transaction is a natural evolution for the business and a key milestone in its strategic plan. Moreover, it is attractive to Edcon as it will (i) leverage the core competencies of both Edcon and Absa Bank (ii) facilitate growth in retail; including growth in credit sales (iii) immediately improve Edcon's balance sheet; and (iv) allow Edcon to focus and fund growth in its core business activities.

The Edcon store card business operates primarily in South Africa (approximately 94% of net receivables), with smaller operations in Botswana, Namibia, Lesotho and Swaziland. The net book value and number of active accounts references above refer to the entire portfolio. While it is the intention of Absa Bank (or one of its affiliates) to acquire these portfolios in the neighbouring countries, it is not a condition precedent to the South African transaction.

The Acquisition and the Program are subject to a number of conditions precedent customary for a transaction of this nature, which include, but are not limited to, the following:

- the obtaining of regulatory approval for the Acquisition and/or the Program, as required; and
- the release of security interests over the Card Portfolio assets under Edcon's various existing notes and funding structures.

Customers

We appeal to value-seeking customers as well as those seeking high-quality merchandise, and although our customers span the full range of socio-economic groups and ages, our largest demographic group of customers consist of female consumers in the 35 year-old and above age range. Our core customer shops for herself, her family and her home. We seek to appeal to our customer base by offering a diverse range of products across different market segments and customer spending categories.

Competition

Over 90% of the C&F market consists of five major retailers, of which we are the largest with a market share nearly twice the size of our nearest competitor. Our market is highly competitive, particularly with respect to product selection and quality, store location and design, price, customer service, credit availability and advertising. We compete at the national and local levels with a wide variety of retailers of varying sizes and covering different product lines across all geographic markets in which we operate.

Suppliers and distribution

We have over 1,200 suppliers for our three retail divisions, with the average supplier providing only R13.3 million worth of goods in fiscal year 2012. Our supplies consist of direct imports and indirect imports purchased from South African sales agents and domestic vendors. The purchasing operations of our department store and discount divisions have historically acted independently of each other and we often have different business lines purchasing from the same supplier. We have centralised our purchasing operations and established strategic relationships with low-cost suppliers. Additionally, we have a quality assurance department which manages quality standards for all merchandise categories across our supply pipeline.

Approximately 71% of our supplies are routed through one of our three distribution centres, two of which are located in Johannesburg, and one in Durban. All our distribution centres have electronic sorting equipment allowing us to achieve a daily combined capacity of approximately 2.2 million units for all of our distribution centres. Currently, we operate at approximately 63% of this capacity. We use sea freight for our imports and we make minimal use of airfreight, while we outsource our road transport to third-party logistics providers. We operate logistics systems that enable us to conduct automated, high-volume and high-stockturn operations. We will continue migrating our larger local suppliers to our business-to-business e-commerce platform in order to achieve integration of supply and distribution.

Property

Our real estate strategy is to rent the property on which our stores are located. Currently we have approximately 1,167 leased stores in southern Africa, including approximately 1,090 stores in South Africa, 29 in Namibia, 26 in Botswana, 8 in Lesotho, 12 in Swaziland and 2 in Zambia.

We have a relatively high concentration of landlords and we currently let 63% of our trading space from our 12 largest landlords. Our leases have an average initial lease term of ten years for our *Edgars* stores and five years for our other chains. Our leases typically include four options to extend the lease for further periods of five years each. The leases generally allow us to sublet the leased premises and assign our rights under the leases to our affiliate companies. Rental payments are generally made on a monthly basis and increased at a previously specified percentage rate (typically 7%) compounded annually. As of 31 March 2012, the minimum property operating lease commitments due within one year amounted to R1,492 million.

Sales and marketing

We use a broad range of marketing techniques, including national promotional campaigns, in-store advertising, and community events to promote our brands and products. Our national campaigns promote our brands and selected products using television, radio, and print advertisements. We have window and floor displays in our stores as well as in-store radio and television broadcasts, to enhance our customers' shopping experience, advertise specific retail products and promote additional products such as our *Jet* club and financial services. We also seek to increase our brand appeal within the communities we serve by sponsoring community events. We employ two types of price markdowns: temporary promotional sales, which are used to bring in new or infrequent customers, and clearance sales, which are intended to sell slow moving inventory.

We also use a variety of membership programmes in our effort to increase the number and spending of our customer base. These include the *Edgars* and *Jet* club with over 1 million members each. The *Jet* club is the largest retail store club in South Africa with over 3.2 million readers a month.

We introduced one of the market's first loyalty programs, which allowed loyalty card holders to accumulate points for purchases made. The Thank U rewards programme was launched across all of our stores in February 2012, migrating existing card customers to the programme and recruiting new customers in store. By the end of fiscal year 2012, we had 6 million plus members, with over 60% of our sales earning Thank U points. The Thank U programme provides us with a strategic platform to better understand our customer needs from which we will implement major in store promotions and provide customers with personalised offers through digital channels.

Edcon has seen continued success with an exciting promotional calendar which differentiates us from our competition. Iconic promotions such as Red Hanger, Red Carpet and Most Wanted Brands and Celebration of the Stars continue to delight customers and deliver strong sales growth through increased foot traffic and lifts basket size. The increased marketing spend and effort on account acquisition over the past year (centred around highly appealing offers such as free holidays; car give-aways), has proved successful as reflected in the credit sales results.

This year also saw the launch of the *Edgars* 'Great Price' programme with through-the-line marketing support. Great Price points highlight to customers the fashion items, always at a compelling price, 365 days a year. An in-store visual marketing project commenced this year with the aim of simplifying the shopping experience; improving ease of shop and increasing the appeal of the *Edgars* shopping environment. Results in pilot stores have exceeded expectations and this will expand to further stores over the next year.

Edgars Club - loyalty and benefit programme - delivered better than expected results, mainly driven by membership growth that exceeded budgeted growth. This success was under-pinned by the appointment of a new publisher now delivering a more appealing monthly Club magazine (part of the monthly Club benefits).

The appointment of new and experienced dedicated advertising agencies in both the *Edgars* and *Discount* divisions will cement the progress already made in our monthly eventing plan with exclusive offers/gifts for customers.

Seasonality

Our business, like that of most retailers, is affected by seasonal fluctuations in customer demand, product offerings and working capital expenditures. Historically, our most important trading periods in terms of sales, operating results and cash flow have been the Christmas and Easter seasons, with 34% of our retail sales occurring in April, November and December combined. In addition, our results of operations can be affected by unseasonal or abnormal weather conditions, which may lead to a decrease in sales and an increase in markdowns at the end of the season.

Human resources

Human Resources Overview

Edcon is a significant player within the retail industry in South Africa and is reputed to be a preferred employer with a staff complement of 43,323 employees, of which 18,590 are permanent and 24,733 are temporary. Edcon prides itself as a high performing organisation that puts its people first. We have sophisticated, best practice processes that act as enablers to all of our people, empowering each individual to grow within the organization.

Our Employees

Employee relations in South Africa are regulated by the Labour Relations Act No. 66 of 1995 (the "Labour Relations Act"), which codifies the rights of employees to belong to trade unions and the rights of trade unions to have access to the workplace. The Labour Relations Act also guarantees employees the right to strike and the right to participate in secondary strikes in certain prescribed circumstances. In addition, the Labour Relations Act recognises the right of employees to participate in decision-making of companies through the workplace forums. As such, employees must be consulted with respect to a variety of matters insofar as they affect a range of matters that affect their workplace, including organisational restructuring, partial or total plant closures, mergers and transfers of ownership. Due to the commitment and hardwork between Edcon and the recognized trade union, we have not experienced any industrial action against Edcon in over ten years.

The majority of Edcon employees belonging to a union are members of the South African Commercial, Catering and Allied Workers Union ("SACCAWU"). In April 2012, about 69% of employees in the bargaining unit, and 24% of active employees, were members of SACCAWU. Our current wage agreement with SACCAWU is for a two-year period, which ends in May 2013, and fixed salary increases at 8% per annum.

Learning and Development of our People

Our annual investment in training and development stands at 2.4% of payroll expenditure. The Edcon Retail Academy (established in March 2005) obtained provisional registration as a Private FET College and this year offered learning offerings ranging from leadership development programmes to technical training initiatives across all levels of staff. There were 432 beneficiaries of learnership programmes and 156 of our employees benefitted from our Edcon staff bursary programme to further their part-time tertiary studies. This year saw the launch of our revised Edcon Group On-boarding programme aimed at accelerating new starters' orientation into the business.

Human Resource Policies

We provide a variety of services to our employees. These services are diverse and range from general benefits such as medical aid and retirement fund schemes to overall employee care. The Edcon Wellness Centre provides psychological, medical (including free anti-retroviral treatment), legal and financial support to all employees.

In addition, we provide our employees with three retirement fund options, all of which are defined contribution plans: the Edcon Provident Fund and two union provident funds. A retirement savings plan is also made available to the flexible staff employed on a limited number of hours per month. In order to further incentivise our employees through performance-based rewards, we structured the remuneration package of our senior management so that they can earn up to an additional 67.5% to 100% of their annual package on achievement of certain performance targets, with all our employees eligible for very lucrative performance rewards. In addition, we also have merit recognition events and long service awards.

Edcon is committed to Transformation and has an Employment Equity Forum, chaired by our group chief executive officer, which provides a forum for representatives of labour, management and other designated groups to review the progress, and discuss the direction, of our equity employment policies. In addition, the Board has a Social, Ethics and Transformation Committee, for further information refer to page 17.

On a continuous basis we conduct internal surveys to assess Employee Satisfaction whereby any issues raised are supported by appropriate interventions. The result of which is indicative in our staff turnover which has fallen from 30% in the fiscal year 2003 to 19% in 2011 and is at 17% as at 30 April 2012. Our policies promote equitable human resource practices for greater inclusivity amongst all groups.

Edcon is continuing its drive towards meeting the objective of becoming the top High Performing Organisation that meets all the criteria within South Africa.

Information technology

From fiscal year 2010 to fiscal year 2012, we invested R555 million on application systems to create one of the most advanced IT systems in the South African retail market. In 2009, we implemented a new in-store system in all of our stores. Last year we initiated a project to renew our merchandise planning systems which is expected to result in:

- An integrated approach to merchandise management, bringing pre-season and in-season planning together with execution strategies and better linking product and financial planning activities;
- An increase in efficiency and effectiveness of buyers and planners which should lead to better customer service, and improved profitability;
- A standardised planning platform facilitating process workflow across its multiple brands; and
- The better management of inventory within the complex supply chain and the numerous variables connected with demand, supply and replenishment across the business.

We use Nautilus as our distribution management system which interfaces with Retek to streamline the movement of a product from the delivery order to its final destination store. We also have in-store systems to capture sales and stock movement transactions and monitor staff scheduling and attendance.

In our credit and financial services business, we primarily use VisionPLUS modified with proprietary enhancements. VisionPLUS is a credit portfolio management system that we use to manage our financial services accounts and retail accounts, providing online, real-time information. VisionPLUS includes systems such as credit management, financial authorization, collections tracking and analysis, and we have added customized systems such as plastic card management and personal financial services. The VisionPLUS credit management system is an online multi-organisation account receivable system designed to track and process account activity in real time. In addition, we use the Oracle E-Business Suite Financials in our financial business processes.

Our IT development policy is to outsource software development to Accenture, processing and hardware capabilities to Business Connexion and storage and back-up to Shoden. All of our data is stored off-site in a secure location, which includes a back-up disaster recovery programme. All back-up procedures are reviewed quarterly and are updated as necessary. The services provided by Business Connexion include information security controls on all operating systems and databases to ensure compliance with our security standards.

Intellectual property

We have registered, or applied for the registration of, numerous trademarks in connection with our private label products and chain brands in South Africa and other countries in southern Africa. In general, we own the copyrights of the designs created or commissioned by us. We have no material patents. We regard our trademarks and other intellectual property as valuable assets in the marketing of our products and business and we take appropriate actions when necessary to protect our intellectual property rights.

Legal and regulatory proceedings

We are party to various claims and legal actions in the ordinary course of our business. We believe that such claims and actions, either individually or in the aggregate, will not have a material adverse effect on our business, financial condition or results of operations.

We are in ongoing discussions with the South African Revenue Service ("SARS") regarding various tax issues related to our purchase by Bain Capital, the Eurobonds issued to fund this purchase and the associated foreign currency and interest rate hedges.

MANAGEMENT

Directors

Edcon Holdings Proprietary Limited has a unitary Board structure comprising three executive directors, four non-executive directors and one independent non-executive director. The executive address of our directors is Edgardale, 1 Press Avenue, Crown Mines, Johannesburg, 2092, Republic of South Africa. The members of the Board (the "Board") are as follows:

Name	Age	Position
Jürgen Schreiber	50	Executive director, group chief executive officer
Stephen M. Ross	60	Executive director
Dr. Urin Ferndale	47	Executive director, chief operating officer
Dwight Poler	46	Non-executive director, chairman
Matthew Levin	46	Non-executive director
Marc M. Valentiny	47	Non-executive director
Edward B. Berk	38	Non-executive director
Zohra B. Ebrahim	51	Independent non-executive director

Jürgen Schreiber—Mr. Schreiber was appointed to the board as group chief executive officer in April 2011. From May 2012 Mr. Schreiber also assumed the role of chief executive of the department store division. Previously, Mr. Schreiber has been president and chief executive officer of Canadian health and beauty retailer Shoppers Drug Mart Corporation. Prior to joining Shoppers Drug Mart, Mr. Schreiber served five years with A.S. Watson Group, an international retailer and manufacturer. Before he joined A.S. Watson Group, Mr. Schreiber had a 14-year career with Reckitt Benckiser, a global consumer goods company. Mr. Schreiber progressed through many senior management positions in the U.K., Germany, Spain, Netherlands, China and Singapore.

Stephen M. Ross—Mr. Ross was appointed group chief executive officer of Edcon in 1998 and retired from this role in April 2011. Mr. Ross has served on the Board throughout this period. Mr. Ross has more than 25 years of experience in both wholesale, manufacturing and apparel retailing in the United States, having worked for companies such as Macy's, Lord & Taylor, Sears and Philips-van-Heusen. Mr. Ross received a B.A. from Washington & Jefferson College. Mr. Ross retired as a director in May 2012.

Dr. Urin Ferndale—Dr. Ferndale joined Edcon in 1999 as the group human resources director. In September 2007 he was appointed as the chief operating officer. Prior to joining Edcon, Dr. Ferndale was employed as personnel manager, human resources manager and labour relations manager at several listed companies and parastatal entities. Dr. Ferndale holds a PhD from the University of Johannesburg and a B.A. and an M.A. from the University of the Western Cape.

Dwight Poler—Mr. Poler was appointed director in 2007. Mr. Poler is a managing director at Bain Capital, which he joined in 1994. Previously, Mr. Poler was at Bain & Company, and prior to that he worked in the mergers and acquisitions department at Morgan Stanley & Co. in New York and Tokyo. Mr. Poler received an M.B.A. from the Amos Tuck School at Dartmouth and a B.A. from Amherst College.

Matthew Levin—Mr. Levin was appointed director in 2010. Mr. Levin joined Bain Capital in 1992. He was promoted to managing director in 2000. Prior to joining Bain Capital, Mr. Levin was a consultant at Bain & Company where he consulted in the consumer products and manufacturing industries. Mr. Levin received an M.B.A. from Harvard Business School where he was a Baker Scholar. He received a BS from the University of California at Berkeley. Mr. Levin currently serves as a director of Bombardier Recreational Products Inc., Dollarama Capital Corp., Guitar Center, Inc., Michaels Stores, Inc., Toys R Us Inc., Liliput Inc., and Unisource Worlwide, Inc..

Marc M. Valentiny—Mr. Valentiny was appointed director in November 2009. Mr. Valentiny is a managing director at Bain Capital, which he joined in 2003. Prior to joining Bain Capital, Mr. Valentiny was managing director of Rexel UK and Northern Europe. Previously he was vice president Strategy and Planning of the Pinault-Printemps-Redoute group, controlling shareholder of Rexel. Prior to that, he was senior manager at McKinsey & Company, worked for Braxton Associates, and served as an Officer in the French Air Force. Mr. Valentiny received an M.B.A. from Harvard Business School, a Masters degree in Civil Engineering from ENPC and is a graduate from Ecole Polytechnique in France.

Edward B. Berk—Mr. Berk was appointed director in 2007. Mr. Berk is a managing director at Bain Capital, which he joined in 1997. Previously, he was a consultant with Bain & Company and also worked in the European mergers and acquisitions group at Banque Paribas. Mr. Berk received an M.B.A. from Harvard Business School and a B.A. from Harvard University.

Zohra B. Ebrahim—Mrs. Ebrahim was appointed director of Edcon in 1999. Mrs. Ebrahim is a past president of the Institute of People Management and has advised government at various levels on aspects of housing policy. Mrs. Ebrahim holds a B.A. from the University of South Africa and a Higher Diploma in Education from the University of Cape Town.

Executive management

Our Board has delegated authority for the day-to-day affairs of each of our divisions to our executive managers. Our executive management team is mandated to assist in reviewing the operations of and performance by Edcon Holdings Proprietary Limited and its subsidiaries, developing strategy and policy proposals for consideration by our Board and implementing the directives of the Board. Our executive management team consists of the individuals indicated below.

Name	Age	Position
Jürgen Schreiber	50	Executive director, group chief executive officer
Stephen M. Ross	60	Executive director
Mark R. Bower	57	Deputy chief executive officer
Stephen R. Binnie	44	Chief financial officer
Dr. Urin Ferndale	47	Executive director, chief operating officer
Hugues Witvoet	53	Chief executive of the department store division
Christo Claassen	43	Chief executive of the discount division

For information on Jürgen Schreiber, Stephen M. Ross and Dr. Urin Ferndale, see "Management—Directors" above.

Mark R. Bower—Mr. Bower joined Edcon in 1990 and is currently the deputy chief executive of our group. Mr. Bower is currently the chief executive of the *CNA* division and is responsible for group-wide services such as credit, distribution, IT, property development and business intelligence. Previously, Mr. Bower was an audit partner and a director of a number of listed companies for 22 years. Mr. Bower has been a trustee of the Eden Trust/Thuthuka Bursary Fund for the advancement of Black Chartered Accountants since 1989. He holds a BCom from Natal University and BCompt from University of South Africa. Mr. Bower is a qualified chartered accountant. Mr. Bower will be appointed 'Deputy Chief Executive and Chief Financial Officer' and a member of the Board of Edcon Holdings Proprietary Limited with effect from 1 July 2012.

Stephen R. Binnie—Mr. Binnie was appointed as chief financial officer of Edcon in 2002. Mr. Binnie has been a senior financial executive for over 20 years, including a group financial manager at Investec from 1998 to 2002. Mr. Binnie holds a BCom and a BAcc from University of Witwatersrand, and an M.B.A. from Heriot-Watt University. Mr. Binnie is a qualified chartered accountant. Mr. Binnie has resigned from Edcon but will remain chief financial officer until 30 June 2012.

Christo Claassen—Mr. Claassen was appointed chief executive of the discount division in July 2008. Previously he was responsible for group strategy as well as group property development. Mr. Claassen joined Edcon in 2004 as the Business Development Executive in the discount division. He is a qualified chartered accountant and holds an M.B.A. in Retailing from Stirling University in Scotland. Mr. Claassen was the chief executive officer of Dunns prior to joining Edcon.

Hugues Witvoet—Mr. Witvoet joined in August 2008. Mr. Witvoet has extensive retail experience with AS Watson, LVMH and Carrefour and in addition has worked for McKinsey & Co. Mr. Witvoet is a graduate of Essec Business School. Mr. Witvoet left the employment of the company in May 2012. Following the departure of Mr. Witvoet, Mr. Schreiber took over the reins in the department store division until a suitable replacement is found.

Compensation

In fiscal year 2012, we paid our executive directors (including prescribed officers) and executive managers an aggregate compensation, including bonuses, of R57 million and R19 million, respectively.

Our directors and executive managers are indirect equity investors in Edcon Holdings Proprietary Limited. Our non-executive directors may be deemed beneficial owners of securities in Edcon (BC) S.A.R.L, which in turn is a shareholder of Edcon Holdings Proprietary Limited. Our executive managers are beneficiaries of the Founder Investor Trusts, which in turn are shareholders of Edcon Holdings Proprietary Limited.

Principal shareholders and share capital

Edcon Holdings Proprietary Limited's shareholders are Edcon (BC) S.A.R.L, The Edcon Staff Empowerment Trust (the "Empowerment Trust") and seven further trusts. Edcon (BC) S.A.R.L, a *société à responsabilité limitée* incorporated in Luxembourg, holds 86% of the ordinary shares of Edcon Holdings Proprietary Limited. Edcon (BC) S.A.R.L is indirectly controlled by funds advised by affiliates of Bain Capital including Bain Capital Fund IX, L.P. and Bain Capital Fund VIII-E, L.P.. Barclays Nominees (Aldermanbury) Limited, an affiliate of Barclays Capital, beneficially holds approximately 13% of the shares in Edcon (BC) S.A.R.L. The Empowerment Trust holds shares entitling it in aggregate to 11% of the votes at any general meeting of Edcon Holdings Proprietary Limited. The Empowerment Trust was created in July 2005 as part of our black economic empowerment programme and its beneficiaries are predominantly black employees. The remaining shareholders in Edcon Holdings Proprietary Limited are the Founder Investor Trusts. These trusts, the beneficiaries of which include members of Edcon management, collectively hold 3% of the ordinary shares of Edcon Holdings Proprietary Limited. Edcon Holdings Proprietary Limited indirectly owns 100% of the issued capital of Edcon Proprietary Limited. The members of the Board of Edcon Holdings Proprietary Limited that are affiliated with Bain Capital may be deemed to beneficially own shares owned by entities affiliated with Bain Capital. Each such individual disclaims beneficial ownership of any such shares in which such individual does not have a pecuniary interest.

Equity sponsor

Our sponsor is an affiliate of Bain Capital, a leading global private investment firm, whose affiliates manage several pools of capital, including private equity, venture capital, public equity, and leveraged debt assets. Since its inception in 1984, Bain Capital has made private equity investments and add-on acquisitions in over 230 companies around the world, including such leading retailers and consumer companies as *Toys "R" Us*, *Burger King*, *Staples*, *Burlington Coat Factory, Michaels, Shopper's Drug Mart*, *Brookstone*, *Domino's Pizza*, *Dollarama*, *Sealy Corp*., *Sports Authority* and *Duane Reade*. Headquartered in Boston, Bain Capital locations include New York, London, Munich, Mumbai, Hong Kong, Shanghai and Tokyo.

Corporate Information

Edcon Holdings Proprietary Limited is a company incorporated under the laws of South Africa on 27 November 2006 under Registration No. 2006/036903/07. Edcon Proprietary Limited, is a company incorporated under the laws of South Africa on 5 February 2007 under Registration No. 2007/003525/07. Edcon Acquisition Proprietary Limited is a company incorporated under the laws of South Africa on 12 January 2007 under Registration No. 2007/000518/07. Our headquarters are located at Edgardale, 1 Press Avenue, Crown Mines, Johannesburg, 2092, Republic of South Africa. Our telephone number is +27 11 495 6000. Our website address is www.edcon.co.za.

CORPORATE GOVERNANCE

Governance review

During the financial period, the Companies Act (No. 71 of 2008) of South Africa became effective and a further self-assessment was undertaken to assess the extent to which Edcon applies the best practice suggestions contained in the King Report on Corporate Governance for South Africa (King III) and complies with the Companies Act of South Africa. Pursuant to this assessment, various initiatives were implemented to bolster governance and these included the following:

- Reconstituting the Transformation Committee as the Social, Ethics and Transformation Committee.
- Preparing the framework for future integrated reporting.

We apply appropriate corporate governance principles and practices and comply with all material legislation to which we are subject. Corporate governance is managed and monitored by the Board, in conjunction with the following committees: Audit and Risk Committee, Remuneration Committee and Social, Ethics and Transformation Committee.

The roles of the chairman of the Board and the chief executive officer are separate, with a clear division of responsibilities to ensure a balance of power and authority between them. The chairman of the Board has no executive functions.

The appointment of directors is conducted on the terms of our Memorandum of Incorporation, with due regard to the provisions of the Companies Act of South Africa, and as amended from time to time.

Roles and responsibilities of the Board

The Board focuses on the key elements of the corporate governance processes underpinning our operation. In particular its role is to:

- consider, and adopt if appropriate, operating budgets and business plans proposed by management for the achievement of our strategic direction;
- delegate authority for capital expenditure and evaluate investment, capital and funding proposals reserved for Board approval;
- provide oversight of performance against targets and objectives;
- provide oversight of reporting on our direction, corporate governance and performance;
- identify, consider and review key risk areas;
- ensure ethical behaviour and compliance with relevant laws and regulations, audit and accounting principles and our internal governing documents and codes of conduct;
- act responsibly towards Edcon's relevant stakeholders;
- be aware of and committing to the underlying principles of good corporate governance and ensure that compliance with corporate governance principles is reviewed regularly; and
- evaluate on a regular basis economic, political, social and legal issues, as well as any other relevant external matters that may influence or affect the development of the business or the interests of our stakeholders.

The Board regularly reviews its annual Board agenda with the view to ensure that sufficient time is allocated towards the review of our strategy, which involves the analysis and choice of such strategy, followed by the ongoing review of progress against the approved plans.

The chairman, in consultation with the group chief executive officer and company secretary, is responsible for setting the agenda of each meeting. Board meetings are scheduled well in advance and management ensures that board members are timeously provided with all the relevant information and facts to enable the Board to reach objective and well informed decisions.

Board meetings

Board meetings are held at least quarterly and more frequently if circumstances so require. Directors are invited to add items to the agenda for Board meetings. Teleconference meetings were held in the period.

Conflicts of interest

Directors and officers are required to timely inform the Board of conflicts or potential conflicts of interest they may have in relation to particular items of business. Declarations of interest are tabled annually at the Board meeting or whenever a director has concluded or is about to conclude a contract with respect to which he/she is conflicted.

Insurance

Adequate Directors' and Officers' insurance cover has been purchased by Edcon. No claims under the relevant policy were made during fiscal year 2012.

Advice

Directors have unlimited access to the company secretary, who acts as an advisor to the Board and its committees. The address of the company secretary is Edgardale, 1 Press Avenue, Crown Mines, Johannesburg, 2092, South Africa. Any director may, in appropriate circumstances and at the expense of the group, obtain independent professional advice. The directors are also entitled, with the prior knowledge of the group chief executive officer, to have access to senior management and to relevant corporate information.

Board committees

Edcon's current Board committees are described below. Each of the committees operates according to terms of reference defined in their respective charters. The members of the various Board committees and the respective chairpersons (none of whom is the chairman of the Board), are elected annually by the Board. Regular reports on the committees' activities are provided to the Board.

Audit and Risk Committee

The members of the Audit and Risk Committee are Messrs. Edward B. Berk (chairman), Marc M. Valentiny and Stephen M. Ross. The deputy chief executive officer, the chief financial officer, the external auditors, the internal auditors and the company secretary attend all meetings of the Audit and Risk Committee as invitees. The retirement of Mr. Stephen M. Ross with effect from 14 May 2012 has created a vacancy in the Audit and Risk Committee composition. The Board intends to fill this vacancy during the course of the next financial period.

The Audit and Risk Committee meets at least twice a year to perform its chartered responsibilities, mainly by considering comprehensive reports from:

- the chief financial officer regarding Edcon's financial performance;
- the Group Risk Management Committee regarding the output of our continuous risk management process;
- the internal auditors regarding the adequacy and effectiveness of financial and operational control measures; and
- the external auditors regarding the planning and results of their audit activities.

The Audit and Risk Committee oversees the internal and external audit and the internal and external auditors have access to the chairman of the Audit and Risk Committee, the chairman of the Board and the group chief executive officer.

The Audit and Risk Committee also oversees the group's risk management process.

Remuneration Committee

The members of the Remuneration Committee are Mrs. Zohra B. Ebrahim (chairman), Messrs. Dwight Poler, Edward B. Berk and Matthew Levin. The Remuneration Committee meets at least twice per annum in order to perform its function of approving a broad remuneration strategy for Edcon and to ensure that executive directors and senior executives are adequately remunerated. Succession planning is also considered at every meeting of the Remuneration Committee. The general manager of human resources and the company secretary attend all meetings as invitees.

Social, Ethics and Transformation Committee

The members of the Social, Ethics and Transformation Committee are Mrs. Zohra B. Ebrahim (chairman), Messrs. Jürgen Schreiber, Edward B. Berk and Marc M. Valentiny. The general manager of human resources, the executive director responsible for Transformation and the company secretary attend all meetings as invitees.

The Social, Ethics and Transformation Committee meets at least twice per annum to:

- monitor the company's activities regarding social and economic development, good corporate citizenship, the environment, health and public safety, consumer relationships, labour and employment and to formally report to the shareholders on the performance of those functions annually; and

- review and evaluate the group's progress on transformation, with specific reference to the seven pillars outlined in the Codes of Good Conduct of the Broad Based Black Economic Empowerment Act, 2003 (the "BBBEE Act").

Risk management

Operating under a board approved written terms of reference, the Audit and Risk Committee evaluates any risk which it deems necessary for discussion and evaluation by all directors. The chairman of the Audit and Risk committee reports on progress with the key risk issues to the Board and a risk profile is tabled annually at a Board meeting. The risk management framework and process is designed to assist the Board to ensure that management monitors risks continually and reports back to the Audit and Risk committee on the status of risks. The framework includes:

- an annual review of the group's risk management policy;
- an annual review of the group's key risk profile, which details the material residual risks for the group;
- a prioritisation of the key risks based on their impact to the group and likelihood of occurrence;
- a continuous review of an update of the key risk profile by the executive directors;
- identifying emerging risks on a regular basis;
- bi-annual reporting on the status of the key risks and the management thereof based on key risk and performance indicators, to the Audit and Risk Committee;
- the monitoring of ongoing risk exposure by reviewing objective metrics and performing control self-assessments;
- reviewing the reports of independent assurance providers;
- regular six monthly reviews of the risk register at business unit level;
- bi-annual reporting on progress on the management and compliance with operational risks; and
- a review of the adequacy of the group's insurance programme.

For certain special risk areas, management forums have been established to ensure that the risks in these areas are reviewed and considered by management with the required specialist skills and experience.

Internal control

The Board is responsible for our systems of financial and operational internal control and the executive directors are relied on to ensure that management continues to maintain accounting records and systems of internal control that are appropriate to the achievement of our business strategies.

Financial Statements and Accounting Practices

The directors are of the opinion, based on the information and explanations given by management and the internal auditors that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the audited group financial statements. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or loss.

Internal audit

Edcon's internal audit function provides the Board and management with an independent and objective assurance service that reviews matters relating to control, risk management and operational efficiency. The internal auditors report directly to the Audit and Risk Committee but are responsible to the chief financial officer on day-to-day matters, which arrangement does not impair the function's independence or objectivity.

There is regular two-way communication between the group chief executive officer and the head of Internal Audit. The Audit and Risk Committee approves the function's yearly plan of audits, which encompasses all Edcon business operations and support functions. The Internal Audit plan is based on an annually conducted group-wide risk assessment.

External audit appointment and independence

The external auditor expresses an independent opinion on the audited group financial statements. The external auditor's plan is reviewed by the Audit and Risk Committee to ensure that significant areas of concern are covered, without infringing on the external auditor's independence and right to audit. Ernst & Young Inc., South Africa are the auditors of Edcon and the audit partner rotates in line with current legislation.

Going Concern

The directors believe that the group has adequate financial resources to continue in operation for at least the next 12 months and accordingly the audited group financial statements have been prepared on a going-concern basis.

SUMMARY HISTORICAL AND PRO FORMA FINANCIAL AND OTHER DATA

The following audited historical financial data relates to the Audited Group Financial Statements for the 52-week period ended 31 March 2012, the 52-week period ended 2 April 2011 and the 53-week period ended 3 April 2010 which appear elsewhere in this annual report. These financial statements have been audited by Ernst & Young Inc., South Africa. Unless the context requires otherwise, references in this notice to “fiscal year 2010” and “fiscal year 2011” and “fiscal year 2012” shall mean the 52-week period ended 3 April 2010, the 52-week period ended 2 April 2011 and the 52-week period ended 31 March 2012 respectively. We have also presented certain unaudited adjusted financial data for fiscal year 2010.

Overview

The strategic initiatives outlined in previous reports gained further momentum and performance improved progressively and was in line with the long term growth plan in fiscal year 2012.

Key operating highlights for fiscal year 2012 include:

- Adjusted EBITDA up 12.2% to R3,548 million
- “Same store” sales increased by 7.4%
- Credit and financial services delivered a 21% growth in operating profit

Despite concerns about negative macroeconomic indicators and international credit markets, retail sales in South Africa have been resilient. Against this background, sales improved progressively in the year, with same stores rising by 7.4%. This was achieved by ensuring that stores were well stocked with key items and by cautiously continuing to offer credit to creditworthy customers. At the same time in terms of our strategy, underperforming stores were closed. There were some pressures on gross profit margins due to rising input prices but we are pursuing a variety of initiatives to overcome these price increases.

During the year we commenced a number of CEO transitional projects across the business, including the development of a real estate strategy to support growth, a review of merchandise ranges and availability of goods, the introduction of a new loyalty programme, as well as an analysis of operational processes. The costs to date are R278 million, but the full benefits from these initiatives are only expected next year.

Store operating expenses continued to be stringently controlled, and management was encouraged by the results of targeted spending to enhance new account growth. Working capital also continued to be tightly managed, however, to ensure that stores remain in stock of key items, inventory investments have been enhanced.

	Fiscal year (in millions)			
	2010[1] 53 weeks *(audited)*	2010[1,2] 52 weeks *(unaudited)*	2011[1] 52 weeks *(audited)*	2012[1] 52 weeks *(audited)*
Comprehensive income data				
Revenues	R 24 273	R 23 797	R 24 932	R 27 345
Retail sales	21 888	21 412	22 716	24 664
Cost of sales	(13 848)	(13 536)	(14 332)	(15 642)
Gross profit	8 040	7 876	8 384	9 022
Other income	473	473	490	565
Store costs	(4 078)	(4 053)	(4 348)	(4 622)
Other operating costs	(2 338)	(2 320)	(2 563)	(2 843)
Additional depreciation and amortisation [4]	(690)	(690)	(658)	(586)
Retail trading profit	1 407	1 286	1 305	1 536
Operating profit from credit	99	99	190	277
Income from joint ventures	435	435	487	541
Trading profit	1 941	1 820	1 982	2 354
Fees incurred-securitisation	(33)	(33)	(10)	
CEO transitional related expenditure [5]				(278)
Advisory fees in relation to debt issuance [5]				(96)
Discount on repurchase of senior floating rate notes				36
Net fair value movement on notes and associated derivatives	(459)	(459)	(2 113)	(690)
Impairment of brands and goodwill	(137)	(137)		(126)
Profit/(loss) before financing costs	1 312	1 191	(141)	1 200
Net financing costs	(2 588)	(2 570)	(2 128)	(3 368)
Taxation	350	350	578	44
Net loss	R (926)	R (1 029)	R (1 691)	R (2 124)
Other financial data *(unaudited)*				
EBITDA[6]	R 2 537	R 2 416	R 1 075	2 372
Adjusted EBITDA [6]	3 044	2 923	3 160	3 548
Operating lease expense	1 425	1 425	1 488	1 566
Adjusted EBITDAR	4 469	4 348	4 648	5 114
Capital expenditure (excluding finance leases)	473	473	474	710
Depreciation and amortisation	1 225	1 225	1 216	1 172

	Fiscal year (in millions)		
	2010[1,2] at 3 April *(unaudited)*	2011[1] at 2 April *(audited)*	2012[1] at 31 March *(audited)*
Financial position data			
Cash and cash equivalents	R 441	R 1 676	R 265
Working capital	2 281	2 199	3 771
Total assets	29 544	30 988	31 836
Total debt at unhedged rates	15 370	20 140	22 463
Total net debt including cash and derivatives	18 839	19 688	22 586
Total equity and shareholder’s loan	5 892	4 852	3 494

	Fiscal year		
	2010 at 3 April *(unaudited)*	**2011 at 2 April** *(unaudited)*	**2012 at 31 March** *(unaudited)*
Select operating data			
Number of stores	1 228	1 181	1 167
Same store sales growth	(4.7%)	5.3%	7.4%
Average retail space (in '000 sqm)	1 316	1 321	1 340
Number of customer credit accounts (in '000s)	3 993	3 713	3 831

	Fiscal year *(in millions)*			
	2010 [1] 53 weeks *(audited)*	**2010[1,2] 52 weeks** *(unaudited)*	**2011[1] 52 weeks** *(audited)*	**2012[1] 52 weeks** *(audited)*
Cash flow data				
Operating cash inflow before changes in working capital	R 2 988	R 2 867	R 3 159	**R 3 198**
Working capital movement	460	1 074	(446)	**(1 609)**
Cash generated from operating activities	3 488	3 941	2 713	**1 589**

1) All figures presented in the summary financial statements above exclude the impact of consolidating OntheCards Investments II Proprietary Limited ("OtC"). Refer to note 3 below for a reconciliation of key items.

2) Fiscal year 2010 comprises the audited financial information for the 53 week period ended 3 April 2010, net of the unaudited adjustments required to reflect performance for the 52-week period ended 3 April 2010.

3) The following tables reconcile financial information which is presented in the Audited Group Financial Statements which consolidate OtC, to the tables presented in the summary financial statements above. Refer to note 36 in the Audited Group Financial Statements for the impact of consolidating OtC.

	Fiscal year *(in millions)*		
	2012 52 weeks		
	Including OtC *(audited)*	Consolidation adjustments for OtC *(audited)*	Excluding OtC *(unaudited)*
Comprehensive income data			
Revenues	R 27 884	R 539	R 27 345
Operating profit from credit	770	493	277
Other financial data			
Adjusted EBITDA (unaudited)	R 4 041	R 493	R 3 548

	Fiscal year (in millions) 2012 52 weeks					
		Including OtC *(audited)*		Consolidation adjustments for OtC *(audited)*		Excluding OtC *(unaudited)*
Financial position data						
Working capital	R	9 294	R	5 523	R	3 771
Total assets		36 354		4 518		31 836
Total debt at unhedged rates		26 763		4 300		22 463
Total net debt including cash and derivatives		26 068		3 482		22 586
Cash flow data						
Operating cash inflow before changes in working capital	R	3 691	R	493	R	3 198
Working capital movement		(1 603)		6		(1 609)

	Fiscal year (in millions) 2011 52 weeks					
		Including OtC *(audited)*		Consolidation adjustments for OtC *(audited)*		Excluding OtC *(unaudited)*
Comprehensive income data						
Revenues	R	25 586	R	654	R	24 932
Operating profit from credit		624		434		190
Other financial data						
Adjusted EBITDA (unaudited)	R	3 624	R	464	R	3 160
Financial position data						
Working capital	R	7 712	R	5 513	R	2 199
Total assets		35 329		4 341		30 988
Total debt at unhedged rates		24 440		4 300		20 140
Total net debt including cash and derivatives		23 349		3 661		19 688
Cash flow data						
Operating cash inflow before changes in working capital	R	3 622	R	463	R	3 159
Working capital movement		(69)		377		(446)

	Fiscal year (in millions)		
	2010 53 weeks		
	Including OtC *(audited)*	Consolidation adjustments for OtC *(audited)*	Excluding OtC *(unaudited)*
Comprehensive income data			
Revenues	R 24 876	R 603	R 24 273
Net income from credit	278	179	99
Other financial data			
Adjusted EBITDA (unaudited)	R 3 368	R 324	R 3 044
Financial position statement data			
Working capital	R 7 685	R 5 404	R 2 281
Total assets	33 768	4 224	29 544
Total debt at unhedged rates	19 670	4 300	15 370
Total net debt including cash and derivatives	22 455	3 616	18 839
Cash flow data			
Operating cash inflow before changes in working capital	R 3 522	R 364	R 2 988
Working capital movement	952	492	460

4) This additional depreciation and amortisation relates to the amortisation of intangibles and the incremental depreciation arising from the fair value adjustments in relation to the private equity transaction. These figures are included in “Other operating costs” in the Audited Group Financial Statements.

5) The CEO transitional related expenditure and advisory fees in relation to debt issuance figures are included in “Other operating costs” in the Audited Group Financial Statements.

6) The following table reconciles net loss or earnings to EBITDA and adjusted EBITDA.

	Fiscal year (in millions)							
		2010[1] **53 weeks** *(unaudited)*		**2010[1,2]** **52 weeks** *(unaudited)*		**2011[1]** **52 weeks** *(unaudited)*		**2012[1]** **52 weeks** *(unaudited)*
Net loss	R	(926)	R	(1 029)	R	(1 691)	R	(2 124)
Taxation		(350)		(350)		(578)		(44)
Net financing costs		2 588		2 570		2 128		3 368
Depreciation & amortisation		1 225		1 225		1 216		1 172
EBITDA	R	2 537	R	2 416		1 075		2 372
Net fair value movement on notes and associated derivatives [(a)]		459		459		2 113		690
Discount on repurchase of senior floating rate notes [(b)]								(36)
Impairment of intangible assets [(c)]		137		137				126
CEO transitional projects related expenditure [(d)]								278
Advisory fees in relation to debt issuance [(e)]								96
Net asset write-off [(f)]		23		23		(8)		22
Gain on sale of receivables to OtC [(g)]		(112)		(112)		(20)		
Adjusted EBITDA	R	3 044	R	2 923	R	3 160	R	3 548

a) We have executed currency and interest rate derivatives to hedge the repayment of the interest and principal on the respective floating and fixed rate notes (see note 17 of the Audited Group Financial Statements). This adjustment relates to the revaluation of the notes to the spot exchange rate and change in the fair value of the related cross currency swaps.

b) During May 2011, the Group completed a repurchase of a portion of the senior secured floating rate notes with a nominal value of €39 million for €35 million, being 90% of the face value. As a result of the buy-back, the Group recognised a gain, net of associated fees, of R36 million.

c) This adjustment relates to the impairment of goodwill and intangible assets.

d) This relates to costs incurred for various CEO transitional projects.

e) This relates to advisory fees paid in connection with the various refinancing transactions, pursuant to the transaction services agreement between Edcon and Bain Capital Partners, LLC and its affiliates.

f) This adjustment relates to assets written off net of related proceeds.

g) This adjustment relates to the reversal of a net gain of Rnil (2011: R20 million and 2010: R112 million) on the sale of Rnil (2011: R523 million and 2010: R2,065 million) receivables to OtC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, our Audited Group Financial Statements and the related notes thereto included in this Annual Report. When used in this Annual Report in relation to any year, "fiscal year" means the fiscal year ended on the Saturday of that year closest to 31 March of that year. The following discussion should also be read in conjunction with "Summary Historical and Pro Forma Financial and Other Data".

Financial statement presentation

We discuss below the financial statements and results of operations of Edcon on a consolidated basis in fiscal years 2010, 2011 and 2012. The discussion excludes the impact of consolidating OtC. The group financial statements for the periods discussed have been audited and prepared in accordance with IFRS and appear in this Annual Report see "Audited Group Financial Statements".

Key Group statement of comprehensive income items

Revenue

We derive revenue primarily from the sale of retail products which accounted for 90% of our revenue in fiscal year 2012. Our retail products are available for sale in 1,167 stores, 94% of which are in South Africa, with the remainder in Namibia, Botswana, Lesotho, Swaziland and Zambia.

Changes to our retail sales from period to period are generally affected by the following factors:

- the quality and availability of our products;
- the extent to which we are able to predict, plan for and implement changes to our product mix to reflect customer trends;
- the prices at which we sell our products, which may change depending on markdowns; and
- the volume of our products sold and changes in the mix of products sold within our different product lines.

Changes to our cost of sales from period to period result from a number of factors, including:

- the base price of raw materials;
- exchange rates;
- the amount of duties paid on purchases of products imported to South Africa;
- freight cost;
- import quotas;
- rebates and discounts earned from suppliers; and
- the level of our marketing and advertising costs.

Store costs

Our store costs primarily consist of (i) payroll for our store based employees, including salaries, bonuses, payroll taxes and pension costs, (ii) establishment costs such as rent, local taxes, service charges, and other operating costs at our stores, including cleaning, maintenance, security and energy, (iii) depreciation expense related to capital expended on our stores, (iv) stock shrinkage, and (v) credit card commissions.

Changes in our store costs from period to period are the result of a number of factors, including:

- the general level of payroll and benefit increases given to our store based employees;
- rental increases agreed to as part of our store lease agreements;
- the opening of new stores, including pre-opening costs, and the modernisation of existing stores, including the associated depreciation charge; and

- costs related to the volume of products sold, including increases in transaction charges related to credit card sales.

Other operating costs

Other operating costs primarily consist of (i) various corporate overhead costs associated primarily with our head offices, including human resources, procurement, communications, finance, information technology, strategy and facilities, (ii) depreciation expense related to our head office assets and the amortisation of other intangible assets, (iii) other human resource costs, such as our BBBEE programmes, our training programmes and the maintenance of our wellness programme for employees, (iv) depreciation and maintenance expense related to certain information technology systems, (v) costs related to group marketing, (vi) other head office facility costs, and (vii) costs associated with logistics in our distribution and supply chains.

Changes in our other operating costs from period to period are primarily the result of:

- the general level of payroll and benefit increases given to selected head office employees;
- costs associated with implementing employee incentive plans;
- expenses related to new and revised information technology systems;
- changes to our head offices including expansion of our head offices to accommodate the increased number of stores;
- changes to our overhead costs; and
- changes in cost associated with our logistics in our distribution and supply chains.

Credit and financial services operating profit

In addition to our retail sales, we generate profit from our credit and financial services business. Credit and financial services operating profit primarily consists of (i) interest earned from our credit card customers, (ii) income from our insurance joint ventures, which earn money from premiums paid by customers, and (iii) revenue from the sale of credit receivables, less (x) bad debts on the credit accounts which we have underwritten, and the provision for impairment of receivables, (y) costs associated with running the credit and financial services business, including payroll for our credit and financial services business employees, collection costs, and credit bureau costs, and (z) taxes incurred on the profit of the credit and financial services business.

Credit and financial services operating profit from period to period is affected generally by the following factors:

- the level of credit card sales;
- incidence of bad debts on the credit card accounts which we have underwritten, and the provision for impairment of receivables;
- interest rate fluctuations and changes to restrictions on the level of interest we are able to charge our credit customers;
- changes in the amount of receivables we sell or changes in the discount rate applicable to such receivables; and
- the general level of payroll and benefit increases given to selected credit and financial service employees.

For a further discussion of the components which comprise credit operating profit, see note 26 to the Audited Group Financial Statements.

Significant factors affecting our results of operations

Economic conditions in South Africa

Approximately 94% of our retail sales are generated in South Africa, which has undergone significant social, political and economic transformation in the last ten years. Our future results of operation are dependent on continued economic, political and social stability in South Africa. Changes in economic conditions may affect, among other things, demand for our services and the creditworthiness of our customers.

Although affected by the global economic downturn, South Africa has experienced overall economic growth in recent years, in part due to a rapidly emerging black middle class with increased spending power, and the government's commitment to macro-economic growth. Real GDP increased by 2.6% and by 3.1% in 2012 and 2011 respectively and increased by 2.8% in 2010, consumer price inflation has been 5.4%, 6.1% and 3.5% respectively.

Growth in the clothing and footwear market

The C&F market in South Africa grew at a CAGR of 8.4% from fiscal year 2007 to fiscal year 2012. This growth was due to a number of factors, including the growth of the South African economy, the rapidly emerging black middle class, which historically spends a higher percentage of its disposable income on C&F goods, and the movement of market share from the informal market to more established medium- and large-sized retailers. We expect this growth to continue, and as the market share leader, we expect to benefit from the increased size of the C&F market.

Cost of sales

A key component of our growth strategy is to consolidate our procurement and leverage our market scale to obtain better pricing for our products, decreasing our cost of sales. We also intend to establish strategic relationships with low-cost suppliers. For a number of external factors that can affect our cost of sales see, "Key group statement of comprehensive income items - Revenue".

Same store growth

Our retail sales and profitability are primarily dependent on the amount of retail sales that we generate from our existing stores. From fiscal year 2007 to fiscal year 2012, we have increased our same store growth at a CAGR of 2.6%, and increased our trading density from R17,194 per square meter to R18,404 per square meter. The amount of retail sales we generate from our existing store sites is contingent on a number of factors, including average customer spend, customer retention and merchandise assortment and allocation.

New store openings

Historically, we have increased retail sales by opening new stores and increased average trading space by 1.4% in fiscal 2012. We closed a net 5, 47 and 14 stores in fiscal year 2010, fiscal year 2011 and fiscal year 2012 respectively, largely non performing *Discom* stores. Our property development committee applies strict criteria to potential new sites, and reviews site performance annually to determine if sites are meeting their targets or can be used more efficiently. Our ability to open new stores in the future will depend on our ability to find new sites which meet our investment criteria for expansion.

Seasonality

Our retail sales, like most other retailers, are subject to seasonal influences. Historically, our most important trading periods in terms of retail sales have been the Easter and Christmas seasons, with 34% of our retail sales occurring in April, November and December combined. We incur significant additional expenses in advance of the Easter and Christmas seasons in anticipation of higher retail sales during those periods, including the cost of additional inventory, advertising and hiring additional employees. In previous years, our investment in working capital has peaked in early to mid-March, and October and November as a result of increased supply purchases in anticipation of Easter and Christmas. Our results are also affected by periods of abnormal or unseasonal weather conditions, which can lead to a decrease in retail sales and higher markdowns.

Performance of our receivables book

Our credit and financial services business generated R818 million of operating profit in fiscal year 2012. The size of the receivables book managed by Edcon increased from R9.6 billion in fiscal year 2010 to R10.9 billion in fiscal year 2012, due to increased credit balances from existing customers and increase in new accounts. During this period, the incidence of net impairment of receivables in our receivables book decreased from 12.9% in fiscal year 2010 to 6.7% in fiscal year 2012, due to initiatives implemented during fiscal year 2010 to limit the extension of credit to high risk customers, strong collection activity and the improvement in the macroeconomic environment in South Africa. Credit and financial services operating profit is dependent on a number of factors. We may consider various opportunities to grow our credit and financial services business, and to expand its profits and return on capital employed.

Results of Operations

Fiscal year 2012 compared to fiscal year 2011

Retail sales

Retail sales increased by R1,948 million, or 8.6%, from R22,716 million in fiscal year 2011 to R24,664 million in fiscal year 2012.

In our department store division, retail sales in fiscal year 2012 increased by 8.7% from fiscal year 2011 due primarily to strong growth from kidswear, footwear and mobile phones. *CNA*'s retail sales in fiscal year 2012 increased 8.5% from fiscal year 2011, primarily due to growth in sales of mobile phones and digital. Retail sales in the discount division increased by 8.4% from fiscal year 2011 to fiscal year 2012 primarily due to growth in ladieswear, kidswear and mobile phones.

Same store sales (sales from stores open for the full period in the current fiscal year and in the prior fiscal year) increased by 7.4% from the prior period. Credit sales accounted for 51% of total retail sales during fiscal year 2012, substantially consistent with the 49% achieved during fiscal year 2011.

Gross profit

Gross profit increased by R638 million, or 7.6%, from R8,384 million in fiscal year 2011 to R9,022 million in fiscal year 2012. Gross profit as a percentage of retail sales was 36.6%, down from 36.9% in fiscal year 2011. This is a result of input price inflation combined with a higher contribution of lower margin cellular and digital to our sales mix.

Gross profit as a percentage of retail sales for the department store division decreased from 41.5% in fiscal year 2011 to 40.8% in fiscal year 2012, primarily due to a shift in sales mix and an increase in promotional activity. Gross profit as a percentage of retail sales in *CNA* increased from 32.6% in fiscal year 2011 to 33.1% in fiscal year 2012 primarily because of a change in sales mix. In the discount division, gross profit as a percentage of retail sales was 31.8% in fiscal year 2011 and 2012, with an enhanced pricing strategy and a lower level of markdowns across most major product categories being offset by input price inflation.

Store costs

Store costs increased by R274 million, or 6.3%, from R4,348 million in fiscal year 2011 to R4,622 million in fiscal year 2012 principally as a result of (i) increases in electricity prices imposed by the utility provider, (ii) increases in wages and rentals, and (iii) costs for an additional 1.4% trading space.

Other operating costs

Other operating costs increased by R280 million, or 10.9%, from R2,563 million in fiscal year 2011 to R2,843 million in fiscal year 2012. This increase was principally the result of higher fuel costs and increases in salary costs for corporate staff.

Credit and financial services operating profit

Credit and financial services operating profit increased by R141 million, or 20.8%, from R677 million in fiscal year 2011 to R818 million in fiscal year 2012. This increase was primarily because of an increase in interest income and a decrease in impairment of receivables following the significant improvement in the quality of the receivables book. This results from our initiatives in fiscal year 2010 to restrict the growth of our receivables book for higher risk customers and improved collection activity. Consolidated annualised impairment of receivables as a percentage of average receivables decreased to 6.7% for fiscal 2012 from 10.9% in fiscal year 2011 due to ongoing improvements in the quality of the book and strong collection activity. Income from joint ventures increased by R54 million, or 11.1%, from R487 million in fiscal 2011 to R541 million in fiscal year 2012 primarily due to increased insurance sales. The number of active accounts increased from 3.7 million accounts at March 2011 to 3.8 million at March 2012 following an increased credit marketing focus.

Depreciation and amortisation

Depreciation and amortisation decreased by R44 million from R1,216 million in fiscal year 2011 to R1,172 million in fiscal year 2012. This was primarily due to a change in mix of useful lives.

Trading profit

Trading profit increased by R372 million, or 18.8%, from R1,982 million in fiscal year 2011 to R2,354 million in fiscal year 2012.

Adjusted EBITDA increased by R388 million, or 12.2%, from R3,160 million in fiscal year 2011 to R3,548 million in fiscal year 2012.

Net financing costs

Net financing costs increased by R1,240 million, from R2,128 million in fiscal year 2011 to R3,368 million in fiscal year 2012. This increase is primarily a result of (i) issuing the senior secured fixed rate notes in March 2011, (ii) the issue of the super senior secured notes in April 2011, and (iii) our new hedging strategy, to hedge approximately 60% of the principal of the foreign denominated notes utilising cross currency swaps and all the associated coupon payments through to March 2014.

Taxation

Taxation income decreased by R534 million, from R578 million in fiscal year 2011 to R44 million in fiscal year 2012. The reduction was primarily due to lower taxable losses in fiscal year 2012 compared with fiscal year 2011 and a change to deferred tax assets arising from a change in the capital gains tax inclusion rate.

Fiscal year 2011 compared to fiscal year 2010

Overview

Edcon continued to deliver an improvement in performance in fiscal year 2011, principally resulting from ongoing business transformation initiatives, however, these are work in progress and we still have opportunities to improve further.

Key operating highlights for fiscal year 2011 include:

- Adjusted EBITDA up 8.1% to R3,160 million
- “Same store” sales increased by 5.3%
- Combined credit activities (excluding OtC) delivering a 27% increase in operating profit
- Continued strong cash generation even as the business resumes its growth trajectory

An improved connection with our targeted consumer segments, driven by successful marketing to support enhanced product offers, has underpinned the consistently positive growth that continued in fiscal year 2011 as well as the strong cash sales performance (+9.5% compared with 2010). The success of merchandise execution is improving, with particularly encouraging results in ladies contemporary, menswear, homeware and cellular. However, progress still has to be made in certain areas, such as footwear and menswear in our Discount Division.

We believe that the South African economy is improving, and that the outlook remains positive, despite some short-term challenges such as job losses. In this environment, Edcon's growth was achieved even as the company maintains a conservative stance in our credit activities; the debtors book continued to be tightly managed, and all key credit metrics improved.

We also continued to monitor and control store operating expenses and working capital.

Retail sales

Retail sales increased by R1,304 million, or 6.1%, from R21,412 million in fiscal year 2010 to R22,716 million in fiscal year 2011.

In our department stores division, retail sales in fiscal year 2011 increased by 7.1% from fiscal year 2010 due primarily to strong growth from ladieswear, menswear and mobile phones. *CNA*’s retail sales in fiscal year 2011 increased 3.9% from fiscal year 2010, primarily due to growth in sales of mobile phones and stationery. Retail sales in the discount division increased by 5.3% from fiscal year 2010 to fiscal year 2011 primarily due to growth in cosmetics, home products and mobile phones.

Same store sales (sales from stores open for the full period in the current fiscal year and in the prior fiscal year) increased by 5.3% from the prior period. Our credit sales accounted for 49% of total retail sales during fiscal year 2011, down from 50% achieved during fiscal year 2010. Cash sales for fiscal year 2011 increased 9.5% from fiscal year 2010, primarily due to improving merchandise and customer value proposition, which has had a positive effect on cash flow generation. Credit sales increased 2.8% compared to fiscal year 2010 primarily due to increased spend per account.

Gross profit

Gross profit increased by R508 million, or 6.4%, from R7,876 million in fiscal year 2010 to R8,384 million in fiscal year 2011. Gross profit as a percentage of retail sales was 36.9%, substantially similar to 36.8% in fiscal year 2010, as an improvement in the winter season was offset by increased seasonal markdowns in the third quarter and input price inflation.

Gross profit as a percentage of retail sales for the department store division increased from 41.2% in fiscal year 2010 to 41.5% in fiscal year 2011, primarily due to reduced markdowns on ladieswear and home products offsetting the impact from higher input prices. Gross profit as a percentage of retail sales in *CNA* decreased from 32.8% in fiscal year 2010 to 32.6% in fiscal year 2011 primarily due to an increase in contribution to retail sales from lower margin merchandise such as mobile phones and digital products. In the discount division, gross profit as a percentage of retail sales was substantially similar, decreasing from 31.9% in fiscal year 2010 to 31.8% in fiscal year 2011, with a lower level of markdowns across most major product categories being offset by input price inflation.

Store costs

Store costs increased by R295 million, or 7.3%, from R4,053 million in fiscal year 2010 to R4,348 million in fiscal year 2011 principally as a result of (i) increases in electricity prices imposed by our utility providers and (ii) increases in wages and rentals.

Other operating costs

Other operating costs increased by R243 million, or 10.5%, from R2,320 million in fiscal year 2010 to R2,563 million in fiscal year 2011. This increase was principally the result of higher fuel costs and an increase in unit volumes in the distribution centres.

Credit and financial services operating profit

Credit and financial services operating profit increased by R143 million, or 26.8%, from R534 million in fiscal year 2010 to R677 million in fiscal year 2011. This increase was primarily because of a decrease in impairment of receivables and provision for impairment of receivables. This results from our initiatives in fiscal year 2010 to restrict the growth of our receivables book for higher risk customers and improved collection activity. The improvement was offset to an extent by lower interest income associated with a reduction in the prevailing interest rate charged to customers. Consolidated annualised impairment of receivables as a percentage of average receivables decreased to 10.9% for fiscal 2011 from 12.9% in fiscal year 2010. Income from joint ventures increased by R52 million, or 12.0%, from R435 million in fiscal 2010 to R487 million in fiscal year 2011 primarily due to increased insurance sales. The number of active accounts decreased from 4.0 million accounts at March 2010 to 3.7 million at March 2011 due to our tightened credit standards in fiscal year 2010.

Depreciation and amortisation

Depreciation and amortisation remained substantially similar, decreasing by R9 million from R1,225 million in fiscal year 2010 to R1,216 million in fiscal year 2011.

Trading profit

Trading profit increased by R162 million, or 8.9%, from R1,820 million in fiscal year 2010 to R1,982 million in fiscal year 2011.

Adjusted EBITDA increased by R237 million, or 8.1%, from R2,923 million in fiscal year 2010 to R3,160 million in fiscal year 2011.

Net financing costs

Net financing costs decreased by R442 million, from R2,570 million in fiscal year 2010 to R2,128 million in fiscal year 2011. This decrease is primarily a result of lower interest rates and lower average drawings under the short-term borrowings facilities during fiscal year 2011.

Taxation

Taxation income increased by R228 million, from R350 million in fiscal year 2010 to R578 million in fiscal year 2011. The increase was primarily due to higher taxable losses in fiscal year 2011 compared to fiscal year 2010.

Historical cash flows

Fiscal year 2012 compared to fiscal year 2011

Operating cash inflow before changes in working capital increased by R39 million, or 1.2% from R3,159 million in fiscal year 2011 to R3,198 million in fiscal year 2012. This increase was negatively impacted by (i) R278 million costs incurred for various CEO transitional projects, and (ii) the payment of advisory fees of R96 million in connection with various refinancing transactions pursuant to the transaction services agreement between Edcon and Bain Capital Partners, LLC and its affiliates.

Working capital increased by R1,609 million in fiscal year 2012 compared to R446 million for fiscal year 2011. This was principally due to (i) an increase in receivables of R1,167 million in fiscal year 2012 compared to R524 million in fiscal year 2011 resulting from a stronger growth in credit sales, (ii) an increase in inventory of R543 million in fiscal year 2012 compared to an increase of R225 million in fiscal year 2011 to ensure chains are well stocked in key replenishment items, offset by (iii) an increase in payables of R101 million in fiscal year 2012 compared to an increase of R303 million in fiscal year 2011.

Cash generated by operating activities decreased by R1,124 million, from R2,713 million in fiscal year 2011 to R1,589 million in fiscal year 2012 primarily because of our higher working capital investment.

Capital expenditure was R710 million in fiscal year 2012, up from R474 million in fiscal year 2011 due to an accelerated store refurbishment program in *Edgars* and *Jet* stores as well as the optimization of space through the conversion of a significant number of *Discom* stores to *Edgars Active* stores. During fiscal year 2012, we opened 65 stores and closed 79 stores (largely non performing *Discom* units which combined with the store refurbishment program resulted in an investment of R396 million). In addition, in fiscal year 2012 we invested R254 million in information technology infrastructure compared to R127 million in fiscal year 2011, primarily for the development of a new merchandise planning tool, and the purchase of new hardware.

In April 2011, the Group issued R1,010 million in super senior secured notes on the Johannesburg Securities Exchange. The notes proceeds were used to fully refinance the R985 million super senior secured term loan, that was due 31 March 2014.

During May 2011, the Group completed a repurchase of a portion of the senior secured floating rate notes with a nominal value of €39 million for €35 million (R338 million after associated fees) being 90% of the face value.

The Group entered into two agreements relating to its head office administration building whereby it purchased the building from the landlord for R226 million and simultaneously entered into a sale and leaseback agreement whereby it received R270 million. In addition a finance lease for IT equipment was entered for R80 million. Lease payments for the year were R32 million.

Fiscal year 2011 compared to fiscal year 2010

Operating cash inflow before changes in working capital increased by R292 million, or 10.2% from R2,867 million in fiscal year 2010 to R3,159 million in fiscal year 2011, due to the higher trading profit in fiscal year 2011.

Working capital increased by R446 million in the fiscal year 2011 compared with a decrease of R1,074 million for fiscal year 2010. This was principally due to (i) an increase in receivables of R524 million in the fiscal year 2011 compared with a decrease in receivables of R165 million in the fiscal year 2010 resulting from the credit tightening implemented in fiscal year 2010, (ii) an increase in inventory of R225 million in the fiscal year 2011 compared to an decrease of R72 million in the fiscal year 2010 (iii) an increase in payables of R303 million in the fiscal year 2011 compared to an increase of R837 million in the fiscal year 2010 due to higher purchases in the fiscal year 2011 compared to fiscal year 2010.

Cash generated by operating activities decreased by R1,228 million, from R3,941 million in fiscal year 2010 to R2,713 million in the fiscal year 2011 primarily because of the higher working capital investment.

Capital expenditure was R474 million in the fiscal year 2011, up from R473 million in fiscal year 2010 due to an accelerated store refurbishment program in *Edgars* and *Jet* stores partially offset by lower new space growth. The store refurbishment program combined with the opening of 38 new stores resulted in an investment of R337 million. In addition, in fiscal year 2011 we invested R127 million in information technology infrastructure compared with R174 million in fiscal year 2010. The last remaining administrative building we owned was sold for R100 million.

During fiscal year 2011 foreign currency swaps of R5,001 million were settled early and their mark-to-market position extinguished. The settlement proceeds were funded through the issue of senior secured fixed rate notes of R4,616 million (net of fees) and a super senior secured term loan of R985 million, which was subsequently refinanced in April 2011 through the issuance of R1,010 million of super senior secured notes due April 2016.

During fiscal year 2011, as part of the OtC securitisation, Edcon sold R523 million trade receivable to OtC for R516 million.

OntheCards Investments II Proprietary Limited

In August 2009, OtC raised R1 billion through the issuance of a combination of one year (R445 million) and three-year (R555 million) receivables-backed notes listed on the Johannesburg Securities Exchange. OtC used the proceeds from this issuance, together with a subordinated loan from Edcon of R515 million, to acquire accounts receivable of R484 million and R939 million from Edcon and OntheCards Investments Limited respectively.

In November 2009, OtC raised a further R3,300 million external funding through the issuance of three-year receivables-backed notes. OtC used the proceeds from this issuance, together with a subordinated loan from Edcon of R1,547 million, to acquire accounts receivable of R1,429 million and R2,562 million from Edcon and OntheCards Investments Limited respectively.

In March 2010, OtC acquired a further R152 million of accounts receivable from Edcon and refinanced R750 million of the receivables-backed notes issued in November 2009 with notes listed on the Johannesburg Securities Exchange.

In August 2010, OtC acquired a further R523 million of accounts receivable from Edcon. At the same time OtC raised R1,400 million through the issuance of three year notes (R968 million), four year notes (R182 million) and seven year notes (R250 million). The spreads on these notes were Jibar +215bps, Jibar +225bps and fixed 10.09% respectively. Both the three year and four year notes were placed at a tighter spread than the existing OtC notes with a similar maturity. The funds raised by OtC were used to refinance the R445 million notes due in July 2010 and R955 million notes due in October 2012.

Edcon has consolidated OtC and the results thereof are included in the Audited Group Financial Statements attached hereto.

Buy-back of senior floating rate notes

During May 2011, the Group completed a repurchase of a portion of the senior secured floating rate notes with a nominal value of €39 million for €35 million being 90% of the face value. The repurchase was funded from the proceeds raised through the issuance in March 2011 of the senior secured fixed rate notes. As a result of the buy-back, Edcon recognised a gain, net of associated fees, of R36 million.

Hedge realisation/settlement and issue of senior secured fixed rate notes

In February 2011, the foreign currency swaps that Edcon had entered into to hedge the principal outstanding on the senior secured floating rate notes and the senior floating rate notes, were early-settled and their mark-to-market positions extinguished. A settlement value of R5,001 million was agreed with the hedge counterparties to settle the derivative liability and enter into a revised hedging structure (refer to note 33.2 of the Group Financial Statements for management's hedging strategies).

The settlement proceeds were funded through the issue of senior secured fixed rate notes due March 2018, comprising a €317 million tranche and a $250 million tranche, and a super senior secured term loan for R985 million due March 2014. The super senior secured term loan was subsequently refinanced in April 2011 through the issuance of R1,010 million of super senior secured notes due April 2016.

Liquidity and capital resources

Our primary source of short-term liquidity is cash on hand, our revolving credit facility and the receivables backed notes issued by OntheCards Investments II (Proprietary) Limited. The amount of cash on hand and the outstanding balance of our revolving credit facility are influenced by a number of factors, including retail sales, working capital levels, supplier payment terms, timing of payment for capital expenditure projects, and tax payment requirements. Our working capital requirements fluctuate during the month, depending on when we pay our suppliers and collect receivables, and throughout the year depending on the seasonal build-up of inventory and accounts receivable. We fund peaks in the working capital cycle with cash flows from operations and drawings under our revolving credit facility.

At 31 March 2012 our total net debt including cash and derivatives (excluding OtC Receivables-Backed Notes) of R22,586 million consisted of (i) the carrying value of Floating Rate Notes of R16,371 million, (ii) the carrying value of Fixed Rate Notes of R5,012 million, (iii) borrowings under the revolving credit facility of R751 million, (iv) finance lease liability of R329 million, (v) net derivatives of R388 million, less (vi) cash and cash equivalents of R265 million. In addition, OtC's net debt of R3,482 million consisted of (i) Receivables-Backed Notes issued of R4,300 million, less (ii) cash and cash equivalents of R818 million.

At 31 March 2012, the total availability under the Senior Revolving Credit Facility was R2,366 million which matures between June 2012 and March 2014. The OtC Receivables-Backed Notes issued by OtC consist of R4,300 million notes due between July 2012 and April 2017. During fiscal year 2012 the maximum utilisation of the revolving credit facility was R1,073 million.

We believe that operating cash flows and amounts available under the Senior Revolving Credit Facility and the OtC Receivables-Backed Notes will be sufficient to fund our debt service obligations and operations, including capital expenditure and contractual commitments, through to 30 March 2013.

In addition the sale of the credit book to Absa Bank, discussed on page 7, above will significantly reduce Edcon's total debt exposure.

Indebtedness

Reference is hereby made to the indentures governing the Floating Rate Notes and Fixed Rate Notes (the "Indentures"). Reference is further made to (i) the Senior and Amended Senior Revolving Credit Facility (as defined in the Indentures) and (ii) the Inter creditor Agreement (as defined in the Indentures).

Scheduled repayments of our obligations

The following table summarises as of 31 March 2012, (i) the contractual obligations, commercial commitments and principal payments we are committed to make under our debt obligations, leases and other agreements and (ii) their maturities.

Commitments due by period – R million	**Total**	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**More than 5 years**
Revolving Credit Facility (1)	R 3 117	R 650	R 2 467	R	R
2014 Senior Secured Floating Rate Notes (net of derivatives)(2)	11 169		11 169		
2015 Senior Floating Rate Notes (net of derivatives)(2)	3 832			3 832	
2018 Senior Secured Fixed Rate Notes(2)	5 157				5 157
Super Senior Secured Notes	1 010			1 010	
Finance lease(3)	586	62	99	78	347
Leases(3)(4)	7 553	1 492	2 518	1 748	1 795
Medical aid(5)	182				182
Interest on 2014 Senior Secured Floating Rate Notes (net of derivatives)(6)	3 260	1 546	1 714		
Interest on 2015 Senior Floating Rate Notes (net of derivatives)(6)	1 286	480	745	61	
Interest on 2018 Senior Secured Fixed Rate Notes (net of derivatives)(6)	3 013	535	1 028	980	470
Interest on Super Senior Secured Notes	509	120	239	150	
Total long-term debt obligations	40 674	4 885	19 979	7 859	7 951

1. As at 31 March 2012 R751 million of the revolving credit facility was utilised for seasonal working capital requirements.
2. Presented at the hedged rate of principal for the respective bonds. In terms of the group's total exposure to foreign currency on its principal debt obligations, 100% of the 2014 notes and 20% of the 2015 notes are hedged. The balance of unhedged principal is reflected at the ruling rate of exchange at the reporting date. Refer to note 33.2 of the Audited Group Financial Statements for hedging strategy.
3. Leases include property and computer equipment lease commitments.
4. Our Audited Group Financial Statements present our lease obligations in categories different from the categories we use in this table. Therefore, we have straight-lined our lease obligations to present them for the periods we use in this table.
5. We assume that there are no medical aid obligations that will become due and payable prior to five years.
6. Presented at the hedged rate of interest up to the maturity of the derivative contracts, the majority of which mature in March 2014. Thereafter, interest is based on the floating interest and exchange rates at the reporting date. Refer to note 33.2 of the Audited Group Financial Statements for hedging strategy.
7. In addition to the above commitments for Edcon, OtC has commitments of R4,300 million under the OtC Receivables-Backed Notes, a R145 million Liquidity Facility and a R43 million Receivables Purchase Facility, which mature between July 2012 and April 2017.

The property leases into which we enter have an average initial lease term of ten years for our *Edgars* chain and five years for our other chains, with lease terms typically including four options to extend the lease for periods of five years each. The leases generally give us the right to sublet the leased premises and assign our rights under the lease to our affiliate companies. Rental payments are generally made on a monthly basis and rent is increased at an agreed percentage rate (typically 7%) compounded annually. As of 31 March 2012, the future minimum property operating lease commitments due within one year amounted to R1,492 million.

Market risk

Foreign currency risk

We are exposed to the exchange rate movement of the rand, our operating currency, against other currencies in respect of merchandise we import. A substantial portion of our indebtedness is denominated in euro and U.S. dollar. Foreign exchange rate fluctuations in the future may affect our ability to service our foreign-currency denominated indebtedness, including payments in euro and U.S. dollar on the Floating Rate Notes and Fixed Rate Notes. Historically, our policy has been to cover all foreign-denominated import liabilities using forward exchange contracts. We partially hedge our exposure to the rate movement of the rand against the euro in relation to the principal, while we fully hedge the interest coupons. See Audited Group Financial Statements.

Interest rate risk

As a result of the significant inter-seasonal and intra-month swings in working capital in our business, our short-term net debt can fluctuate significantly. Therefore, our treasury actively monitors our interest rate exposure. We use swaps to manage our interest rate risk against any unexpected fluctuations in the interest rate. We also actively manage our fixed and floating rate interest-bearing debt, and cash and cash equivalents mix as part of this exposure management process. In order to hedge specific interest rate exposure of existing borrowings and anticipated peak additional borrowings, we make use of interest rate derivatives, only as approved in terms of policy limits which require approval of the group chief executive officer and, in some cases, the Board of directors, depending on the size of the derivative. We have fixed the interest payments on the foreign denominated Floating Rate Notes until March 2014. See Audited Group Financial Statements.

Counterparty risk

Counterparty risk for deposits with financial institutions is managed by clearly defined bank mandates and delegation of authority. We carefully assess on an ongoing basis the creditworthiness of financial counterparties. Exposure limits are managed and monitored within our treasury.

Critical accounting policies and use of estimates

In preparing our group financial statements, our management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Actual results in the future could differ from these estimates, and this may be material to our group financial statements. Significant estimates and judgments made relate to a credit risk valuation adjustments in determining the fair value of derivative instruments to reflect non-performance risk, a provision for impairment of receivables, allowances for slow-moving inventory, residual values, useful lives and depreciation methods for property, fixtures, equipment and vehicles, pension fund and employee benefit obligations, operating lease, loyalty points deferred revenue, intangible asset impairment tests and the derecognition of financial instruments. Other judgements made relate to classifying financial assets and liabilities into categories.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received net of returns and customer loyalty points excluding discounts, rebates and sales taxes or duty.

Revenue comprises retail sales of merchandise, manufacturing sales, club fees, revenue from joint ventures, dividends, interest and finance charges accrued to the Group.

Sales of merchandise

Revenue from sale of merchandise is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of goods. Such income represents the net invoice value of merchandise provided to such third parties – excluding discounts, value-added and general sales tax. The Group chains that contribute to the revenue from sale of merchandise the Edgars division, CNA division and the Discount division.

Loyalty points programme

The Group operates a loyalty points programme that allows customers to accumulate points when they purchase merchandise, subject to certain criteria, in the Group's retail stores. The points can then be redeemed as discount against merchandise purchases. The fair value which includes the expected redemption rate, attributed to the credits awarded, is deferred as a provision and recognised as revenue on redemption of the vouchers by customers.

Manufacturing sales

Revenue from manufacturing and other operations is recognised when the sale transactions giving rise to such revenue are concluded.

Club fees

Club fees are recognised as revenue as incurred.

Finance charges

Finance charges on arrear account balances are accrued on a time proportion basis, recognising the effective yield on the underlying assets.

Revenue from joint ventures

Group customers are offered Edgars and Jet branded insurance products, in pursuance of a joint venture formed with Hollard Insurance (Hollard). Hollard underwrites all insurance products and further provides the joint venture with actuarial and compliance support. The Group provides product distribution, marketing and billing and premium collection services. The joint venture sells to both credit customers and cash customers. The joint venture is managed by a dedicated team of people from both Hollard and the Group. The interest in joint ventures is accounted for using the equity method. Under the provision of the joint venture agreement, the Group charges the joint venture a fee for the continued management of the debtors and maintenance of systems. The Group also charges the joint venture a fee for the use of the Group's brands in the marketing of the insurance products.

The profit share is done on a product by product basis with the profit share percentage as agreed between the parties from time to time.

The Group has a closed book for the *Edgars* and *Jet* Legal Plan underwritten by Zurich Insurance Ltd. Europ Assistance provides risk management and policy fulfillment services. Under the provisions of the joint venture agreement, if the policy premiums exceed the claims and expenses, the net profit is distributed as a dividend. New business on the Legal Plans is underwritten by Hollard as from 13 April 2011. Hollard replaced Zurich as the underwriter from the start of the 2011 financial year.

Dividends

Dividends are recognised when the right to receive payment is established.

Interest received

Interest received is recognised using the effective interest rate method.

Trade and other receivables

Subsequent to initial measurement, receivables are recognised at amortised cost less a provision for impairment of receivables. A provision for impairment is made when there is objective evidence (such as default or delinquency of interest and the principal) that Edcon will not be able to collect all amounts due under the original terms of the trade receivable transactions. Impairments are recognised in profit or loss as incurred. Delinquent accounts are impaired by applying Edcon's impairment policy recognising both contractual and ages of accounts. Age refers to the number of months since a qualifying payment was received. The process for estimating impairment considers all credit exposures, not only those of low credit quality and estimated on the basis of historical loss experience, adjusted on the basis of current observable data, to reflect the effects of current conditions. Edcon assesses whether objective evidence of impairment exists individually for receivables that are individually significant, and individually or collectively for receivables that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, the receivable is included in a group of receivables with similar credit risk characteristics and that group of receivables is collectively assessed for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss; to the extent the carrying value of the receivable does not exceed its cost at the reversal date.

Leases

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred from the lessor to Edcon as lessee. The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Assets subject to finance leases are capitalised at the lower of the fair value of the asset, and the present value of the minimum lease payments, with the related lease obligation recognised at the same value. Capitalised leased assets are depreciated over the shorter of the lease term and the estimated useful life if Edcon does not obtain ownership thereof. Finance lease payments are allocated, using the effective interest rate method, between the lease finance cost, which is included in financing costs, and the capital repayment, which reduces the liability to the lessor.

Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals with fixed escalation clauses are charged against trading profit on a straight-line basis over the term of the lease.

In the event of a sub-lease classified as an operating lease, lease rentals received are included in profit or loss on a straight-line basis.

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Inventory

Retail trading inventories are valued at the lower of cost, using the weighted average cost, and net realisable value, less an allowance for slow-moving items. Net realisable value is the estimated selling price in the ordinary course of business less necessary costs to make the sale. In the case of own manufactured inventories, cost includes the total cost of manufacture, based on normal production facility capacity, and excludes financing costs. Work-in-progress is valued at actual cost, including direct material costs, labour costs and manufacturing overheads. Factory raw materials and consumable stores are valued at average cost, less an allowance for slow-moving items.

The allowance for slow-moving inventory is made with reference to an inventory age analysis. All inventory older than 18 months is provided for in full as it is not deemed to be readily disposable.

Financial instruments

Financial instruments are initially measured at fair value, including transaction costs, except those at fair value directly through profit or loss, when the Group becomes party to contractual arrangements. Where the Group can legally do so, and the Group intends to settle on a net basis, or simultaneously, related positive and negative values of financial instruments are offset.

The Group determines the classification of its financial assets and financial liabilities at initial recognition.

All regular way purchases and sales of financial assets are recognised on the date of trade being the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the Group transfers the rights to receive cash flows associated with the financial asset. Derecognition normally occurs when the financial asset is sold or all the cash flows associated with the financial asset are passed to an independent third party. Where the contractual rights to receive the cash flows of certain receivables are retained but a contractual obligation is assumed to pay those cash flows to a third party, those receivables are derecognised provided:

- there is no obligation to pay amounts to the third party, unless equivalent amounts are collected from the original receivable;
- the Group is prohibited from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- the Group has an obligation to remit any cash flows it collects on behalf of the third party without material delay and is not entitled to reinvest such cash flows except for investments in cash and cash equivalents during the short settlement period, from the collection date to the date of required remittance to the third party and the interest earned on such investments, is passed on to the third party.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the extinguishment of the original liability or part of it and the recognition of a new financial liability. The difference in the respective carrying amounts is recognised in profit or loss.

The Group uses derivative financial instruments such as foreign currency contracts, cross currency swaps and interest rate swaps to manage the financial risks associated with their underlying business activities and the financing of those activities. The Group does not undertake any trading activity in derivative financial instruments.

Derivative financial instruments are initially measured at their fair value on the date on which a derivative portfolio contract is entered into and are subsequently remeasured at fair value. For hedge accounting purposes, derivative financial instruments are designated at inception as fair value, cash flow or net investment hedges as appropriate.

The fair value of forward exchange contracts and cross currency swaps are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market interest rates for similar instruments. The fair value of cross currency swaps is determined by reference to market interest rates and forward exchange rates for similar instruments.

A credit risk valuation adjustment is incorporated to appropriately reflect the Group’s own non-performance risk and the respective counterparty’s non-performance risk in the fair value measurements.

The significant inputs to the overall valuations are based on market observable data or information derived from or corroborated by market observable data, including transactions, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Where models are used, the selection of a particular model to value a derivative depends upon the contractual terms of, and specific risks inherent in the instrument as well as the ability of pricing information in the market. The Group uses similar models to value similar instruments. Valuation models require a variety of inputs including contractual terms, market prices, yield curves and credit curves.

The credit risk valuation adjustments are calculated by determining the net exposure of each derivative portfolio (including current and potential future exposure) and then applying the Group's credit spread, and each counterparty's credit spread to the applicable exposure.

The inputs utilised by the Group's own credit spread are based on estimated fair market spreads for entities with similar credit ratings as the Group. For counterparties with publicly available credit information, the credit spreads over the benchmark rate used in the calculations represent implied credit default swap spreads obtained from a third party credit provider.

In adjusting the fair value of derivative contracts for the effect of non-performance risk, the Group has not considered the impact of netting and any applicable credit enhancements such as, collateral postings, thresholds, mutual puts and guarantees. The Group actively monitors counterparty credit ratings for any significant changes.

For the purposes of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

For cash flow hedges, the gains or losses that are recognised in other comprehensive income are transferred to profit or loss in the same period in which the hedged item affects the profit or loss.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to profit or loss for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is kept in other comprehensive income until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to profit or loss for the period.

Business Combinations and Goodwill

Business combinations from 4 April 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in other operating costs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 4 April 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets. Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.
Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination are measured at their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised on a straight line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of the indefinite life is reviewed annually to determine whether the indefinite life basis continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Intangible assets are derecognised on disposal or when no future economic benefits are expected through use of the intangible asset. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset and are recognised in profit or loss when the intangible asset is derecognised. Expenditure on internally developed and maintained intangible assets are expensed through profit or loss. Expenditure incurred to maintain brand names is charged in full to profit or loss as incurred.

IAS 19, Employee Benefits

The Group has assessed its accounting policy with regard to the recognition of actuarial gains and losses arising from its defined benefit plans. The Group previously recognised only the net cumulative unrecognised actuarial gains and losses of the previous period, which exceed 10% of the higher of the defined benefit obligation and the fair value of the plan assets in accordance with IAS 19.93.

During 2012, the Group determined that it would early adopt IAS 19 (revised) and thus change its accounting policy to recognise actuarial gains and losses in the period in which they occur in total in other comprehensive income, as it believes this policy is more consistent with the practice of its immediate industry peers. Changes have been applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, resulting in the restatement of prior year financial information.

Loyalty points deferred revenue

The Group operates a loyalty points programme which allows customers to accumulate points when they purchase merchandise, subject to certain criteria, in the Groups retail stores. The points can then be redeemed as discount against merchandise purchases. The Group accounts for award credits as a separately identifiable component of the sales transaction in which they are granted. The consideration in respect of the initial sale is allocated to award credits at their fair value through profit or loss and is accounted for as a provision (deferred revenue) in the statement of financial position.

The fair value of an individual award credit is determined using estimation techniques reflecting the weighted average of a number of factors. A rolling 12-month historical trend forms the basis of the calculations. The number of points not expected to be redeemed by members are also factored into the estimation of fair value. Historical redemption trends are also used to determine the long and short-term portion of the deferred revenue liability. A level of judgement is exercised by management in determining the fair value of the points.

RISK MANAGEMENT

The Board supports the following risk management plan and structure that management has developed and maintains on an ongoing basis:

Audit and Risk Committee: Considers input from the Group Risk Management Committee at its two meetings per annum. Discussions centre on reports from the CFO, Group Risk Management Committee, Internal Audit and the external auditors. The establishment of a separate Board Risk Committee is not deemed necessary.

Group Risk Management Committee: Evaluates input from representatives of Divisional Risk Management Committees and monitors progress with minuted risk management actions. Due reporting is done to the Audit and Risk Committee. The Group Risk Management Committee is chaired by Executive Director M R Bower and includes the CFO and CIO as members, thus providing a practical mechanism for aligning operational effectiveness with Board strategy.

Divisional/Special Risk Management Committees: Focus on a Division's risks, in the context of Group strategy and risks. Special purpose forums (for example, Crime Risk Management Committee) are also used. These committees continuously identify, assess and develop responses to existing and new risks and opportunities. The forums also monitor progress against applicable risk management actions, which are reported to the Group Risk Management Committee.

Line Managers: Focus is on risks specific to areas of operation, taking into account Group and Divisional strategy and risks. By involving line managers as risk managers, Edcon has managed to integrate responsibility for risk management across the Group. Line managers continuously identify new risks and opportunities and then report these to their respective Divisional Risk Management Forums. In this fashion, line managers become responsible for effecting agreed-on risk management actions.

Group Internal Audit:

Advise on and independently review the risk management process. Report to the Audit and Risk Committee, the Risk Governance Workgroup and the Divisional Risk Management Forums. Output from the risk management process is used to plan Internal Audit's activities.

In November 2011, a risk management policy was approved by the Audit and Risk Committee on behalf of the Board.

In this policy, Edcon's Board of Directors accepts responsibility for governing Edcon's risk management process and supports a continuous, integrated approach to risk management, which applies to all divisions and activities that impact the Group. The Board considers risk management to be a key driver of business success and sustainability and seek for the process to be:

- prudent in identifying, assessing and treating/avoiding risks that might have a significant negative impact on the business; and
- proactive in identifying and responding to new opportunities that might arise.

The Board's risk appetite encourages the taking of calculated risks in pursuit of the group's sustainability and business objectives and the execution of its strategies. When considering risks, and opportunities, the Group is guided by how the impact of business decisions and operations reflects on Edcon's:

- excellent reputation for corporate citizenship;
- drive for creating stakeholder value; and
- compliance with the laws of the areas within which it operates.

Risks that impact the above criteria negatively and cannot be treated appropriately will not be tolerated.

RISK FACTORS

The following comprehensive list of risk factors is presented to satisfy the needs of our wide group of stakeholders, including international and local bond holders.

Unfavourable macroeconomic factors may decrease consumer demand for our retail goods

Macroeconomic factors such as interest rates, consumer indebtedness and employment levels affect consumer demand for our goods. As a response to the global economic downturn in fiscal year 2010, the South African Reserve Bank has maintained a 30 year low Repurchasing Rate of 5.5% since November 2010. Consumer demand has been supported in part by increasing social grants since 2002. However, the expansion of the provision of social grants is expected to stabilise, which could have an adverse impact on consumer spending.

Our results are also impacted by other macroeconomic factors, such as the prevailing economic climate, levels of unemployment, real disposable income and salaries and wage rates, including any increase as a result of payroll cost inflation or governmental action to increase minimum wages or contributions to pension provisions, the availability of consumer credit and consumer perception of economic conditions. 94% of our retail sales are derived from South Africa and therefore a general slowdown in South African GDP growth or an uncertain economic outlook may adversely affect consumer spending habits. Moreover, many of the items that we sell, particularly higher margin fashion and homeware products, represent discretionary purchases, meaning that we may experience a decline in retail sales that is proportionally greater than the level of general economic decline. Therefore, an economic downturn in South Africa could have a material adverse effect on our financial condition and results of operations.

The global economic downturn could impair the solvency of our suppliers and other counterparties

The ongoing challenging economic environment could have a number of adverse effects on our business. The inability of suppliers to access liquidity, or the insolvency of suppliers, could lead to delivery delays or failures. In addition, failures of other counterparties, including banks, insurance providers and counterparties to contractual arrangements, could negatively impact our business.

Our business could be adversely affected by disruptions in our supply chain

Any significant disruption or other adverse event affecting our relationship with any of our major suppliers could have a material adverse effect on the results of our financial condition and our operations. If we need to replace any of our major suppliers, we may face risks and costs associated with a transfer of operations. In addition, a failure to replace any of our major suppliers on commercially reasonable terms, or at all, could have a material adverse effect on our results of operations and financial condition.

The concentration of our suppliers will increase as we proceed with our strategy to reduce the number of our suppliers. Our strategy to expand our supplier base in markets such as China, Bangladesh and Africa places us at risk if merchandise is in short supply in those locations. In addition, such suppliers may be unwilling to provide us with merchandise if we do not place orders at an internationally competitive order level or at a level competitive with large volume customers. In the event that one or more of our major suppliers chooses to cease providing us with merchandise or experiences operational difficulties, and we are unable to secure alternative sources in a timely manner or on commercially beneficial terms, we may experience inventory shortages or other adverse effects to our business. If our suppliers are unable or unwilling to continue providing us with merchandise under our presently agreed terms including as a result of our significantly increased leverage, or if we are unable to obtain goods from our suppliers at prices that will allow our merchandise to be competitively priced, there could be a material adverse effect on our retail sales, results of operations and liquidity. The cost and availability of our supplies are dependent on many factors, including:

- the base price of raw material costs, such as cotton and wool, as well as the cost of individual product components;
- freight costs; and
- rebates and discounts earned from suppliers.

Moreover, we purchase a significant portion of our products in markets outside of South Africa, principally in Asia, and the number of our foreign suppliers may increase as we proceed with our strategy to partner with suppliers in low cost countries. We face a variety of risks generally associated with doing business in foreign markets and importing merchandise from these regions, including:

- political instability;

- increased security requirements applicable to foreign goods;
- imposition of duties and taxes, other charges and restrictions on imports;
- risks related to our suppliers' labour practices, environmental matters or other issues in the foreign countries or factories in which our merchandise is manufactured;
- delays in shipping; and
- increased costs of transportation.

Any of these risks, in isolation or in combination, could adversely affect our reputation, financial condition and results of operations. New initiatives may be proposed that may have an impact on the trading status of certain countries and may include retaliatory duties or other trade sanctions that, if enacted, could increase the cost of products purchased from suppliers in such countries or restrict the importation of products from such countries. The future performance of our business will partly depend on our foreign suppliers and may be adversely affected by the factors listed above, all of which are beyond our control.

Our business is affected by foreign currency fluctuations

We realise a majority of our revenue, and incur a significant portion of our costs and expenses, in rand. We purchase a significant portion of our products in markets outside of South Africa, principally in Asia, and the number of our foreign suppliers may increase as we proceed with our strategy to partner with suppliers in low cost countries. The cost of foreign-sourced products is affected by the fluctuation of the relevant local currency against the rand or, if priced in other currencies, the price of the merchandise in currencies other than the rand. Accordingly, changes in the value of the rand relative to foreign currencies may increase our cost of goods sold and, if we are unable to pass such cost increases on to our customers, decrease our gross margins and ultimately our earnings.

In addition, a substantial portion of our indebtedness is denominated in euro and in U.S. dollars. In recent years, the value of the rand as measured against the euro and the U.S. dollar has fluctuated considerably. Foreign currency fluctuations in the future may affect our ability to service our foreign currency denominated indebtedness.

We cannot assure you that we will be able to manage our currency risks effectively or that any volatility in currency exchange rates will not have a material adverse effect on our financial condition or results of operations or on our ability to make principal and interest payments on our indebtedness.

We use hedges as part of our hedging strategy

As part of the hedging strategy that we implemented for the senior secured fixed and floating rate notes ("Senior Secured Notes"), we elected to hedge some or all of our interest rate and/or currency risk from the Senior Secured Notes with credit-based hedges. Such hedges, to the extent that they hedge such risks from the Senior Secured Notes would rank *pari passu* in right of recovery and would benefit from the same security as the Senior Secured Notes. If we were to default in making payments under the Senior Secured Notes or if certain other credit events were to occur in relation to us and a credit-linked hedge of interest rate or currency risk in respect of the Senior Secured Notes were to terminate or be closed out as a result, then, in relation to the mark-to-market value ("MTM") which would normally be payable by one party to the other on a termination or close out of an equivalent hedge which was not credit-linked, either (a) we will be limited, where such MTM would otherwise be payable to us, in claiming against our hedge counterparty in respect of such termination or close out to an amount equal to the product of (i) such MTM and (ii) the credit recovery rate for holders of the Senior Secured Notes, such credit recovery rate being determined within a reasonable period after such termination or close out by reference to a market auction process or market quotations for such notes, or (b) no MTM payment in respect of such termination or close out will be due from either party, depending on the particular type of credit-linked hedge we enter into.

If we are unable to renew or replace our store leases or enter into leases for new stores on favourable terms, or if any of our current leases are terminated prior to the expiration of its stated term and we cannot find suitable alternate locations, our growth and profitability could be harmed

We lease all of our store locations. Our ability to renew any expired lease or, if such lease cannot be renewed, our ability to lease a suitable alternative location, as well as our ability to enter into leases for new stores on favourable terms, depend on many factors beyond our control, such as conditions in the local real estate market, competition for desirable properties and our relationships with current and prospective landlords. If we are unable to renew existing leases or lease suitable alternative locations, or enter into leases for new stores on favourable terms, our growth and our profitability may be significantly harmed.

We typically occupy our stores under operating leases with terms of between 5 and 10 years, with options to renew for additional multi-year periods thereafter. In the future, we may not be able to negotiate favourable lease terms. Our inability to do so may cause our occupancy costs to be higher in future years or may force us to close stores in desirable locations.

Some of our leases have early cancellation clauses, which permit the lease to be terminated by us or the landlord if certain sales levels are not met in specific periods or if the centre does not meet specified occupancy standards. In addition to future minimum lease payments, some of our store leases provide for additional rental payments based on a percentage of net sales, or "percentage rent," if sales at the respective stores exceed specified levels, as well as the payment of common area maintenance charges, real property insurance and real estate taxes. Many of our lease agreements have defined escalating rent provisions over the initial term and any extensions. As we expand our store base, our lease expense and our cash outlays for rent under the lease terms will increase.

We depend on cash flow from operations to pay our lease expenses. If our business does not generate sufficient cash flow from operating activities to fund these expenses, we may not be able to service our lease expenses, which could materially harm our business.

If an existing or future store is not profitable, and we decide to close it, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. Moreover, even if a lease has an early cancellation clause, we may not satisfy the contractual requirements for early cancellation under that lease. Our inability to enter into new leases or renew existing leases on terms acceptable to us or be released from our obligations under leases for stores that we close could materially adversely affect us.

Our results may be adversely affected by increases in energy costs

Energy costs have fluctuated dramatically in the past. These fluctuations may result in an increase in our transportation costs for distribution, utility costs for our retail stores and costs to purchase products from our suppliers. For example, electricity prices in South Africa increased an average of 25% per year since 2008. A continual rise in energy costs could adversely affect consumer spending and demand for our products and could increase our operating costs, both of which could have a material adverse effect on our financial condition and results of operations.

We depend heavily on our information technology systems to operate our business

We rely to a significant degree on the efficient and uninterrupted operation of our various computer and communications systems to operate and monitor all aspects of our retail business and our credit and financial services business, including, in respect of our retail business, sales, warehousing, distribution, purchasing, inventory control and merchandise planning and replenishment. Any significant breakdown or other significant disruption to the operations of our primary sites for all of our computer and communications systems could significantly affect our ability to manage our information technology systems, which in turn could have a material adverse effect on our financial condition and results of operations.

Any negative impact on the reputation of, and value associated with, our brand names could adversely affect our business

Our brand names represent an important asset of our business. Maintaining the reputation of, and value associated with, our brand names is central to the success of our business. Significant negative publicity or widespread product recalls or other events could also cause damage to our brand names. We rely on marketing to strengthen our brand names, and our marketing initiatives may prove to be ineffective. Significant negative publicity or widespread product recalls or other events could also cause damage to our brand names. Substantial erosion in the reputation of, or value associated with, our brand names could have a material adverse effect on our financial condition and results of operations.

Our business could suffer as a result of weak retail sales during peak selling seasons

Our business is subject to seasonal peaks. Historically, our most important trading periods in terms of retail sales, operating results and cash flow have been the Easter and Christmas seasons, with 34% of our retail sales occurring in April, November and December combined. We incur significant additional expenses in advance of the Easter and Christmas seasons in anticipation of higher retail sales during those periods, including the cost of additional inventory, advertising and hiring additional employees. In previous years, our investment in working capital has peaked in early to middle March and October and November and has fallen significantly in April and January. If, for any reason, retail sales during our peak seasons are significantly lower than we expect, we may be unable to adjust our expenses in a timely fashion and may be left with a substantial amount of unsold inventory, especially in seasonal merchandise that is difficult to liquidate. In that event, we may be forced to rely on significant markdowns or promotional sales to dispose of excess inventory, which could have a material adverse effect on our financial condition and results of operations. At the same time, if we fail to purchase a sufficient quantity of merchandise, we may not have an adequate supply of products to meet consumer demand, which may cause us to lose retail sales.

Our business can be adversely affected by unseasonal weather conditions

Our results are affected by periods of abnormal or unseasonal weather conditions. For example, periods of warm weather in the winter could render a portion of our inventory incompatible with such unseasonal conditions. Adverse weather conditions early in the season could lead to a slowdown in retail sales at full margin, followed by more extensive markdowns at the end of the season. Prolonged unseasonal weather conditions during one of our peak trading seasons could adversely affect our turnover and, in turn, our financial condition and results of operations. In addition, extreme weather conditions, such as floods, may make it difficult for our employees and customers to travel to our stores.

The sector in which our business operates is highly competitive

The retail market is highly competitive, particularly with respect to product selection and quality, store location and design, price, customer service, credit availability and advertising. We compete at the national and local levels with a wide variety of retailers of varying sizes and covering different product lines across all geographic markets in which we operate. For example, in the department store segment we compete directly with *Woolworths, Truworths and Foschini*. In the discount store segment we compete with companies such as *Mr Price*, *Ackermans* and *PEP*. In addition, the South African retail sector has experienced a consolidation of market formats as retail companies diversify in other sectors of the retail market. For example, *Pick 'n Pay*, South Africa's leading food retailer, has entered into the C&F market by opening standalone value clothing stores. Our credit and financial services business faces competition from other retail companies, such as *Truworths* and *Foschini*, which offer financial services to their customers. In addition, international competitors have entered our market, creating increased competition, as in the case of *Walmart*, and *Zara.*

We face a variety of competitive challenges including:

- anticipating and quickly responding to changing consumer demands;
- maintaining favourable brand recognition and effectively marketing our products to consumers in several diverse market segments;
- developing innovative fashion products in styles that appeal to consumers of varying age groups and tastes;
- sourcing merchandise efficiently;
- competitively pricing our products; and
- responding to changes in consumer behaviour as a result of economic conditions and as a result of changes in consumer spending patterns.

Actions taken by our competitors, as well as actions taken by us to maintain our competitiveness and reputation, can place and will continue to place pressure on our pricing strategy, margins and profitability and could have a material adverse effect on our financial condition and results of operations. Some of our competitors may have greater financial resources, greater purchasing economies of scale and/or lower cost bases, any of which may give them a competitive advantage over us. Our competitors also may merge or form strategic partnerships, which could cause significant additional competition for us.

We may not be able to predict accurately or fulfil customer preferences or demand

A portion of our sales are from fashion-related products, which are subject to volatile and rapidly changing customer tastes. The availability of new products and changes in customer preferences has made it more difficult to predict sales demand accurately. As a multi-product retailer, our success depends, in part, on our ability to effectively predict and respond to quickly changing consumer demands and preferences and to translate market trends into attractive product offerings. Our ability to anticipate and effectively respond to changing customer preferences and tastes depends, in part, on our ability to attract and retain key personnel in our buying, design, merchandising, marketing and other functions. Competition for such personnel is intense, and we may not be able to attract and retain a sufficient number of qualified personnel in future periods.

Furthermore, many of our products are manufactured offshore. Accordingly, in some instances we must enter into contracts for the purchase and manufacture of merchandise well in advance of the applicable selling season. The long lead times between ordering and delivery make it more important to accurately predict, and more difficult to fulfil, the demand for items.

There can be no assurance that our orders will match actual demand. If we are unable to successfully predict or respond to sales demand or to changing styles or trends, our sales will be lower and we may be forced to rely on additional markdowns or promotional sales to dispose of excess or slow-moving inventory or we may experience inventory shortfalls on popular products, any of which could have a material adverse effect on our financial condition and results of operations. In addition, a number of other factors, including changes in personnel in the buying and merchandising function, could adversely affect product availability.

Our growth depends in part on our ability to open and operate new stores profitably

One of our business strategies is to expand our base of retail stores. If we are unable to implement this strategy, our ability to increase our sales, profitability and cash flow could be impaired. To the extent that we are unable to open and operate new stores profitably, our sales growth would come only from increases in same store sales. We may be unable to implement our strategy if we cannot identify suitable sites for additional stores, negotiate acceptable leases, access sufficient capital to support store growth, or hire and train a sufficient number of qualified employees.

We are reliant on our key personnel and we face strong competition to attract and retain qualified managers and employees

We are highly dependent on our key personnel who have extensive experience in, and knowledge of, our industry. In addition, our business faces significant and increasing competition for qualified management and skilled employees. We have instituted a number of programmes to improve the recruitment and retention of managers and employees, and we invest substantially in their training and professional development. However, these programmes may prove unsuccessful, and, in conditions of constrained supply of skilled employees, there is a risk that our well-trained managers and employees will accept employment with our competitors. The loss of the service of our key personnel or our failure to recruit, train, and retain skilled managers and employees could have a material adverse effect on our retail sales, results of operations and liquidity.

An increase in impairment of receivables among our credit card customers or restrictions on our ability to charge market interest rates could have a negative impact on the performance of our credit and financial services business

An increase in impairment of receivables as a percentage of our credit card receivables could have a material adverse effect on revenue, results of operations and liquidity. In addition, existing or future statutory usury provisions may prevent us from increasing the interest rates we charge on our credit cards beyond a specified threshold even though our cost of credit may increase. However, in the last 24 months the enforcement of tight credit approval criteria contributed to improved management of credit card customers and to decreased bad debts from 10.9% as at end fiscal year 2011 to 6.7% as at end fiscal year 2012.

Changes in our credit card arrangements could adversely affect our business

We maintain *Edgars* and *Jet* private label credit card programmes through which we extend credit to our customers. We may consider various opportunities to grow our credit and financial services business, and to expand its profits and return on capital employed. However, because a large portion of our sales are transacted through our credit cards, changes in our current credit card arrangements that adversely impact our ability to facilitate the provision of consumer credit may adversely affect our performance. In addition, a potential purchaser of our credit card business may have discretion over certain policies and arrangements with credit card customers and may change these policies and arrangements in ways that affect our relationship with these customers. Any such changes in our credit card arrangements may adversely affect our credit card programmes and could have a material adverse effect on our retail sales, results of operations and liquidity unless appropriate protective measures are put in place.

The financing of our operations is reliant on the OtC Securitisation Programme

The financing of our operations is heavily reliant on the sale of receivables to OtC. More information regarding our OtC activities can be found in notes 17 and 18 of the Audited Group Financial Statements.

The credit rating assigned to the notes issued under the OtC Securitisation may impact our ability to sell receivables to OtC

The funding of our operations, including our debt service obligations, is partly reliant on the sale of receivables to OtC which in turn relies on the issuance of notes under the OtC Securitisation Programme. The notes issued by OtC must receive a credit rating by a rating agency. Under the terms of the OtC Securitisation Programme, additional notes may not be issued unless a rating agency has affirmed that such issuance will not result in a downgrade or withdrawal of the rating assigned to any outstanding notes by OtC. Accordingly, the ability of OtC to issue additional notes is dependant on the credit rating of OtC's outstanding notes. Credit ratings of debt securities represent the rating agency's opinion and such opinion is based on criteria subject to change at any time. It is possible that the rating agency will determine that issuing additional notes would result in the withdrawal or downgrade on the credit rating of OtC's issued notes. In such case, OtC will be unable to issue additional notes and therefore may be unable to purchase our receivables which could have a material adverse affect on our liquidity and ability to service our debt obligations.

We are indirectly owned and controlled by our equity sponsor, an affiliate of Bain Capital, and its interests as equity holder may conflict with yours as a creditor

We are indirectly owned and controlled by our equity sponsor, an affiliate of Bain Capital, and our equity sponsor or its affiliates have the ability to control our policies and operations. The interests of our equity holders may not in all cases be aligned with your interests. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of our equity holders might conflict with those of the holders of the Senior Secured Notes. In addition, our equity holders may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investments, even though such transactions might involve risks to holders of the Senior Secured Notes. Furthermore, our equity sponsor or its affiliates may in the future own businesses that directly or indirectly compete with us. Our equity sponsor or its affiliates also may pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us.

We could experience labour disputes that could disrupt our business

As of March 2012, approximately 12,800 of our employees are represented by collective bargaining and are covered by collective bargaining or similar agreements that are subject to periodic renegotiation, which is currently in process. In addition, our employees could join in national labour strikes, boycotts or other collective actions resulting in work stoppages and labour disruptions or increases in our labour costs. Although in April 2011 we negotiated a two-year collective bargaining agreement with the South African Commercial, Catering and Allied Workers Union, the biggest trade union active among our employees, future collective bargaining negotiations may not prove successful and result in the disruption of our operations. Such future collective bargaining negotiations may result in an increase in our labour costs. In addition, our employees could join in national labour strikes, boycotts or other collective actions. Any work stoppages and labour disruptions or any increase in our labour costs could materially adversely affect our retail sales, results of operations and financial condition.

We are subject to complaints, claims and legal actions that could affect us

We are party to various complaints, claims and legal actions in the ordinary course of our business. These complaints, claims and legal actions, even if successfully disposed of without direct adverse financial effect, could have a material adverse effect on our reputation and divert our financial and management resources from more beneficial use. If we were to be found liable under any such claims, our results of operations could be adversely affected.

Compliance with privacy and information laws and requirements could be costly, and a breach of information security or privacy could adversely affect our business

We are subject to privacy and information laws and requirements governing our use of individually identifiable data of customers, employees and others. Compliance with such laws and requirements may require us to make necessary systems changes and implement new administrative processes. If a data security breach occurs, our reputation could be damaged and we could experience lost sales, fines or lawsuits.

We may be unable to protect our trademarks and other intellectual property or may otherwise have our brand names harmed

We believe that our registered trademarks and other intellectual property have significant value and are important to the marketing or our products and business. While we intend to take appropriate action to protect our intellectual property rights, we may not be able to sufficiently prevent third parties from using our intellectual property without our authorisation. The use of our intellectual property by others could reduce or eliminate any competitive advantage we have developed, causing us to lose sales or otherwise harm the reputation of our brands names.

Audited Group Financial Statements

Edcon Holdings Proprietary Limited

For the period ended 31 March 2012

Group Financial Statements of Edcon Holdings Proprietary Limited

(Registration number 2006/036903/07)

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The Group Financial Statements were prepared by Group Finance Executive P. Minnaar (Chartered Accountant (SA)) and reviewed by Chief Financial Officer S. R. Binnie (Chartered Accountant (SA)).

Group Financial Statements of Edcon Holdings Proprietary Limited

(Registration number 2006/036903/07)

Certificate by Group Secretary

In my capacity as Group Secretary, I hereby confirm, in terms of the Companies Act of South Africa, that for the period ended 31 March 2012, the Company has lodged with the Registrar of Companies all such returns as are required of a company in terms of this Act and that all such returns are true, correct and up to date.

CM Vikisi
Group Secretary

Johannesburg
5 June 2012

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Independent Auditor's Report

TO THE MEMBERS OF EDCON HOLDINGS PROPRIETARY LIMITED

We have audited the Group Financial Statements of Edcon Holdings Proprietary Limited and its subsidiaries ('the Group'), which comprise the Group statement of financial position as at 31 March 2012 and the Group statement of comprehensive income, Group statement of changes in equity and Group statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 55 to 137.

Director's Responsibility for the Financial Statements

The Group's directors are responsible for the preparation and fair presentation of these Group Financial Statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of the Group Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Group Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Group Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence, about the amounts and disclosures in the Group Financial Statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Group Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Group Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Group Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Group Financial Statements present fairly, in all material respects, the financial position of the Group as at 31 March 2012, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

Ernst & Young Inc.

Ernst & Young Inc.
Director – Jane M. Fitton
Registered Auditor
Chartered Accountant (SA)

5 June 2012

Going Concern and Directors' Responsibilities for Financial Reporting

For the period 31 March 2012

GOING CONCERN

The Group's statement of financial position at 31 March 2012 reports share premium of R2 153 million in equity attributable to shareholders and a shareholder's loan recognised in equity of R8 290 million offset by an accumulated retained loss of R6 887 million and a net debit of R688 million in other reserves therefore, the total surplus reported in equity at 31 March 2012 is R2 868 million.

The directors' having considered the going concern assumption have included the shareholder's loan recognised in equity of R8 290 million and the shareholder's loan recognised in non-current liabilities of R659 million in the assessment (refer to note 32, management of capital). To the extent required to maintain the solvency of the Group, the total Shareholder's loan has been subordinated to the claims of all of the creditors of the Group.

As a result, the Group Financial Statements set out on pages 55 to 137 have been prepared on the going-concern basis. The directors have every reason to believe that the Group has adequate resources to continue in operation for the foreseeable future.

In the context of their audit, carried out for the purposes of expressing an opinion on the fair presentation of the Group Financial Statements, the external auditors have concurred with the disclosures of the directors on going concern.

SEPARATE ANNUAL FINANCIAL STATEMENTS

The Company Financial Statements of the parent company Edcon Holdings Proprietary Limited have not been included in these Group Financial Statements. A copy thereof can be provided on request.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The directors' are ultimately responsible for the preparation of the Group Financial Statements and related financial information that fairly present the state of affairs and the results of the Group. The external auditors are responsible for independently auditing and reporting on these Group Financial Statements in conformity with International Standards on Auditing.

EVENTS AFTER THE REPORTING PERIOD

No events occurred between the financial period end and the date of this report which would have a material impact on these Group Financial Statements, other than referred in note 35.

The Group Financial Statements set out in this report have been prepared by management in accordance with International Financial Reporting Standards and the Companies Act of South Africa. They incorporate full and reasonable disclosure and are based on appropriate accounting policies, which have been consistently applied and which are supported by reasonable and prudent judgments and estimates.

Adequate accounting records have been maintained throughout the period under review.

Going Concern and Directors' Responsibilities for Financial Reporting *(continued)*

For the period 31 March 2012

The Group Financial Statements have been approved by the Board of Directors and are signed on its behalf by:

DM Poler, Chairman

J SCHREIBER, GROUP CHIEF EXECUTIVE OFFICER

Johannesburg
5 June 2012

Currency of Group Financial Statements

The presentation currency of the Group Financial Statements is South African Rand (R).

The approximate Rand cost of a unit of the following currencies at 31 March 2012 was:

	2012	**2011**	2010
US Dollar	**7,71**	**6,69**	7,24
Sterling	**12,36**	**10,87**	11,07
Botswana Pula	**1,05**	**1,04**	1,07
Euro	**10,29**	**9,53**	9,82
Zambian Kwacha	**0,0014**		

Group Statement of Financial Position

	Note	**2012 31 March Rm**	2011 2 April Rm	2010 3 April Rm
ASSETS				
Non-current assets				
Properties, fixtures, equipment and vehicles	3	**2 471**	2 246	2 663
Intangible assets	4	**17 481**	18 024	18 442
Employee benefit asset	27.3	**154**	-	-
Equity accounted investment in joint ventures	6	**67**	6	-
Derivative financial instruments	7.1	**472**	30	
Deferred tax	8	**1 030**	887	153
Total non-current assets		**21 675**	21 193	21 258
Current assets				
Inventories	9	**3 170**	2 626	2 402
Trade, other receivables and prepayments	10	**10 426**	9 195	8 983
Cash and cash equivalents	11	**1 083**	2 315	1 125
Total current assets		**14 679**	14 136	12 510
Total assets		**36 354**	35 329	33 768
EQUITY AND LIABILITIES				
Equity attributable to shareholders				
Share capital	12	**-**	-	-
Share premium	12	**2 153**	2 148	2 148
Other reserves	13	**(688)**	(600)	(408)
Retained loss	14	**(6 887)**	(4 972)	(3 329)
Shareholder's loan - equity	16	**8 290**		
		2 868	(3 424)	(1 589)
Non-controlling interest		**-**	-	-
Total equity		**2 868**	(3 424)	(1 589)
Non-current liabilities – shareholder's loan				
Shareholder's loan	16	**659**	8 184	7 341
Total equity and shareholder's loan		**3 527**	4 760	5 752
Non-current liabilities – third parties				
Interest bearing debt	17	**23 533**	24 440	18 875
Finance lease liability	19.2	**301**		
Lease equalisation		**399**	392	386
Derivative financial instruments	7.2	**63**	308	3 093
Employee benefit liability	27.5	**182**	130	114
		24 478	25 270	22 468
Total non-current liabilities		**25 137**	33 454	29 809
Current liabilities				
Interest bearing debt	18	**2 901**		795
Finance lease liability	19.2	**28**		
Current taxation		**241**	244	236
Deferred revenue	21	**80**		
Derivative financial instruments	7.3	**797**	946	817
Trade and other payables	20	**4 302**	4 109	3 700
Total current liabilities		**8 349**	5 299	5 548
Total equity and liabilities		**36 354**	35 329	33 768
Total managed capital per IAS 1	32	**30 290**	29 200	25 422

Group Statement of Comprehensive Income

	Note	**2012** **52 weeks to** **31 March** **Rm**	2011 52 weeks to 2 April Rm	2010 53 weeks to 3 April Rm
Total revenues	23	**27 884**	25 586	24 876
Revenue - retail sales		**24 664**	22 716	21 888
Cost of sales		**(15 642)**	(14 332)	(13 848)
Gross profit		**9 022**	8 384	8 040
Other income	24	**565**	490	473
Store costs		**(4 622)**	(4 348)	(4 078)
Other operating costs	25	**(3 803)**	(3 221)	(3 028)
Retail trading profit		**1 162**	1 305	1 407
Income from credit	26.1	**2 113**	1 833	2 049
Expenses from credit	26.2	**(1 343)**	(1 209)	(1 771)
Income from joint ventures		**541**	487	435
Trading profit		**2 473**	2 416	2 120
Derivative loss	7.5	**(10)**	(2 343)	(5 081)
Foreign exchange (loss)/gain	17.7	**(680)**	230	4 622
Foreign exchange (loss)/gain on foreign notes	17.7	**(1 518)**	534	4 622
Foreign exchange gain/(loss) on cash flow hedge	13	**838**	(304)	
Discount on repurchase of senior secured notes		**36**		
Fees incurred on funding facilities			(10)	(33)
Impairment of brands and goodwill	4	**(126)**		(137)
Profit before net financing costs		**1 693**	293	1 491
Interest received	28.2	**68**	60	31
Profit before financing costs		**1 761**	353	1 522
Financing costs	28.1	**(3 756)**	(2 557)	(2 946)
Loss before taxation		**(1 995)**	(2 204)	(1 424)
Taxation	29	**(4)**	561	370
LOSS FOR THE PERIOD		**(1 999)**	(1 643)	(1 054)
Other comprehensive income after tax:				
Loss on cash flow hedges		**(93)**	(177)	(60)
Exchange difference on translating foreign operations		**5**	(15)	(48)
Employee benefits		**84**		
Other				(1)
Other comprehensive income for the period after tax		**(4)**	(192)	(109)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**(2 003)**	(1 835)	(1 163)
Loss attributable to:				
Owners of the parent		**(1 999)**	(1 643)	(1 054)
Non-controlling interest		**-**	-	-
Total comprehensive income attributable to:				
Owner of the parent		**(2 003)**	(1 835)	(1 163)
Non-controlling interest		**-**	-	-

Group Statement of Changes in Equity

	Share capital Rm	Share premium Rm	Foreign currency translation reserve Rm	Cash flow hedging reserve Rm	Revaluation surplus Rm	Retained loss Rm	Shareholders loan Rm	Total attributable to owners of the parent Rm	Non-controlling interest Rm	Total equity Rm
Balance at 28 March 2009										
Opening Balance	-	2 143	28	(331)	23	(2 289)		(426)	-	(426)
Total Comprehensive income			(48)	(60)		(1 055)		(1 163)	-	(1 163)
Loss for the period						(1 054)		(1 054)	-	(1 054)
Other comprehensive income for the period			(48)	(60)		(1)		(109)	-	(109)
Transfer to retained earnings					(20)	20				
Preference share capital issued	-	180						180		180
Ordinary share capital repurchased	-	(175)						(175)		(175)
Preference dividends						(5)		(5)		(5)
Balance at 3 April 2010	-	2 148	(20)	(391)	3	(3 329)		(1 589)	-	(1 589)
Total Comprehensive income			(15)	(177)	-	(1 643)		(1 835)	-	(1 835)
Loss for the period					-	(1 643)		(1 643)	-	(1 643)
Other comprehensive income for the period			(15)	(177)				(192)	-	(192)
Balance at 2 April 2011	-	2 148	(35)	(568)	3	(4 972)		(3 424)	-	(3 424)
Total Comprehensive income			5	(93)	-	(1 915)		(2 003)	-	(2 003)
Loss for the period					-	(1 999)		(1 999)	-	(1 999)
Other comprehensive income for the period			5	(93)	-	84		(4)	-	(4)
Ordinary shares issued	-							-		-
Preference shares issued	-	5						5		5
Shareholders loan							8 290	8 290		8 290
Balance at 31 March 2012	**-**	**2 153**	**(30)**	**(661)**	**3**	**(6 887)**	**8 290**	**2 868**	**-**	**2 868**
Note	12.6	12.6	13	13	13	14	16			

Group Disclosure of Tax Effects on Other Comprehensive Income

	2012 52 weeks to 31 March Rm	2011 52 weeks to 2 April Rm	2010 53 weeks to 3 April Rm
Disclosure of tax effects relating to each component of other comprehensive income:			
Before tax amount			
Cash flow hedges	**(130)**	(246)	(83)
Exchange differences on translating foreign operations	**5**	(15)	(48)
Employee benefits	**116**		
Other			(1)
Other comprehensive income for the period before tax	**(9)**	(261)	(132)
Tax income			
Cash flow hedges	**37**	69	23
Employee benefits	**(32)**		
Tax income	**5**	69	23
After tax amount			
Cash flow hedges	**(93)**	(177)	(60)
Exchange differences on translating foreign operations	**5**	(15)	(48)
Employee benefits	**84**		
Other			(1)
Other comprehensive income for the period after tax	**(4)**	(192)	(109)

Group Statement of Cash Flows

	Note	**2012 52 weeks to 31 March Rm**	2011 52 weeks to 2 April Rm	2010 53 weeks to 3 April Rm
Cash retained from operating activities				
Loss before taxation		**(1 995)**	(2 204)	(1 424)
Interest received		**(68)**	(60)	(31)
Financing costs		**3 756**	2 557	2 946
Impairment of intangibles	4	**126**		137
Derivative loss	7.5	**10**	2 343	5 081
Foreign exchange loss/(gain)	17.7	**680**	(230)	(4 622)
Discount on repurchase of senior secured notes		**(36)**		
Amortisation	25.1	**417**	418	418
Depreciation	25.3	**755**	798	807
Other non-cash items	30.1	**46**	-	40
Operating cash inflow before changes in working capital		**3 691**	3 622	3 352
Working capital movement	30.2	**(1 603)**	(69)	952
Cash inflow from operating activities		**2 088**	3 553	4 304
Interest received		**68**	60	31
Financing costs paid		**(2 996)**	(2 191)	(2 190)
Taxation paid	30.3	**(145)**	(97)	(368)
Net cash (outflow)/inflow from operating activities		**(985)**	1 325	1 777
Cash utilised in investing activities				
Investment to maintain operations	30.4	**(543)**	(349)	(264)
Investment to expand operations	30.5	**(151)**	(25)	(89)
Net cash outflow from investing activities		**(694)**	(374)	(353)
Cash effects of financing activities				
Increase in shareholder funding	30.6	**5**		
Increase in super senior secured notes	30.7	**1 010**		
(Decrease)/increase in long-term debt	30.8	**(985)**	5 601	
Settlement of derivatives			(5 001)	
Buy-back of senior floating rate notes	30.9	**(338)**		
Proceeds from receivables-backed notes issued	30.10		-	4 300
Increase/(decrease) in short-term debt	30.11	**751**	(350)	(4 950)
Decrease in capitalised finance lease	30.12	**4**		
Net cash inflow/(outflow) from financing activities		**447**	250	(650)
(Decrease)/increase in cash and cash equivalents	30.13	**(1 232)**	1 201	774
Cash and cash equivalents at the beginning of the period		**2 315**	1 125	379
Currency adjustments		**-**	(11)	(28)
Cash and cash equivalents at the end of the period		**1 083**	2 315	1 125

Notes to the Group Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

1.1. Corporate information

Edcon Holdings Proprietary Limited is a limited liability company which is incorporated and domiciled in South Africa.

1.2. Basis of preparation

In preparing these Group Financial Statements, the same accounting principles and methods of computation are applied as in the Group Financial Statements of Edcon Holdings Proprietary Limited on 2 April 2011 and for the period then ended, except for employee benefits as reflected in note 1.24.2.

Edcon Holdings Proprietary Limited's Group Financial Statements (Financial Statements) are presented in Rands and all values are rounded to the nearest Rand million except when otherwise indicated.

The Financial Statements have been prepared on a historical cost basis except for land and buildings and certain financial instruments that have been measured at fair value.

The 2012 and 2011 financial period consisted of 52 weeks respectively while the 2010 financial period consisted of 53 weeks.

The Group Financial Statements conform to International Financial Reporting Standards. The Group Financial Statements incorporate the following policies:

1.3. Basis of consolidation

Basis of Consolidation from 4 April 2010

The Group Financial Statements comprise the financial statements of the parent company (Edcon Holdings Proprietary Limited), its subsidiaries, the Staff Empowerment Trust, OntheCards Investment Limited II Proprietary Limited ("OtC") (securitisation programme) and jointly controlled entities, presented as a single economic entity and, consolidated at the same reporting date of the parent company. The Group Financial Statements are prepared using uniform accounting policies for like transactions and events. All intra-group balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Subsidiaries, which are directly or indirectly controlled by the Group, are included in the Group Financial Statements as from the date of acquisition, where control is transferred to the Group, and cease to be consolidated from the date on which control no longer exists.

Total comprehensive income within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the group loses control over a subsidiary, it:

- Derecognises the asset (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings/loss, as appropriate.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

1.3 Basis of Consolidation *(continued)*

Basis of Consolidation prior to 4 April 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Loss prior to 4 April 2010 was not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained as its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 4 April 2010 have not been restated.

1.4. Use of estimates and judgments and assumptions made in the preparation of the Financial Statements

In preparing the Financial Statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and the application of judgment are inherent in the formation of estimates.

Significant estimates and judgements made relate to credit risk valuation adjustments in determining the fair value of derivative instruments to reflect non-performance risk (refer to note 1.10.1), a provision for impairment of receivables (refer to note 1.10.2), derecognition of financial instruments (refer to note 1.10.6), allowances for slow-moving inventory (refer to note 1.11), residual values, useful lives and depreciation methods for property, fixtures, equipment and vehicles (refer to note 1.13), pension fund and employee obligations (refer to note 1.19, 27.3 and 27.5), operating lease (refer to note 1.12), deferred tax asset (refer to note 1.16), loyalty points deferred revenue (refer to note 1.23.1) and intangible asset impairment tests (refer to note 5). Other judgments made relate to classifying financial assets and liabilities into categories (refer to note 1.10).

1.5. Foreign currency transactions

The presentation currency of the Group Financial Statements is the South African Rand. Transactions in foreign currencies are initially recorded in the presentation currency at the rate ruling at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated to the presentation currency, at exchange rates ruling at the reporting date.

Exchange differences arising on the settlement of foreign currency balances, at rates different from those at the date of the transaction, and unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary item is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

1.6. Foreign currency translations

The functional currencies of the foreign subsidiaries are as follows:

- Pula – (Jet Supermarkets Botswana (Pty) Limited).
- Maloti – (Edgars Stores Lesotho (Pty) Limited).
- Namibian Dollar - (Edgars Stores (Namibia) Limited).
- Lilangeni – (Edgars Stores Swaziland Limited, Central News Agency (Swaziland) (Pty) Limited).
- British Pound – (Bellfield Limited).
- Zambian Kwacha – (Jet Supermarkets Zambia Limited).

The Maloti, Namibian Dollar and the Lilangeni are pegged at one to one to the South African Rand.

As at the reporting date, the assets and liabilities of these foreign subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the reporting date and their statements of comprehensive income are translated at the weighted average exchange rates for the period. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

1.7. Business Combinations and Goodwill

1.7.1. Business combinations from 4 April 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in other operating costs. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity. Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

1.7 Business Combinations and Goodwill *(continued)*

1.7.1 Business combinations from 4 April 2010 *(continued)*

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

1.7.2 Business combinations prior to 4 April 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

1.8 Joint ventures

The Group has interests in joint ventures which is jointly controlled by the Group and one or more other venturer under a contractual arrangement. The Group's interest in jointly controlled entities is accounted for using the equity method. Under the equity method, the investment in joint ventures is carried in the Group statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint ventures. Goodwill relating to the joint ventures is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The Group statement of comprehensive income reflects the share of the results of operations of the joint ventures. Where the Group transacts with a jointly controlled entity, unrealised profits or losses are eliminated to the extent of the Group's interest in the joint ventures. The reporting period for jointly controlled entities is the same as the Group's. The investment in joint ventures are considered for impairment on an annual basis. When impairment indicators are present, amounts are written off through profit or loss if the carrying value is greater than the recoverable amount.

1.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination are measured at their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised on a straight line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate,

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

1.9 Intangible Assets *(continued)*

and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of the indefinite life is reviewed annually to determine whether the indefinite life basis continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The Group's intangible assets and their associated useful lives are as follows:

	Estimated useful life
Edgars brand	Indefinite
Jet brand	Indefinite
CNA brand	Indefinite
Boardmans brand	Indefinite
Red Square brand	10 years
Legit brand	10 years
Discom brand	10 years
Customer relationships	5 – 10 years
Trademarks	5 – 15 years
Customer lists	5 – 10 years
Technology	7 years

Intangible assets are derecognised on disposal or when no future economic benefits are expected through use of the intangible asset. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset and are recognised in profit or loss when the intangible asset is derecognised. Expenditure on internally developed and maintained intangible assets are expensed through profit or loss. Expenditure incurred to maintain brand names is charged in full to profit or loss as incurred.

1.10 Financial instruments

Financial instruments are initially measured at fair value, including transaction costs, except those at fair value directly through profit or loss, when the Group becomes a party to contractual arrangements. The subsequent measurement of financial instruments is dealt with in subsequent notes. Where the Group can legally do so, and the Group intends to settle on a net basis, or simultaneously, related positive and negative values of financial instruments are offset.

The Group's financial assets includes trade and other receivables, derivatives and cash and cash equivalents which are classified as either loans and receivables or as derivatives at fair value through profit or loss or derivatives designated as hedging instruments in an effective hedge as appropriate. The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments and are classified as either loans and borrowings and derivatives at fair value through profit or loss or derivatives designated as hedging instruments in an effective hedge, as appropriate.

The Group determines the classification of its financial assets and financial liabilities at initial recognition. All regular way purchases and sales of financial assets are recognised on the date of trade being the date on which the Group commits to purchase or sell the asset.

1.10.1 Derivative Financial instruments

The Group uses derivative financial instruments such as foreign currency contracts, cross currency swaps and interest rate swaps to manage the financial risks associated with their underlying business activities and the financing of those activities. The Group does not undertake any trading activity in derivative financial instruments.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

1.10 Financial instruments *(continued)*

1.10.1 Derivative Financial instruments *(continued)*

Derivative financial instruments are initially measured at their fair value on the date on which a derivative portfolio contract is entered into and are subsequently remeasured at fair value. For hedge accounting purposes, derivative financial instruments are designated at inception as fair value, cash flow or net investment hedges as appropriate.

The fair value of forward exchange contracts and cross currency swaps is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market interest rates for similar instruments. The fair value of cross currency swaps is determined by reference to market interest rates and forward exchange rates for similar instruments. A credit risk valuation adjustment is incorporated to appropriately reflect the Group's own non performance risk and the respective counterparty's non-performance risk in the fair value measurement. The significant inputs to the overall valuations are based on market observable data or information derived from or corroborated by market observable data, including transactions, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Where models are used, the selection of a particular model to value the derivative depends upon the contractual terms of, and specific risks inherent in the instrument as well as the availability of pricing information in the market. The Group uses similar models to value similar instruments. Valuation models require a variety of inputs including contractual terms, market prices, yield curves and credit curves.

The credit risk valuation adjustments are calculated by determining the net exposure of each derivative portfolio (including current and potential future exposure) and then applying the Group's credit spread, and each counterparty's credit spread to the applicable exposure.

The inputs utilised for the Group's own credit spread are based on estimated fair market spreads for entities with similar credit ratings as the Group. For counterparties with publicly available credit information, the credit spreads over the benchmark rate used in the calculations represent implied credit default swap spreads obtained from a third party credit provider.

In adjusting the fair value of derivative contracts for the effect of non-performance risk, the Group has not considered the impact of netting and any applicable credit enhancements such as collateral postings, thresholds, mutual puts and guarantees. The Group actively monitors counterparty credit ratings for any significant changes.

For the purposes of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

For cash flow hedges, the gains or losses that are recognised in other comprehensive income are transferred to profit or loss in the same period in which the hedged item affects the profit or loss.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to profit or loss for the period.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

1.10 Financial instruments *(continued)*

1.10.1 Derivative Financial instruments *(continued)*

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is kept in other comprehensive income until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to profit or loss for the period.

1.10.2 Trade and other receivables

Subsequent to initial measurement, receivables are recognised at amortised cost less a provision for impairment of receivables. A provision for impairment is made when there is objective evidence (such as default or delinquency of interest and the principal) that the Group will not be able to collect all amounts due under the original terms of the trade receivable transactions. Impairments are recognised in profit or loss as incurred. Delinquent accounts are impaired by applying the Group's impairment policy recognising both contractual and ages of accounts. Age refers to the number of months since a qualifying payment was received. The process for estimating impairment considers all credit exposures, not only those of low credit quality and is estimated on the basis of historical loss experience, adjusted on the basis of current observable data, to reflect the effects of current conditions. The Group assesses whether objective evidence of impairment exists individually for receivables that are individually significant, and individually or collectively for receivables that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, the receivable is included in a group of receivables with similar credit risk characteristics and that group of receivables is collectively assessed for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss; to the extent the carrying value of the receivable does not exceed its cost at the reversal date.

1.10.3 Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost and comprise cash on hand and demand deposits together with any highly liquid investments readily convertible to known amounts of cash.

1.10.4 Impairment of financial assets

At each reporting date an assessment of financial assets other than trade receivables (refer note 1.10.2) is made of whether there is any objective evidence of impairment of these financial assets. If there is evidence of defaults and current market conditions indicate that an impairment loss on these financial assets has been incurred, the impairment loss is measured as the difference between the assets' carrying amounts and the present value of the estimated future cash flows discounted at the financial assets' original effective interest rates. The loss is recognised in profit or loss.

1.10.5 Financial liabilities

Financial liabilities, other than derivatives, are subsequently measured at amortised cost. Discounts arising from the difference between the net proceeds of debt instruments issued and the amounts repayable at maturity, are charged to net financing costs over the life of the instruments using the effective interest rate method.

1.10.6 Derecognition of financial instruments

Financial assets are derecognised when the Group transfers the rights to receive cash flows associated with the financial asset. Derecognition normally occurs when the financial asset is sold or all the cash flows associated with the financial asset are passed to an independent third party. Where the contractual rights to receive the cash

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

1.10 Financial instruments *(continued)*

1.10.6 Derecognition of financial instruments *(continued)*

flows of certain receivables are retained but a contractual obligation is assumed to pay those cash flows to a third party, those receivables are derecognised provided:

- there is no obligation to pay amounts to the third party, unless equivalent amounts are collected from the original receivable;
- the Group is prohibited from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- the Group has an obligation to remit any cash flows it collects on behalf of the third party without material delay and is not entitled to reinvest such cash flows except for investments in cash and cash equivalents during the short settlement period, from the collection date to the date of required remittance to the third party and the interest earned on such investments, is passed on to the third party.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the extinguishment of the original liability or part of it and the recognition of a new financial liability. The difference in the respective carrying amounts is recognised in profit or loss.

1.11 Inventories

Retail trading inventories are valued at the lower of cost, using the weighted average cost, and net realisable value, less an allowance for slow-moving items. Net realisable value is the estimated selling price in the ordinary course of business less necessary costs to make the sale. In the case of own manufactured inventories, cost includes the total cost of manufacture, based on normal production facility capacity, and excludes financing costs. Work-in-progress is valued at actual cost, including direct material costs, labour costs and manufacturing overheads.

Factory raw materials and consumable stores are valued at average cost, less an allowance for slow-moving items.

The allowance for slow-moving inventory is made with reference to an inventory age analysis. All inventory older than 18 months is provided for in full as it is not deemed to be readily disposable.

1.12 Leases

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred from the lessor to the Group as lessee. The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Assets subject to finance leases are capitalised at the lower of the fair value of the asset, and the present value of the minimum lease payments, with the related lease obligation recognised at the same value. Capitalised leased assets are depreciated over the shorter of the lease term and the estimated useful life if the Group does not obtain ownership thereof.

Finance lease payments are allocated, using the effective interest rate method, between the lease finance cost, which is included in financing costs, and the capital repayment, which reduces the liability to the lessor.

Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals with fixed escalation clauses are charged against trading profit on a straight-line basis over the term of the lease.

In the event of a sub-lease classified as an operating lease, lease rentals received are included in profit or loss on a straight-line basis.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

1.12 Leases *(continued)*

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rentals are recognised as revenue in the period in which they are earned.

1.13 Properties, fixtures, equipment and vehicles

1.13.1 Properties

Properties are initially measured at cost and subsequently revalued by recognised professional valuers, to net realisable open-market value using the alternative or existing-use basis as appropriate, ensuring carrying amounts do not differ materially from those which would be determined using fair value at the reporting date. Any revaluation surplus is recorded in other comprehensive income and hence, credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case, the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

1.13.2 Lease premiums and leasehold improvements

Expenditure relating to leased premises is capitalised as appropriate and depreciated to expected residual value over the remaining period of the lease on a straight-line basis.

Leasehold improvements for leasehold land and buildings are depreciated over the lease periods which range from 5 to 10 years, or such shorter periods as may be appropriate.

1.13.3 Depreciation rates

Fixtures, equipment and vehicles are carried at cost less accumulated depreciation and impairment loss, and are depreciated on a straight-line basis to their expected residual values over the estimated useful lives as follows:

Fixtures and fittings	7 – 8 years
Computer equipment	3 – 5 years
Computer software	2 – 3 years
Machinery	9 – 10 years
Vehicles	4 – 5 years
Buildings	48 – 50 years

1.13.4 Impairment of property, fixtures, equipment and vehicles

Property, fixtures, equipment and vehicles are reviewed at each reporting date, to determine whether there is any indication of impairment. When impairment indicators are present, the impairment recognised in the profit or loss (or other comprehensive income for revalued property limited to the extent of the revaluation surplus) is the excess of the carrying value over the recoverable amount (the greater of fair value less cost to sell and value in use). Recoverable amounts are estimated for individual assets or, when an individual asset does not generate cash flows independently, the recoverable amount is determined for the larger cash-generating unit to which the asset belongs.

A previously recognised impairment will be reversed in so far as estimates change as a result of an event occurring after the impairment was recognised. This assessment is made at each reporting date. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of impairment is recognised in profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

1.13 Properties, fixtures, equipment and vehicles *(continued)*

1.13.5 Derecognition of properties, fixtures, equipment and vehicles

An item of property, fixtures, equipment and vehicles is derecognised on disposal or when no future economic benefits are expected through its continued use. Gains or losses which arise on derecognition, are included in profit or loss in the year of derecognition. The gain or loss is calculated as the difference between the net disposal proceeds and the carrying amount of the property, fixtures, equipment or vehicles at the date of sale.

1.13.6 Asset lives and residual values

Buildings, fixtures, equipment and vehicles are depreciated over their useful life taking into account any residual values where appropriate. The estimated useful life of these assets and depreciation methods are assessed at each reporting date and could vary as a result of technological innovations and maintenance programmes. In addition, residual values are reviewed at each reporting date after considering future market conditions, the remaining life of the asset and projected disposal values. Changes in asset lives and residual values are accounted for on a prospective basis as a change in estimate.

1.14 Software costs

Packaged software and the direct costs associated with the development and installation thereof are capitalised as computer software and are an integral part of computer hardware. The total cost is capitalised and depreciated in accordance with note 1.13.3.

1.15 Non-current assets held for sale and discontinued operations

Non-current assets (or a disposal group) are classified as held for sale if the carrying amount will be recovered through a highly probable sale transaction, rather than through continuing use. The sale is considered to be highly probable where the assets (or a disposal group) are available for immediate sale, management is committed to the sale and the sale is expected to be completed within a period of one year from the date of classification. Assets classified as held for sale are measured at the lower of the asset's carrying amount and fair value less costs to sell.

Where the sale is more than one year into the future due to circumstances beyond the Group's control, the costs to sell are measured at the present value. Any increase in the present value of costs to sell are recognised in the Group statement of comprehensive income as a financing cost.

An impairment loss is recognised in profit or loss for any initial or subsequent write-down of the asset or disposal group to fair value less costs to sell. A gain, for any subsequent increase in fair value less costs to sell, is recognised in profit or loss to the extent that it does not exceed the cumulative impairment loss previously recognised.

Non-current assets classified as held for sale are not depreciated.

Where a component of the Group, being either a separate major line of business, a geographical area of operations or a subsidiary is acquired exclusively with a view to resell and management is committed to the sale and it is expected to be completed within a period of one year or has been sold, that component is classified as a discontinued operation.

1.16 Income taxes

Income tax payable on profits, based on the applicable tax laws, is recognised as an expense in the period in which profits arise. Current income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income and not in profit or loss. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax base of the assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for temporary differences arising between the carrying amounts of assets and liabilities at the reporting date and their amounts as measured for tax purposes, irrespective of whether it will result in taxable amounts in future periods, unless the deferred tax liability arises from the initial recognition of goodwill.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

1.16 Income taxes *(continued)*

Deferred tax assets are recognised for all temporary differences, carry forward of unused tax credits and unused tax losses, which will result in deductible amounts in future periods, but only to the extent that it is probable that sufficient taxable profits will be available against which these deductible temporary differences, and carry forward of unused tax credits and unused tax losses can be utilised. Neither a deferred tax asset nor liability is recognised where it arises from a transaction, which is not a business combination, and, at the time of the transaction, affects neither accounting profit or loss nor taxable profit or loss. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled, based on enacted or substantively enacted rates at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting entity, and relate to the same tax authority, and when the legal right to offset exists. Where applicable, non-resident shareholders' taxation is provided in respect of foreign dividends receivable.

Secondary tax on companies (STC), is provided for at a rate of 10% on the amount by which dividends declared by the Group exceed dividends received. STC is charged to profit or loss at the applicable ruling rate and included in the taxation expense for the period.

1.17 Financing costs

Financing costs are recognised in profit or loss in the period in which they are incurred.

1.18 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received net of returns and customer loyalty points excluding discounts, rebates and sales taxes or duty.

Revenue comprises retail sales of merchandise, manufacturing sales, club fees, revenue from joint ventures, dividends, interest and finance charges accrued to the Group.

Sales of merchandise

Revenue from sale of merchandise is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of goods. Such income represents the net invoice value of merchandise provided to such third parties – excluding discounts, value-added and general sales tax. The Group chains that contribute to the revenue from sale of merchandise the Edgars division, CNA division and the Discount division.

Loyalty points programme

The Group operates a loyalty points programme that allows customers to accumulate points when they purchase merchandise, subject to certain criteria, in the Group's retail stores. The points can then be redeemed as discount against merchandise purchases. The fair value which includes the expected redemption rate, attributed to the credits awarded, is deferred as a provision and recognised as revenue on redemption of the vouchers by customers.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

1.18 Revenue recognition (continued)

Manufacturing sales

Revenue from manufacturing and other operations is recognised when the sale transactions giving rise to such revenue are concluded.

Club fees

Club fees are recognised as revenue as incurred.

Finance charges

Finance charges on arrear account balances are accrued on a time proportion basis, recognising the effective yield on the underlying assets.

Revenue from joint ventures

Group customers are offered Edgars and Jet branded insurance products, in pursuance of a joint venture formed with Hollard Insurance (Hollard). Hollard underwrites all insurance products and further provides the joint venture with actuarial and compliance support. The Group provides product distribution, marketing and billing and premium collection services. The joint venture sells to both credit customers and cash customers. The joint venture is managed by a dedicated team of people from both Hollard and the Group. The interest in joint ventures is accounted for using the equity method. Under the provision of the joint venture agreement, the Group charges the joint venture a fee for the continued management of the debtors and maintenance of systems. The Group also charges the joint venture a fee for the use of the Group's brands in the marketing of the insurance products.

The profit share is done on a product by product basis with the profit share percentage as agreed between the parties from time to time.

The Group has a closed book for the *Edgars* and *Jet* Legal Plan underwritten by Zurich Insurance Ltd. Europ Assistance provides risk management and policy fulfillment services. Under the provisions of the joint venture agreement, if the policy premiums exceed the claims and expenses, the net profit is distributed as a dividend. New business on the Legal Plans is underwritten by Hollard as from 13 April 2011. Hollard replaced Zurich as the underwriter from the start of the 2011 financial year.

Dividends

Dividends are recognised when the right to receive payment is established.

Interest received

Interest received is recognised using the effective interest rate method.

1.19 Employee benefits – post retirement benefits

The Group operates a number of retirement benefit plans for its employees. These plans include both defined benefit and defined contribution provident funds and other retirement benefits such as medical aid benefit plans. Current contributions incurred with respect to the defined contribution provident funds, are charged against profit or loss when incurred.

The Group uses the projected unit credit actuarial method to determine the present value of its defined benefit plans and the related current service cost and, where applicable, past service costs. Contribution rates to defined benefit plans are adjusted for any unfavourable experience adjustments. Favorable experience adjustments are retained within the funds. Net benefit assets are only brought into account in the Group's Financial Statements when it is certain that economic benefits will be available to the Group. Actuarial gains or losses are recognised in the period in which they occur in total comprehensive income.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

1.20 Share capitalisation awards and cash dividends

The full cash equivalent of capitalisation share awards and cash dividends paid by the Group are recorded and disclosed as dividends declared in the statement of changes in equity. Dividends declared subsequent to the period-end are not charged against shareholders' equity at the reporting date as no liability exists. Upon allotment of shares in terms of a capitalisation award, the election amounts are transferred to the share capital and share premium account; cash dividend election amounts are paid and the amount deducted from equity.

1.21 Treasury shares

Shares held by the Staff Empowerment Trust are classified in the Group's shareholders' equity as treasury shares.

These shares are treated as a deduction from the issued number of shares, and the cost price of the shares is deducted from share capital and premium, in the Group statement of financial position. Any dividends received on treasury shares are eliminated on consolidation.

1.22 Operating Segment Report

The Group is organised into business units based on their target markets and product offering, and the business is structured under six reportable operating segments. The segments were selected on the basis of internal reports in order to allocate resources to the segment and assess its performance. Sales of merchandise in three main operating divisions gives rise to the Edgars, Discount and CNA division which targets different domains of income, age and products. Manufacturing Sales gives rise to the Manufacturing division which is an apparel manufacturer, focusing on mid to high-end garments of mostly woven construction. This operating segment, manufactures ladies and men's outerwear for the Edgars and Discount divisions. The Credit and Financial division focuses on the management of the Group's trade debtors and offers consumer credit and insurance products. The Credit and Financial division incorporates revenue from the joint venture between Edcon and Hollard. This includes interest, dividends, administration fee, management fee and brand fee.

1.23 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision will be reassessed at each statement of financial position date taking into account the latest estimates of expenditure required and the probability of the outflows. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability except those that have been taken into account in the estimate of future cash flows. Where discounting is used, the increase in a provision due to the passage of time is recognised as an interest expense in profit or loss. A provision is used only for the expenditures for which the provision was originally recognised.

1.23.1. Loyalty points deferred revenue

The Group operates a loyalty points programme which allows customers to accumulate points when they purchase merchandise, subject to certain criteria, in the Groups retail stores. The points can then be redeemed as discount against merchandise purchases. The Group accounts for award credits as a separately identifiable component of the sales transaction in which they are granted. The consideration in respect of the initial sale is allocated to award credits at their fair value through profit or loss and is accounted for as a provision (deferred revenue) in the statement of financial position.

The fair value of an individual award credit is determined using estimation techniques reflecting the weighted average of a number of factors. A rolling 12-month historical trend forms the basis of the calculations. The number of points not expected to be redeemed by members are also factored into the estimation of fair value. Historical redemption trends are also used to determine the long and short-term portion of the deferred revenue liability. A level of judgement is exercised by management in determining the fair value of the points (Refer to note 21).

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

1.24 Changes in Accounting policies and disclosures

1.24.1 New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS standards and IFRIC interpretations effective as of 4 April 2010.

- IAS 24, Related party disclosure (Revised)
- IFRIC 14, Prepayments of a minimum funding requirement – (Amendment)
- IFRIC 19, Extinguishing financial liabilities with equity instruments.
- Improvements to IFRSs

The adoption of the standards or interpretations is described below:

IAS 24, Related party disclosures (revised)

The revision of the definition of related party clarifies a distinction in significant influence and joint control. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group. Effective 1 January 2011.

IFRIC 14, Prepayments of a minimum funding requirement

The amendment provides further guidance on assessing the recoverable amount of a net pension asset.

The Group has concluded that the amendment will have no impact on the financial position or performance of the Group. Effective 1 January 2011.

IFRIC 19, Extinguishing financial liabilities with equity instruments

The interpretation clarifies that equity instruments issued to extinguish a financial liability are considered to be 'paid' in accordance with IAS 39. Equity instruments are required to be measured at their fair value, unless fair value cannot be reliably measured in which case they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss.

The Group has concluded that the amendment will have no impact on the financial position or performance of the Group. Effective 1 July 2010.

Other Standards and Interpretations adopted

The Group has adopted the following new and amended accounting standards and interpretations which have not had a material effect on the financial position, total comprehensive income or cash flows of the Group:

- IFRS 1 First time adoption amendment
- IFRS 3, Business combination
- IFRS 7, Statement of cash flows
- IAS 1, Presentation of financial statements
- IAS 27, Consolidated and separate financial statements
- IAS 34, Interim financial statements

Improvements to IFRS's (May 2010)

In May 2010, the IASB issued an omnibus of amendments to its standards and interpretations, primarily with a view to removing inconsistencies and clarifying wording. The adoption of the following amendments did not have any impact on the financial position nor financial performance of the Group.

- IFRS 3, Business Combinations: Provides transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS relating to the measurement of non-controlling interests; and un-replaced and voluntarily replaced share-based payment awards.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

1.24 Changes in Accounting policies and disclosures *(continued)*

1.24.1 New and amended standards and interpretations *(continued)*

Improvements to IFRS's (May 2010) *(continued)*

Other amendments resulting from Improvements to IFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 1, Revaluation basis as deemed cost
- IFRS 1, Use of deemed cost for operations subject to rate regulation
- IAS 1, Clarification of disclosures
- IAS 34, Significant events and transactions
- IFRS 7, Clarification of disclosures
- IAS 27, Transitional requirements for amendments arising as a result of IAS 27.

1.24.2 Early Adoptions

IAS 19, Employee Benefits

The Group has assessed its accounting policy with regard to the recognition of actuarial gains and losses arising from its defined benefit plans. The Group previously recognised only the net cumulative unrecognised actuarial gains and losses of the previous period, which exceed 10% of the higher of the defined benefit obligation and the fair value of the plan assets in accordance with IAS 19.93.

During 2012, the Group determined that it would early adopt IAS 19 (revised) and thus change its accounting policy to recognise actuarial gains and losses in the period in which they occur in total in other comprehensive income, as it believes this policy is more consistent with the practice of its immediate industry peers. Changes have been applied retrospectively in accordance with *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors,* resulting in the restatement of prior year financial information.

As a result of the voluntary accounting policy change, the following adjustments were made to the financial statements:

	Employee benefit asset Rm	Employee benefit liability Rm	Current tax liability Rm	Equity Rm
Balance as reported at 3 April 2010	-	(114)	(236)	1 589
Effect of early application of IAS19 (as revised in 2011)	-	-	-	-
Restated balance at 3 April 2010	-	(114)	(236)	1 589
Balance as reported at 2 April 2011	-	(130)	(244)	3 424
Effect of early application of IAS19 (as revised in 2011)	-	-	-	-
Restated balance at 2 April 2011	-	(130)	(244)	3 424

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
Employee benefits recognised through profit or loss	**(15)**	-	-
(Increase)/decrease of income tax relating to components in profit or loss	**4**	-	-
Employee benefits recognised through other comprehensive income	**116**	-	-
(Increase)/decrease of income tax relating to components of other comprehensive income	**(32)**	-	-
	73	-	-

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

1.25 Future changes in accounting policies

The following standards, amendments to standards and interpretations have been issued but are not yet effective at the financial year end.

IFRS 9, Financial Instruments

This standard was issued in stages in November 2009, October 2010 and December 2011 and becomes effective for financial periods beginning on or after 1 January 2015. It sets out the requirements for recognising and measuring financial assets, including some hybrid contracts. It requires all financial assets to be classified on the basis of an entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The standard requires all financial assets to initially be measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Financial assets are subsequently measured at amortised cost or fair value.

For fair value option liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

All other IAS 39 classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the fair value option.

The Group is still evaluating the effect of adopting this standard and expects that adoption of this standard will materially impact the Group Financial Statements. However the necessary evaluation and the effects thereof will be completed before the effective date of adoption.

IFRS 10, Consolidated financial statements

This standard was issued in May 2011 and becomes effective for financial periods on or after 1 January 2013. The amendment creates a new, broader definition of control than under the current IAS 27 and has resulted in SIC 12 being withdrawn.

IFRS 10 does not change the consolidation process; rather it changes whether an entity is consolidated by revising the definition of control.

The revised definition of control will require consideration of aspects such as de-facto control, substantive vs. protective rights, agency relationships, silo accounting and structured entities when evaluating whether or not an entity is controlled by the investor.

The Group has evaluated the effect of adopting this interpretation and does not expect that adoption thereof, will impact the Group Financial Statements.

IFRS 11, Joint arrangements

This standard was issued in May 2011 and becomes effective for financial periods on or after 1 January 2013. IFRS 11 replaces IAS 31 and SIC 13 and refers to IFRS 10's revised definition of 'control' when referring to 'joint control'.

Under IFRS 11 a joint arrangement (previously a 'joint venture' under IAS 31) is accounted for as either a:

- joint operation – by showing the investor's interest/ relative interest in the assets, liabilities, revenues and expenses of the joint arrangement; or
- joint venture – by applying the equity accounting method. Proportionate consolidation is no longer permitted.

Under IFRS 11 the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or joint venture.

The Group has evaluated the effect of adopting this interpretation and does not expect that adoption thereof, will impact the Group Financial Statements.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

1.25 Future changes in accounting policies *(continued)*

IFRS 12, Disclosure of interests in other entities

This standard was issued in May 2011 and becomes effective for financial periods on or after 1 January 2013. The new standard applies to entities that have in interest in subsidiaries, joint arrangements, associates and/ or structured entities.

Many of the disclosures are those previously included in IAS 27, IAS 28 and IAS 31. Many new disclosures have however also been added.

The Group is still evaluating the effect of adopting this standard and expects that adoption of this standard will materially impact the Group Financial Statements. However the necessary evaluation and the effects thereof will be completed before the effective date of adoption.

IFRS 13, Fair value measurement

This standard was issued in May 2011 and becomes effective for financial periods on or after 1 January 2013. The new standard describes how to measure fair value where fair value is required or permitted to be used as a measurement basis under IFRS (with certain standards being excluded from the scope of IFRS 13). Under IFRS 13 fair value is presumed to be an 'exit price'. New disclosures related to fair value measurements are also introduced.

The Group has evaluated the effect of adopting this interpretation and does not expect that adoption thereof, will impact the Group Financial Statements.

IAS 1, Presentation of items of other comprehensive income (amendment to IAS 1)

This amendment was issued in June 2011 and becomes effective for financial periods on or after 1 January 2013. The amendment to IAS 1 requires that items presented within other comprehensive income be grouped separately into those items that will be recycled into profit or loss at a future point in time, and those items that will never be recycled.

The Group has evaluated the effect of adopting these amendments which on adoption thereof, will not impact the Group Financial Statements.

IAS 27, Separate financial statements

This amendment was issued in May 2011 and becomes effective for financial periods on or after 1 January 2013. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures and associates in the separate financial statements of the investor.

The Group has evaluated the effect of adopting this interpretation and does not expect that adoption thereof, will impact the Group Financial Statements.

IAS 28, Investments in associates and joint ventures

This amendment was issued in May 2011 and becomes effective for financial periods on or after 1 January 2013. The revised standard caters for joint ventures (now accounted for by applying the equity accounting method) in addition to prescribing the accounting for investments in associates.

The Group has evaluated the effect of adopting this interpretation and does not expect that adoption thereof, will impact the Group Financial Statements.

IFRS 7, Disclosures – offsetting financial assets and financial liabilities (amendments to IFRS 7).

This amendment was issued in December 2011 and becomes effective for financial periods on or after 1 January 2013. The amendment provides additional disclosures due to the offsetting amendments made to IAS 32.

The Group has evaluated the effect of adopting this interpretation and does not expect that adoption thereof, will impact the Group Financial Statements.

1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION *(continued)*

1.25 Future changes in accounting policies *(continued)*

IAS 32, Offsetting financial assets and financial liabilities (amendments to IAS 32)

This amendment was issued in December 2011 and becomes effective for financial periods on or after 1 January 2014. The amendment clarifies the meaning of the entity currently having a legally enforceable right to set off financial assets and financial liabilities as well as the application of IAS 32 offsetting criteria to settlement systems (such as clearing houses).

The Group has evaluated the effect of adopting this interpretation and does not expect that adoption thereof, will impact the Group Financial Statements.

IFRS 9 and IFRS 7, Mandatory effective date and transition disclosures (amendments to IFRS 9 and IFRS 7)

This amendment was issued in December 2011 and becomes effective for financial periods on or after 1 January 2013. The amendment changes the mandatory effective date for IFRS 9 to 1 January 2015.

The amendments to IFRS 7 adopted by the Group will depend on when IFRS 9 is adopted and effect the extent of comparative information required to be disclosed.

The Group is still evaluating the effect of adopting this standard and expects that the adoption of this standard will materially impact the Group Financial Statements. However the necessary evaluation and the effects thereof will be completed before the effective date of adoption.

IFRIC 20, Stripping costs in the production phase of a surface mine

This amendment was issued in October 2011 and becomes effective for financial periods on or after 1 January 2013.

The Group has evaluated the effect of adopting this interpretation and does not expect that adoption thereof, will impact the Group Financial Statements.

Improvements to IFRS's (May 2012)

In May 2012, the IASB issued an omnibus of amendments to its standards and interpretations, primarily with a view to removing inconsistencies and clarifying wording. The adoption of the following amendments is not expected to have any impact on the financial position nor financial performance of the Group. The amendments are effective for annual periods beginning on or after 1 January 2013.

- IFRS 1, First-time Adoption of International Financial Reporting Standards. Repeated application of IFRS 1 and Borrowing costs.
- IAS 1, Presentation of Financial Statements. Clarification of the requirements for comparative information.
- IAS 16, Property, Plant and Equipment. Classification of servicing equipment
- IAS 32, Financial Instruments: Presentation. Tax effect of distribution to holders of equity instruments.
- IAS 34, Interim Financial Reporting. Interim financial reporting and segment information for total assets and liabilities.

2. OPERATING SEGMENT REPORT

For management purposes, the Group is organised into business units based on their target markets and product offering, and the business is structured under six reportable operating segments. Management monitors the operating results of the business segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. The reportable segments are as follows:

Edgars division

The department store division is targeted at middle- to upper-income consumers. The speciality store chains included in this division are *Edgars, Boardmans, Red Square, Temptations, Prato* and *Edgars Active*. The products within this operating segment include mainly clothing, footwear, cosmetics, mobile phones, homewares and accessories.

CNA division

The CNA division is targeted at middle- to upper income consumers and its product offering includes stationery, books, magazines, greeting cards, mobile phones, music, toys, photographic and digital equipment.

Discount division

The discount division sells value merchandise targeted at lower- to middle-income consumers. The largest brand in discount division is Jet, with associated brands that include Jet Mart, Jet Shoes and Jet Home. The Legit and Discom chains are also part of the Discount division operating segment. The product offering within this operating segment includes mainly clothing, footwear, mobile phones, cosmetics, homewares and accessories.

Manufacturing division

Celrose, the manufacturing division, is an apparel manufacturer, focusing on mid to high-end garments of mostly woven construction. This operating segment, manufactures ladies and men's outerwear for the Edgars and Discount divisions.

Credit and Financial Services

Credit and Financial Services focuses on the management of the Group's trade debtors and offers consumer credit and insurance products.

This operating segment issues private label credit cards to qualifying customers who can use these credit cards in all the Group's chains. Credit and financial services performs all aspects of the credit management process in-house including credit scoring activation, servicing and collection and also provides credit management services to third parties. In addition, credit card holders are offered insurance products in partnership with insurance providers through joint venture agreements. The operating segment does not bear underwriting risk with respect to these insurance products.

Group Services

Group Services performs the Group's shared services functions which include, human resources, treasury, tax, finance, internal audit, property management, logistics, and secretarial. Additionally, the trade accounts payable function for the Group is managed centrally by Group Services and the accounting for trademarks and goodwill is accounted for centrally.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Operating segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the Group Financial Statements.

2. OPERATING SEGMENT REPORT *(continued)*

Group financing (including all treasury functions such as finance costs and income and related borrowings) income taxes, trade accounts payable, trademarks and goodwill are managed on a group basis and are not allocated to operating segments.

	REVENUES			REVENUE-RETAIL SALES			SEGMENT RESULT-OPERATING PROFIT[3]		
	2012 Rm	2011 Rm	2010 Rm	**2012 Rm**	2011 Rm	2010 Rm	**2012 Rm**	2011 Rm	2010 Rm
Edgars Division	**13 062**	12 014	11 425	**12 796**	11 772	11 213	**2 636**	2 540	2 457
CNA Division	**2 051**	1 891	1 851	**2 051**	1 891	1 851	**163**	128	138
Discount Division	**10 034**	9 244	9 039	**9 817**	9 053	8 824	**1 117**	974	1 011
Manufacturing Division	**82[1]**	57[1]	46[1]				**(4)**	(4)	6
Credit and Financial Services	**2 620**	2 350	2 504				**1 311[4]**	1 111[4]	713[4]
Group Services[2]	**35**	30	11				**(3 530)**	(4 456)	(2 834)
Group	**27 884**	25 586	24 876	**24 664**	22 716	21 888	**1 693[8]**	293[8]	1 491[8]
South Africa	**26 186**	24 177	23 533	**23 107**	21 432	20 688	**1 274**	164	1 123
Other[6]	**1 698**	1 409	1 343	**1 557**	1 284	1 200	**419**	129	368

	DEPRECIATION AND AMORTISATION			IMPAIRMENT OF INTANGIBLES[5]			CAPITAL EXPENDITURE		
	2012 Rm	2011 Rm	2010 Rm	**2012 Rm**	2011 Rm	2010 Rm	**2012 Rm**	2011 Rm	2010 Rm
Edgars Division	**158**	139	126			17	**204**	199	156
CNA Division	**22**	22	21			71	**20**	20	24
Discount Division	**116**	111	110	126		49	**167**	122	114
Manufacturing Division	**3**	2	2				**9**	1	1
Credit and Financial Services	**6**	7	5				**4**	2	1
Group Services[2]	**867**	935	961				**614**	130	177
Group	**1 172**	1 216	1 225	126		137	**1 018**	474	473
South Africa	**1 157**	1 205	1 214	126		137	**955**	454	467
Other[6]	**15**	11	11				**63**	20	6

Notes

[1] Represents manufacturing sales to third parties. In deriving the revenue, inter-group manufacturing sales of R178 million (52 week to 2 April 2011 R143 million, 53 weeks to 3 April 2010 R96 million) have been eliminated.

[2] Incorporating corporate divisions and consolidation adjustments, including additional depreciation and amortisation which arose on formation of the Group.

[3] The segmental result is stated after impairment of intangibles.

[4] Includes revenue of joint ventures of R541 million (52 weeks to 2 April 2011 R487 million, 53 weeks to 3 April 2010 R435 million).

[5] Impairment of intangibles is accounted for by Group Services and included in Group Services operating profit but, the split of these impairments in relation to each operating segment has been disclosed here.

[6] Comprising Botswana, Lesotho, Swaziland, Namibia and Zambia.

[7] 2012 and 2011 financial data is presented for 52 weeks and 2010 financial data is presented for 53 weeks.

[8] Net financing costs of R3 688 million (2011: R2 497 and 2010: R2 915 million) have not been included in operating profit. Net financing costs form part of Group Services.

2. OPERATING SEGMENT REPORT *(continued)*

The following is an analysis of the Group's income from continuing operations by reportable segment:

	Edgars	CNA	Discount Division	Manufac turing	Credit and Finan- cial Services	Group Services	Total
52 weeks 31 March 2012							
Retail sales	**12 796**	**2 051**	**9 817**				**24 664**
Club revenue	**266**		**217**				**483**
Manufacturing sales[1]				**82**			**82**
Finance charges on trade receivables					**2 113**		**2 113**
Income from joint ventures					**474**		**474**
Interest received					**33**	**35**	**68**
Total revenue	**13 062**	**2 051**	**10 034**	**82**	**2 620**	**35**	**27 884**
52 weeks to 2 April 2011							
Retail sales	11 772	1 891	9 053				22 716
Club revenue	242		191				433
Manufacturing sales[1]				57			57
Finance charges on trade receivables					1 833		1 833
Income from joint ventures					487		487
Interest received					30	30	60
Total revenue	12 014	1 891	9 244	57	2 350	30	25 586
53 weeks to 3 April 2010							
Retail sales	11 213	1 851	8 824				21 888
Club revenue	212		215				427
Manufacturing sales[1]				46			46
Finance charges on trade receivables					2 049		2 049
Income from joint ventures					435		435
Interest received					20	11	31
Total revenue	11 425	1 851	9 039	46	2 504	11	24 876

Note

[1] Represents manufacturing sales to third parties. In deriving the revenue, inter-group manufacturing sales of R178 million (53 weeks to 2 April 2011 R143 million) and (53 weeks to 3 April 2010 R96 million) have been eliminated.

2. OPERATING SEGMENT REPORT *(continued)*

2.1 Information on products

The following is an analysis of the Group's retail sales from continuing operations by product line:

	2012 52 weeks to 31 March Rm	2011 52 weeks to 2 April Rm	2010 53 weeks to 3 April Rm
Clothing	**11 264**	10 459	10 197
Footwear	**3 419**	3 117	3 066
Cosmetics	**2 462**	2 442	2 370
Homeware	**1 624**	1 547	1 480
Cellular	**2 498**	1 951	1 531
Stationery, books, magazines etc	**1 705**	1 615	1 627
Hardlines and FMCG	**1 719**	1 585	1 617
Loyalty points programme	**(27)**		
Total retail sales	**24 664**	22 716	21 888

2.2 Information about major customers

Revenues arise from direct sales to a broad base of public customers. The following is an analysis of the number of stores in the Group through which the Group's product offering is distributed:

	2012 31 March Number	2011 2 April Number	2010 3 April Number
Edgars division	**308**	261	263
CNA division	**194**	202	203
Discount division	**665**	718	762
Group	**1 167**	1 181	1 228

2.3 Reportable operating segment assets and liabilities

The following is an analysis of the operating segments assets and liabilities:

	TOTAL ASSETS[4]			**TOTAL LIABILITIES**		
	2012 Rm	2011 Rm	2010 Rm	**2012 Rm**	2011 Rm	2010 Rm
Edgars Division	**2 497**	2 213	2 181	**188**	386	327
CNA Division	**428**	387	420	**30**	57	58
Discount Division	**2 134**	1 795	1 879	**79**	215	242
Manufacturing Division	**42**	51	46	**8**	46	6
Credit and Financial Services	**11 028**	9 718[1]	9 656[1]	**4 451**	4 464	4 457
Group Services[2]	**20 225**	21 165	19 586	**28 730**	33 585	30 267
Group	**36 354**	35 329	33 768	**33 486**	38 753	35 357
South Africa	**35 364**	34 603	33 086	**33 448**	38 710	35 326
Other[3]	**990**	726	682	**38**	43	31

Notes

1 Includes investment in joint ventures of R67 million (2011 and 2010 : R6 million and R0 million).
2 Incorporating corporate divisions and consolidation adjustments, including additional depreciation and amortisation.
3 Compromising Botswana, Lesotho, Swaziland, Namibia and Zambia.
4 Included in total assets are non-current assets of R20 174 million (2011 : R20 270 million and 2010 : R21 105 million) which are part of group services. 99% of non-current assets are domiciled in South Africa.

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
3. PROPERTIES, FIXTURES, EQUIPMENT AND VEHICLES			
Historic cost except for revalued land and buildings			
Land and buildings			
Historic cost	**4**	4	40
Revaluation surplus	**-**	-	1
Leased assets	**308**		
Leasehold improvements	**707**	626	564
Fixtures and fittings	**3 106**	2 842	2 656
Computer equipment and software	**1 528**	1 246	1 122
Machinery and vehicles	**178**	170	170
	5 831	4 888	4 553
Accumulated depreciation			
Buildings	**1**	1	3
Leased assets	**17**		
Leasehold improvements	**432**	345	254
Fixtures and fittings	**1 762**	1 405	1 018
Computer equipment and software	**1 042**	805	547
Machinery and vehicles	**106**	86	68
	3 360	2 642	1 890
Net carrying value	**2 471**	2 246	2 663
Comprising:			
Land and buildings	**3**	3	38
Leased assets	**292**		
Leasehold improvements	**275**	281	310
Fixtures and fittings	**1 344**	1 437	1 638
Computer equipment and software	**486**	441	575
Machinery and vehicles	**71**	84	102
	2 471	2 246	2 663
Opening net carrying value	**2 246**	2 663	3 128
Movements for the period			
Land and buildings – revaluation, cost less accumulated depreciation	**-**	-	-
Capital expenditure			
Leasehold improvements	**88**	81	68
Leased assets	**308**		
Fixtures and fittings	**322**	261	230
Computer equipment and software	**293**	127	174
Machinery and vehicles	**7**	5	1
	1 018	474	473
Other			
Currency adjustments	**(1)**	(1)	(4)
	1 017	473	469

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
3. PROPERTIES, FIXTURES, EQUIPMENT AND VEHICLES *(continued)*			
Disposals (net book value)			
Land and buildings		35	113
Leasehold improvements	**6**	12	3
Fixtures and fittings	**25**	44	11
Computer equipment and software	**6**	1	
Machinery and vehicles	**-**	-	
	37	92	127
Depreciation (note 25.3)	**755**	798	807
Closing net carrying value	**2 471**	2 246	2 663

Land and buildings were revalued at 31 March 2012 to open market value based on the open market net rentals and current replacement cost of each property. Deferred taxation has been raised on the revaluation surplus. The independent valuations were carried out by professional valuers. No other categories of assets were revalued.

A register of the Group's land and buildings is available for inspection at the company's registered office.

If the land and buildings were measured using the cost model the cost would have been R4 million (2011 and 2010 : R4 million and R40 million) and the accumulated depreciation R1 million (2011 and 2010 : R1 million and R3 million).

These assets are security in terms of the floating rate notes (note 17), fixed rate notes (note 17), the super senior secured notes (note 17) and the revolving credit facility (note 18).

4. INTANGIBLE ASSETS

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable assets at the date of acquisition purchased as part of a business combination. Other intangible assets represent registered rights to the exclusive use of certain trademarks and brand names.

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
Balance at the beginning of the period	**18 024**	18 442	18 997
Movement of intangible assets:			
Charge for the period (note 25.1)	**(417)**	(418)	(418)
Impairment of goodwill	**(86)**		(71)
Impairment of finite life brands	**(40)**		
Impairment of indefinite life brands			(66)
Balance at the end of the period	**17 481**	18 024	18 442
Comprising:			
Goodwill at cost	**8 513**	8 513	8 513
Intangible assets at cost	**11 979**	11 979	11 979
Impairment of intangibles including goodwill	**(960)**	(834)	(834)
Accumulated amortisation of intangible assets	**(2 051)**	(1 634)	(1 216)
	17 481	18 024	18 442

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
4. INTANGIBLE ASSETS *(continued)*			
Intangible assets (excluding goodwill)			
Intangible assets at cost:			
Indefinite life brands	**8 492**	8 492	8 492
Finite life brands	**229**	229	229
Customer relationships	**1 974**	1 974	1 974
Trademarks recognised	**206**	206	206
Customer lists	**561**	561	561
Technology	**517**	517	517
	11 979	11 979	11 979
Impairment of intangibles:			
Indefinite life brands	**(751)**	(751)	(751)
Finite life brands	**(40)**		
	(791)	(751)	(751)
Accumulated amortisation of intangible assets:			
Finite life brands	**(111)**	(87)	(64)
Customer relationships	**(1 110)**	(885)	(659)
Trademarks recognised	**(101)**	(80)	(60)
Customer lists	**(366)**	(292)	(217)
Technology	**(363)**	(290)	(216)
	(2 051)	(1 634)	(1 216)
Carrying value of intangible assets:			
Indefinite life brands	**7 741**	7 741	7 741
Finite life brands	**78**	142	165
Customer relationships	**864**	1 089	1 315
Trademarks recognised	**105**	126	146
Customer lists	**195**	269	344
Technology	**154**	227	301
	9 137	9 594	10 012

Indefinite life brands principally comprise those brands for which there is no foreseeable limit to the period over which they are expected to generate net cash inflows.

The Edgars, Jet, CNA and Boardmans brands are considered to have an indefinite life as each has been in existence for a significant period and the strength and durability of these brands and the level of marketing support.

During the current period an impairment of R40 million was recognised on the finite life brands due to a change in product offering.

Goodwill and indefinite life brands are tested annually for impairment (refer to note 5).

5. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES

Goodwill acquired through business combinations and intangible assets with indefinite lives have been allocated to individual cash-generating units for impairment testing as follows:

- Edgars – includes Edgars, Red Square, Temptations, Prato, Boardmans and Edgars Active, offering clothing, footwear and homeware products.
- CNA – offers stationery and electronic products.
- Discount Division – includes Jet, JetMart, Discom, Legit and Jet Shoes chains offering clothing, footwear, beauty and homeware products.
- Credit and Financial Services.

5. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES *(continued)*

Impairment testing of this goodwill and intangibles with indefinite lives was undertaken on the following basis:
The recoverable amount of cash-generating units has been determined based on a value-in-use calculation. To calculate this, cash flow projections are based on financial budgets approved by senior management covering no more than a five-year period. The discount rate applied to the cash flow projections for Edgars, CNA and the Discount Division is 16% (2011 and 2010:15%) and for the Credit and Financial Services division, 17% (2011 and 2010:17%). The average growth rates used to extrapolate the cash flow projection of each cash-generating unit beyond the periods covered by the financial forecasts is 6% (2011 and 2010: 6%) as future benefits are expected beyond the periods of the financial forecasts.

Carrying amount of goodwill and intangibles with indefinite lives (Rm)	**Edgars**	**CNA**	**Discount Division**	**Credit and Financial Services**	**Total**
Carrying amount of goodwill	**1 753**		**2 922**	**3 669**	**8 344**
Carrying amount of indefinite life intangibles	**4 535**	**546**	**2 660**		**7 741**

During the current period an impairment of R86 million was recognised on the goodwill allocated to Discom due to a change in product offering. During the 2011 and 2010 financial periods total impairments of Rnil million and R66 million (2011 and 2010 respectively) was recognised on the indefinite life brands due to economic trading conditions and a change in the mix of products sold by CNA stores. As a result, forecast sales assumptions were based on estimated growths over the short-term and the growth rates beyond the forecasted period were held constant at 6%.

The initial goodwill allocated to CNA of R83 million was fully impaired at 3 April 2010.

Key assumptions applied in value-in-use calculation of the cash generating units

The calculation of value-in-use is most sensitive to the following assumptions:

- Gross margin
- Discount rates
- Market share
- Growth rates used to extrapolate cash flows beyond the financial forecast period.

Gross margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvement and therefore based on financial forecasts for the Edgars, CNA and the Discount Divisions.

Discount rates reflect management’s estimate of the risks specific to each unit.

Market share assumptions (based on external market information) are important as management considers how the unit’s position relative to its competitors might change over the forecast period. Management expects the market share of Edgars, CNA and the Discount Division to be reasonably stable over the forecast period.

Growth rate estimates are conservatively applied to each unit having considered industry expected growth rates and internal targets. The Group is not expected to exceed the long-term average growth rates of the industry.

A reasonable possible change in any of the key assumptions would not result in the carrying amount of any of the cash generating units exceeding their recoverable amount.

		2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
6.	**EQUITY ACCOUNTED INVESTMENT IN JOINT VENTURES**			
	Hollard Insurance – 50% holding offering long and short-term insurance products to account holders	**62**	1	-
	Europe Assistance	**5**	5	
	Total equity accounted in joint venture	**67**	6	-
6.1	**Share of joint ventures' reserves**			
	Balance at the beginning of the period	**6**	-	1
	Income for the period	**541**	487	435
	Paid as follows :			
	Administration fee received	**(401)**	(381)	(267)
	Dividends received	**(79)**	(100)	(169)
	Carrying value of joint ventures	**67**	6	-
6.2	**Share of joint ventures' net assets, revenue and expenses**			
	Current assets	**67**	6	-
	Revenue	**1 331**	1 124	1 049
	Expenses	**727**	582	527
7.	**DERIVATIVE FINANCIAL INSTRUMENTS[1]**			
7.1	**Non-current derivative assets**			
	Interest rate swaps		30	
	Cross currency swaps	**472**		
		472	30	
7.2	**Non-current derivative liabilities**			
	Interest rate swaps	**42**		91
	Foreign currency forward contracts	**21**	55	76
	Foreign currency swaps			2 926
	Cross currency swaps		253	
		63	308	3 093
7.3	**Current derivative liabilities**			
	Interest rate swaps	**42**	111	487
	Foreign currency forward contracts	**24**	146	330
	Cross currency swaps	**731**	689	
		797	946	817

		2012 31 March 2012	2011 2 April Rm	2010 3 April Rm
7.	**DERIVATIVE FINANCIAL INSTRUMENTS**[1] *(continued)*			
7.4	**Total derivatives**			
	Interest rate swaps liability	**(84)**	(81)	(578)
	Foreign currency forward contracts liability	**(45)**	(201)	(406)
	Foreign currency swaps liability			(2 926)
	Cross currency swaps liability	**(259)**	(942)	
		(388)	(1 224)	(3 910)
	Credit risk valuation adjustments[1]			
	Interest rate swaps	**(9)**	(2)	(79)
	Foreign currency forward contracts	**(6)**	(13)	(23)
	Foreign currency swaps			(561)
	Cross currency swaps	**(61)**	(154)	
		(76)	(169)	(663)
	Total derivatives before credit risk valuation adjustments			
	Interest rate swaps liability	**(93)**	(83)	(657)
	Foreign currency forward contracts liability	**(51)**	(214)	(429)
	Foreign currency swaps liability			(3 487)
	Cross currency swaps liability	**(320)**	(1 096)	
		(464)	(1 393)	(4 573)

[1] Credit risk valuation adjustments are included in the total fair value of derivatives above.

Refer to note 33.2 for details of hedging activities.

On 1 March 2011, Edcon (Pty) Ltd, a subsidiary of Edcon Holdings (Pty) Ltd issued 9.5% Senior Secured Fixed Rate Notes due 2018, comprising of a €317 million tranche and a $250 million tranche. These funds were utilised to settle the derivative liability of R5 001 million on 2 March 2011.

The interest rate risk relating to OtC receivables have been hedged with a dynamic interest rate swaps with Rand Merchant Bank, a division FirstRand Bank Ltd. The fair value at financial period end of 2012 is a liability of R154 million (2011: liability R156 million and 2010: asset R45 million). The interest rate swap balance is offset by the movement of finance charges on eligible receivables.

		2012	2011	2010
7.5	**Derivative losses**			
	Derivative losses recognised in profit or loss	**(10)**	(2 343)	(5 081)
		(10)	(2 343)	(5 081)

		2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
8.	**DEFERRED TAXATION**			
	Balance at the beginning of the period – asset/(liability)	**887**	153	(374)
	Recognised in profit or loss (note 29.1)	**133**	693	515
	Deferred tax in other comprehensive income – currency forwards (note 29.2)	**1**	19	121
	Deferred tax in other comprehensive income – cash flow hedges and employee benefits (note 29.2)	**9**	22	(109)
	Balance at the end of the period – asset	**1 030**	887	153
	Comprising:			
	Appro sales		13	14
	Intangible assets	**1 659**	1 426	1 543
	Property, fixtures, equipment and vehicles	**261**	209	359
	Prepayments	**4**	4	2
	Unearned finance income	**38**	20	19
	Employee benefits	**32**		
	Other	**29**	26	23
	Deferred tax liability	**2 023**	1 698	1 960
	Provision for impairment of receivables	**205**	183	282
	Other payables	**175**	138	132
	Leave pay accrual	**40**	39	38
	Operating lease adjustment	**104**	112	113
	Finance leases	**92**		
	Fair value loss on interest rate hedges	**245**	232	167
	Assessed loss	**2 185**	1 852	1 373
	Other	**7**	29	8
	Deferred tax asset	**3 053**	2 585	2 113
	Net deferred tax asset	**1 030**	887	153

The South African macroeconomic environment has improved over the past two years. The Group experienced an acceleration of sales growth and operational efficiency during fiscal year 2012. Real wage growth, the roll-out of government social grants and record lows for interest rates have all boosted consumer confidence. These developments combined with a number of strategic initiatives including the implementation of a new real estate strategy, a review of merchandise ranges and availability of goods, the introduction of a new loyalty programme as well as an analysis of operational processes will contribute to a significant improvement in profitability in the next few years. This will allow the Group to realise the deferred tax asset.

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
9. INVENTORIES			
Merchandise	**3 140**	2 605	2 385
Raw materials	**22**	13	12
Work in progress	**8**	8	5
Total inventories on hand	**3 170**	2 626	2 402
Inventory write-downs included above	**86**	153	99
Inventory carried at net realisable value	**64**	50	58
Cost of inventories expensed	**15 574**	13 923	13 361
10. TRADE, OTHER RECEIVABLES AND PREPAYMENTS			
Trade accounts receivable – retail	**10 867**	9 586	9 824
Trade accounts receivable – personal loans	**-**	-	1
Provision for impairment of receivables	**(865)**	(733)	(1 126)
Total trade receivables	**10 002**	8 853	8 699
Other receivables	**392**	326	271
Staff loans	**13**	4	5
Total receivables	**10 407**	9 183	8 975
Prepayments	**19**	12	8
Net trade, other receivables and prepayments	**10 426**	9 195	8 983

At 31 March 2012, all obligations under the OtC receivables-backed notes issued (see note 17 and 18) are secured by pledge and cession of the eligible receivables that OtC acquires from time to time. As at 31 March 2012 R5 991 million (2011 and 2010 : R6 146 million and R6 041 million) is designated as eligible receivables.

R6 864 million (2011 and 2010: R6 017 million and R5 889 million) of the balances are covered by an account protection policy whereby the Group is a beneficiary in the event of the customer's death, the customer being retrenched or becoming permanently disabled. The policy does not provide cover for insolvency or inability to pay.

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
10. TRADE, OTHER RECEIVABLES AND PREPAYMENTS *(continued)*			
10.1 Analysis of trade receivables past due but not impaired			
Overdue 30 days – 60 days	**1 386**	1 011	1 049
Overdue 60 days – 90 days	**184**	134	158
Overdue 90 days – 120 days	**98**	71	86
Greater than 120 days	**242**	236	265
	1 910	1 452	1 558
10.2 Interest on impaired receivables			
Interest recognised on impaired receivables	**189**	254	214
This interest is included in the finance charges in note 23.			
10.3 Provision for impairment of receivables			
Balance at the beginning of the period	**733**	1 126	1 045
Increase/(decrease) in impairment provision	**132**	(393)	81
Balance at the end of the period	**865**	733	1 126
Movements are disclosed in note 26.2.			
11. CASH AND CASH EQUIVALENTS			
Cash on hand	**265**	1 370	1 071
Cash on deposit	**818**	945	54
	1 083	2 315	1 125
12. SHARE CAPITAL AND PREMIUM			
12.1 Authorised ordinary share capital			
1 000 000 000 “A “ordinary shares with a par value of 0.00001 cent each	-	-	-
100 000 000 “B” ordinary shares with a par value of 0.00001 cent each	-	-	-
1 000 000 000 “C” ordinary shares with a par value of 0.00001 cent each	-	-	-
1 000 000 000 “D” ordinary shares with a par value of 0.00001 cent each	-	-	-
1 000 000 000 “E” ordinary shares with a par value of 0.00001 cent each	-	-	-
	-	-	-

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
12. SHARE CAPITAL AND PREMIUM *(continued)*			
12.2 Authorised preference share capital			
1 000 000 000 “A” preference shares of R0.00001 each	-	-	-
1 000 000 000 “B” preference shares of R0.00001 each	-	-	-
	-	-	-

	2012 31 March Number	2011 2 April Number	2010 3 April Number
12.3 Number of ordinary shares in issue			
Number of shares at the beginning of the period	**560 133**	560 133	610 438
“C” ordinary shares issued	**1 414**		(50 305)
“D” ordinary shares issued	**1 414**		
“E” ordinary shares issued	**1 414**		
Number of shares at the end of the period	**564 375**	560 133	560 133
Number of ordinary shares in issue comprise:			
“A” ordinary shares issued	**500 133**	500 133	500 133
“B” ordinary shares issued	**69 213**	69 213	69 213
“C” ordinary shares issued	**21 414**	20 000	20 000
“D” ordinary shares issued	**21 414**	20 000	20 000
“E” ordinary shares issued	**21 414**	20 000	20 000
Treasury shares – Staff Empowerment Trust	**(69 213)**	(69 213)	(69 213)
	564 375	560 133	560 133
12.4 Number of preference share capital in issue			
Number of shares at the beginning of the period	**252 449**	252 449	200 866
“B” preference shares of R0.00001 each issued	**4 258**		51 583
Number of shares at the end of the period	**256 707**	252 449	252 449
Number of preference shares in issue comprise:			
“A” preference shares of R0.00001 each	**200 866**	200 866	200 866
“B” preference shares of R0.00001 each	**55 841**	51 583	51 583
	256 707	252 449	252 449

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm

12.5 SHARE CAPITAL AND PREMUIM *(continued)*

12.5 Voting rights of ordinary and preference shares

Each "A" ordinary share of the Group shall entitle the holder thereof to 1 000 votes on all matters upon which shareholders have the right to vote.

Each "A" redeemable cumulative preference share of the Group shall not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of the company Edcon Holdings Proprietary Limited, save where a resolution affecting a matter contemplated in section 37(3)(a) of the Companies Act of South Africa is proposed.

The total "B" ordinary shareholder of the Group at any time shall, in aggregate, have the right to exercise such number of votes as is equal to 10,6% of the aggregate voting rights of the total "A" ordinary shares then in issue.

Each "B" redeemable cumulative preference share of the Group shall not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of the company Edcon Holdings Proprietary Limited, save where a resolution affecting a matter contemplated in section 37(3)(a) of the Companies Act of South Africa is proposed.

Each "C", "D" and "E" ordinary share shall entitle the holder thereof to one vote on all matters upon which shareholders have the right to vote.

12.6 Issued shares and premium

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
Balance at the beginning of the period	**2 148**	2 148	2 143
Ordinary shares issued	**-**		-
Ordinary shares repurchased – share capital			-
Ordinary shares repurchased – share premium			(175)
Preference shares issued – share capital	**-**		-
Preference shares issued – share premium	**5**		180
Balance at the end of the period	**2 153**	2 148	2 148
Comprising:			
Share capital	**-**	-	-
Share premium	**2 153**	2 148	2 148
Total	**2 153**	2 148	2 148

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
13. OTHER RESERVES			
Balance at the beginning of the period comprising:			
Revaluation reserve net of deferred taxation	**3**	3	23
Foreign currency translation reserve	**(35)**	(20)	28
Cash flow hedges net of tax	**(568)**	(391)	(331)
	(600)	(408)	(280)
Movements			
Net decrease in revaluation reserve	**-**	-	(20)
Foreign currency translation reserve	**5**	(15)	(48)
Cash flow hedges recognised in other comprehensive income	**(289)**	(1 075)	(116)
Cash flow hedges released to derivative losses as hedge ineffectiveness	**12**	82	39
Cash flow hedges released to financing costs	**985**	443	(6)
Cash flow hedges released to foreign exchange (gain)/loss	**(838)**	304	
Tax impact of cash flow hedges (note 29.2)	**37**	69	23
Balance at the end of the period	**(688)**	(600)	(408)
Comprising:			
Revaluation reserve net of deferred taxation	**3**	3	3
Foreign currency translation reserve	**(30)**	(35)	(20)
Cash flow hedges net of tax	**(661)**	(568)	(391)
	(688)	(600)	(408)

The foreign denominated floating and fixed rate notes expose the Group to both interest rate risk and/or foreign exchange risk. Derivative instruments, have been executed to limit the exposure to both interest rate and/or foreign exchange risk. These derivative instruments have been designated as a cash flow hedge. Refer to note 33.2 for details of the hedging strategy.

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

	2012	2011	2010
14. RETAINED (LOSS)/SURPLUS			
Comprising:			
Holding company - Edcon Holdings Proprietary Limited	**2 084**	2 070	2 062
Consolidated subsidiaries	**(8 971)**	(7 042)	(5 391)
	(6 887)	(4 972)	(3 329)

Distributions by certain foreign subsidiaries will give rise to withholding taxes of R21 million (2011 and 2010 : R70 million and R87 million). No deferred tax is raised until dividends are declared as the Group controls the timing of the reversal and it is probable that there will be no reversal in the foreseeable future. Deferred tax not raised was R82 million (2011 and 2010 : R242 million and R206 million).

15. CONSOLIDATED SUBSIDIARIES

	2012	2011	2010
15.1 Aggregate profits/(losses) of subsidiaries and joint venture			
Profits	**1 088**	419	355
Losses	**(1 696)**	(2 062)	(1 437)
	(608)	(1 643)	(1 082)

		2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
16.	**SHAREHOLDER'S LOAN**			
	Loan recognised in equity	**8 290**		
	Loan recognised in non-current liabilities	**659**	8 184	7 341
	Loan by Edcon (BC) S.A.R.L.	**8 949**	8 184	7 341
	Comprising:			
	Principal at the beginning of the period	**7 428**	6 597	5 729
	Interest capitalised during the period	**848**	831	868
	Loan derecognised	**(8 949)**		
	Loan recognised in equity	**8 290**		
	Loan recognised in non-current liabilities	**659**		
	Principal at the end of the period	**8 276**	7 428	6 597
	Interest accrued at the beginning of the period	**756**	744	763
	Interest accrued for the period (note 28.1)	**765**	843	849
	Interest capitalised during the period	**(848)**	(831)	(868)
	Interest accrued at the end of the period	**673**	756	744

The loan is denominated in South African Rands and accrued interest at the South African prime rate plus 2% p.a. on the principal up to and including the date 7 February 2012, thereafter no interest will accrue up to and including the date of repayment. The principal is repayable in May 2037. This shareholder's loan is regarded as capital for IAS 1 purposes (refer to note 32).

As a result of the fact that the loan has become interest free the terms of the loan are substantially different and it was necessary to derecognise the loan in terms of IAS 39. Applying initial measurement in terms of IAS 39 resulted in a portion being recognised in equity and a portion being recognised in non-current liabilities.

The directors' having considered the going concern assumption have included the total shareholder's loan of R8 949 million in the assessment (refer to note 32, management of capital). To the extent required to maintain the solvency of the Group, the Shareholder's loan has been subordinated to the claims of all of the creditors of the Group.

17.	**NON-CURRENT INTEREST BEARING DEBT**			
	Super senior secured notes (note 17.1)	**1 010**		
	Senior secured floating rate notes (note 17.2)	**11 559**	11 094	11 397
	Senior floating rate notes (note 17.3)	**3 802**	3 527	3 623
	Senior secured fixed rate notes (note 17.4)	**5 012**	4 534	
	Senior notes	**21 383**	19 155	15 020
	OtC receivables-backed notes (note 17.5)	**2 150**	4 300	3 855
	Super senior secured term loan (note 17.6)		985	
		23 533	24 440	18 875
17.1	**Super senior secured notes**			
	Notes issued	**1 010**		
		1 010		

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm

17. NON-CURRENT INTEREST BEARING DEBT *(continued)*

17.1 Super senior secured notes *(continued)*

During the 2012 financial period, super senior secured notes of R1 010 million were issued by Edcon Proprietary Limited and guaranteed on a super senior secured basis, and are secured along with the revolving credit facility, the senior secured floating rate notes and the senior secured fixed rate notes by security interests over the assets of Edcon Holdings Proprietary Limited and its subsidiaries. Interest is payable quarterly in arrears at a rate of three-month JIBAR, plus 6.25%. The notes mature on 4 April 2016, subject to a springing maturity structure:

- Investors have a put back to Edcon Proprietary Limited on 31 March 2014 to the extent that the 2014 senior secured floating rate notes are not refinanced to 30 June 2016 or beyond, or have been redeemed in full; and
- Investors have a put back to Edcon Proprietary Limited on 31 March 2015 to the extent that the 2015 senior floating rate notes are not refinanced to 30 June 2016 or beyond, or have been redeemed in full.

There have been no defaults or breaches of the principal or interest during the period.

17.2 Senior secured floating rate notes

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
Notes issued	**10 890**	11 259	11 259
Foreign currency	**781**	(9)	331
Fees capitalised	**(112)**	(156)	(193)
	11 559	11 094	11 397
Balance at the beginning of the period	**11 094**	11 397	14 867
Foreign currency movement	**795**	(340)	(3 501)
Fees amortised	**44**	37	31
Repurchased	**(374)**		
Balance at end of period	**11 559**	11 094	11 397

On May 2011, the Group completed a note repurchase of the senior secured floating rate notes with a nominal value of €39 million being 90% of the face value.

The senior secured floating notes of €1 141 million (2011 and 2010: €1 180 million) are issued by Edcon Proprietary Limited and guaranteed on a senior secured basis and are secured, along with the revolving credit facility, the super senior secured notes, the super senior secured term loan and the senior secured fixed rate notes, by security interests over substantially all the assets of Edcon Holdings Proprietary Limited and its subsidiaries.

	2012 **31 March** **Rm**	2011 2 April Rm	2010 3 April Rm

17. NON-CURRENT INTEREST BEARING DEBT *(continued)*

17.2 Senior secured floating rate notes *(continued)*

Interest is payable quarterly in arrears at a rate of three month EURIBOR, reset quarterly, plus 3.25%. The notes mature on 15 June 2014. There have been no defaults or breaches of the principal or interest during the period. The market value of the senior secured floating rate notes at 31 March 2012 was R10 234 million (2011 and 2010: R9 618 million and R8 750 million respectively).

17.3 Senior floating rate notes

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
Notes issued	**3 606**	3 606	3 606
Foreign currency	**259**	(2)	106
Fees capitalised	**(63)**	(77)	(89)
	3 802	3 527	3 623
Balance at the beginning of the period	**3 527**	3 623	4 733
Foreign currency movement	**261**	(108)	(1 121)
Fees amortised	**14**	12	11
Balance at end of period	**3 802**	3 527	3 623

The senior floating notes of €378 million are issued by Edcon Holdings Proprietary Limited and guaranteed on a senior subordinated basis and secured by a third ranking pledge of the proceeds of the loan between Edcon Holdings Proprietary Limited and Edcon Proprietary Limited. Interest is payable quarterly in arrears at a rate of three month EURIBOR, reset quarterly, plus 5.5%. The notes mature on 15 June 2015. There have been no defaults or breaches of the principal or interest during the period. The market value of the senior floating rate notes at 31 March 2012 was R3 200 million (2011 and 2010: R3 009 million and R2 400 million respectively).

17.4 Senior secured fixed rate notes

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
Notes issued	**4 781**	4 781	
Foreign currency	**376**	(86)	
Fees capitalised	**(145)**	(161)	
	5 012	4 534	
Balance at the beginning of the period	**4 534**		
Notes issued		4 781	
Foreign currency movement	**462**	(86)	
Fees capitalised		(165)	
Fees amortised	**16**	4	
Balance at end of period	**5 012**	4 534	

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm

17. NON-CURRENT INTEREST BEARING DEBT *(continued)*

17.4 Senior secured fixed rate notes *(continued)*

The senior secured fixed rate notes of €317 million and $250 million are issued by Edcon Proprietary Limited and guaranteed on a senior secured basis and are secured, along with the revolving credit facility, the super senior secured notes, the super senior secured term loan, the super senior secured term loan and the senior secured floating rate notes, by security interests over substantially all the assets of Edcon Holdings Proprietary Limited. Interest is payable semi-annually in arrears at a rate of 9.5%. The notes mature March 2018. The market value of the senior secured fixed rate notes at 31 March 2012 was R2 939 million (2011: R2 886 million) for the €317 million notes and R1 745 million (2011: R1 623 million) for the $250 million notes. There have been no defaults or breaches of the principal or interest during the period.

17.5 OtC receivables-backed notes

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
Notes issued	**4 300**	4 300	4 300
Current	**(2 150)**		(445)
Non-current	**2 150**	4 300	3 855

The receivables backed notes comprised unlisted notes and notes listed on the Johannesburg Securities Exchange. The applicable interest rate and margin, maturity date and fair value is detailed below:

OtC receivables – backed notes	**Amount and Fair Value 31 March 2012 Rm**	**Maturity Date**	**Applicable Interest**	**Margin %**
Current				
Listed	**555**	31 Jul 2012	3m Jibar	2.5
Unlisted	**1 545**	31 Oct 2012	3m Jibar	2.5
Unlisted	**50**	31 Oct 2012	3m Jibar	4.5
Total current	**2 150**			
Non-current				
Listed	**427**	30 Apr 2013	3m Jibar	2.3
Listed	**968**	30 Apr 2013	3m Jibar	2.2
Listed	**323**	30 Apr 2014	3m Jibar	2.5
Listed	**182**	30 Apr 2014	3m Jibar	2.3
Listed	**250**	30 Apr 2017	Fixed 10.09%	
Total non-current	**2 150**			
Total receivables-backed notes	**4 300**			

17. NON-CURRENT INTEREST BEARING DEBT *(continued)*

17.5 OtC receivables-backed notes *(continued)*

OtC receivables – backed notes	Amount and Fair Value 2 April 2011 Rm	Maturity Date	Applicable Interest	Margin %
Non-current				
Listed	**555**	31 Jul 2012	3m Jibar	2.5
Unlisted	**1 545**	31 Oct 2012	3m Jibar	2.5
Unlisted	**50**	31 Oct 2012	3m Jibar	4.5
Listed	**427**	30 Apr 2013	3m Jibar	2.3
Listed	**968**	30 Apr 2013	3m Jibar	2.2
Listed	**323**	30 Apr 2014	3m Jibar	2.5
Listed	**182**	30 Apr 2014	3m Jibar	2.3
Listed	**250**	30 Apr 2017	Fixed 10.09%	
Total receivables-backed notes	**4 300**			

OtC receivables-backed notes	Amount and Fair Value at 3 April 2010 Rm	Maturity Date	Applicable interest	Margin %
Current				
Listed	275	31 Jul 2010	3m Jibar	1,9
Listed	170	31 Jul 2010	Fixed 9.1%	
Total current	445			
Non-Current				
Listed	555	31 Jul 2012	3m Jibar	2,5
Listed	427	30 Apr 2013	3m Jibar	2,3
Listed	323	30 Apr 2014	3m Jibar	2,5
Unlisted	2 500	31 Oct 2012	3m Jibar	2,5
Unlisted	50	31 Oct 2012	3m Jibar	4,5
Total non-current	3 855			
Total receivables-backed notes	4 300			

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
17.6 Super senior secured term loan			
Balance at the beginning of period	**985**		
Loan raised		985	
Loan repaid	**(985)**		
Balance at the end of period		985	

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm

17. NON-CURRENT INTEREST BEARING DEBT *(continued)*

17.6 Super senior secured term loan *(continued)*

During the 2011 financial period a loan of R985 million was raised by Edcon Proprietary Limited and guaranteed on a super senior secured basis, and was secured along with the revolving credit facility, the super senior secured notes, the senior secured floating rate notes and the senior secured fixed rate notes by security interests over the assets of Edcon Holdings Proprietary Limited and its subsidiaries. Interest was payable quarterly in arrears at a rate of three-month JIBAR, plus 4.0%. The loan was repaid with the proceeds of the super senior secured notes on 4 April 2011 (refer to Note 17.1).

17.7 Foreign exchange gains & fees amortised

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
Foreign exchange (loss)/gain	**(1 518)**	534	4 622
Released from other comprehensive income (note 13)	**838**	(304)	
Foreign exchange (loss)/gain	**(680)**	230	4 622
Fees amortised recognised in financing costs (note 28.1)	**74**	53	42

18. CURRENT INTEREST BEARING DEBT

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
Revolving credit facility	**751**		350
OtC receivables-backed notes (note 17.5)	**2 150**		445
	2 901		795

The revolving credit facility provides senior secured financing of up to R3 117 million (2011: R3 117 and 2010: R3 500 million) for general corporate and working capital purposes. All obligations under the facility are secured by substantially all the assets of Edcon Holdings Proprietary Limited and its subsidiaries. The revolving credit facility accrues interest at applicable JIBAR plus a margin of 2,5% (2011 and 2010: 2,5%) for Tranche A and 4% (2011:4%) for Tranche B, payable monthly in arrears. The facility includes R1 450 million (2011: R2 100 and 2010: R2 250 million) borrowing capacity available for bank guarantees, letters of credit, forward exchange contracts and for borrowings under bilateral ancillary facilities. These ancillary facilities accrue interest at ruling over-night market related lending rates.

An OtC liquidity facility with FirstRand Bank Limited accrues interest at a rate equal to the SAFEX call rate from time to time plus 1,7%, calculated from the date of drawdown up to and including the date immediately prior to the date on which the drawdown is repaid, and is capitalised monthly in arrears. The total liquidity facility granted is R145 million expiring on 30 April 2017.

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm

18. CURRENT INTEREST BEARING DEBT *(continued)*

The receivables purchase facility with First Rand Bank Limited accrues interest at a rate equal to the SAFEX call rate from time to time plus 1,7% calculated from the date of draw down up to and including the date immediately prior to the date on which the drawdown is repaid, and is capitalised monthly in arrears. The total receivables purchase facility granted is R43 million expiring 30 April 2017.

There have been no defaults or breaches of principal, interest or redemption terms during the current or prior periods.

In November 2011 OtC received a commitment of R1 billion from an investor to subscribe, at the option of OtC, for unlisted Class A notes with a scheduled maturity date of 31 October 2013. This commitment is available for utilisation up to 31 October 2012. Once subscribed, interest will be payable quarterly in arrears at a rate of three-month JIBAR, plus 2.5%.

19. LEASE OBLIGATIONS

19.1 Operating lease obligations

The Group leases the majority of its properties and computer equipment under operating leases whereas other operating assets are generally owned. The lease agreements of certain of the Group's store premises provide for a minimum annual rental payment and additional payments determined on the basis of turnover. Lease agreements have an option of renewal in terms of the lease agreement ranging between 5 to 10 years.

	2012	2011	2010
The future minimum property operating lease commitments are due as follows:	**7 553**	6 654	6 260
Within one year	**1 492**	1 323	1 195
Between two and five years	**4 266**	3 808	3 607
In more than five years	**1 795**	1 523	1 458

The future revenue expected from sub-leases is estimated to be R22 million (2011 and 2010: R24 million and R18 million respectively).

The Group also leases certain computer equipment. The agreements provide for minimum annual rental payments and additional payments depending on usage.

	2012	2011	2010
The future minimum computer equipment operating lease commitments are due as follows:	**436**	312	249
Within one year	**137**	139	152
Between two and five years	**299**	173	97

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm

19. LEASE OBLIGATIONS *(continued)*

19.2 Finance lease liability

The finance lease is recognised in respect of a building and IT equipment for which the present value of the minimum lease payments due in terms of the lease agreements amounted substantially to the fair value of the building and IT equipment at the time of the agreement was entered into. The average borrowing rate on the lease of the building is 11.0% and the average borrowing rate on the IT equipment is 8.6%.

	2012	2011	2010
Minimum lease payments	**586**		
Within one year	**62**		
Between two and five years	**177**		
In more than five years	**347**		
Present value of lease obligation			
The present value of the lease obligation is due as follows:	**329**		
Within one year	**28**		
Between two and five years	**60**		
In more than five years	**241**		
The present value of the interest payments is due as follows:			
Within one year	**257**		
Between two and five years	**34**		
In more than five years	**116**		
	107		

20. TRADE AND OTHER PAYABLES

	2012	2011	2010
Trade accounts payable	**2 858**	2 752	2 577
Sundry accounts payable and accrued expenses	**971**	940	739
Lease equalisation	**5**	9	17
Leave pay accrual	**143**	139	137
Value added taxation payable	**57**	83	33
Interest accrued	**268**	186	197
	4 302	4 109	3 700

The trade and sundry payables amounts are interest free and mature no later than 30 to 60 days. Other payables mature no later than one year.

21. DEFERRED REVENUE

	2012	2011	2010
Opening balance			
Loyalty points earned	**80**		
Loyalty points redeemed	**-**		
	80		

The deferred revenue arises from the Thank U rewards program that was launched during February 2012. Based on the assumptions used, the non-current portion of the deferred revenue was Rnil.

		2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
22.	**FUTURE CAPITAL EXPENDITURE**			
	Contracted:			
	Properties, fixtures, equipment and vehicles	**315**	244	138
	Authorised by the directors but not yet contracted:			
	Properties, fixtures, equipment and vehicles	**778**	572	319
		1 093	816	457
	All the expenditure will be incurred during the next financial period and is to be financed from free cash flows.			

		2012 52 weeks to 31 March Rm	2011 52 weeks to 2 April Rm	2010 53 weeks to 3 April Rm
23.	**TOTAL REVENUES**			
	Retail sales	**24 664**	22 716	21 888
	Club fees	**483**	433	427
	Finance charges on trade receivables	**2 113**	1 833	2 049
	Revenue from joint ventures	**474**	487	435
	Interest received (note 28.2)	**68**	60	31
	Manufacturing sales to third parties	**82**	57	46
		27 884	25 586	24 876
24.	**OTHER INCOME**			
	Club fees	**483**	433	427
	Manufacturing sales to third parties	**82**	57	46
		565	490	473
25.	**OTHER OPERATING COSTS** Trading profit is stated after taking account inter alia the following items:			
25.1	**Amortisation of trademarks**			
	Charge for the year (refer to note 4)	**417**	418	418
25.2	**Auditors' remuneration**			
	Audit fees – current year	**12**	12	11
	Fees for advisory and other services	**3**	8	3
		15	20	14
25.3	**Depreciation of properties, fixtures, equipment and vehicles**			
	Buildings	**-**	1	4
	Leasehold improvements	**88**	97	99
	Fixtures and fittings	**389**	418	423
	Computer equipment and software	**242**	259	257
	Machinery and vehicles	**20**	23	24
	Leased assets	**16**		
	Total charge for the period (refer to note 3)	**755**	798	807
25.4	**Fees payable**			
	Managerial, technical, administrative and secretarial fees paid outside the Group	**456**	158	139
	Outsourcing of IT function	**345**	317	298
		801	475	437

		2012 52 weeks to 31 March Rm	2011 52 weeks to 2 April Rm	2010 53 weeks to 3 April Rm
25.	**OTHER OPERATING COSTS** *(continued)*			
25.5	**Operating lease expenses**			
	Properties:			
	Minimum lease payments	**1 414**	1 312	1 193
	Turnover clause payments	**9**	13	23
	Operating lease adjustment	**3**	(2)	4
	Sublease rental income	**(47)**	(39)	(18)
	Equipment and vehicles	**187**	204	223
		1 566	1 488	1 425
25.6	**Net (loss)/gain on disposal of properties, fixtures, equipment and vehicles**	**(22)**	8	(23)
26.	**CREDIT INCOME AND EXPENSE**			
26.1	**Income from credit**			
	Finance charges on trade receivables	**2 113**	1 833	2 049
		2 113	1 833	2 049
26.2	**Expenses from credit**			
	Impairment of receivables incurred	**(985)**	(1 357)	(1 419)
	Impairment of receivables recoveries	**349**	336	264
	Net (increase)/decrease in provision for impairments on receivables (refer to note 10.3)	**(132)**	393	(81)
	Administration and other costs	**(575)**	(581)	(535)
		(1 343)	(1 209)	(1 771)
26.3	**Operating profit from credit**	**770**	624	278

	2012 52 weeks to 31 March Rm	2011 52 weeks to 2 April Rm	2010 53 weeks to 3 April Rm
27. DIRECTORS AND EMPLOYEES			
27.1 Employees			
The aggregate remuneration and associated cost of permanent and casual employees including directors was:			
Salaries and wages	**2 832**	2 392	2 209
Retirement benefit costs	**278**	258	235
Medical aid contributions:			
Current	**59**	62	58
Post-retirement	**6**	7	6
	3 175	2 719	2 508

	2012 52 weeks to 31 March R 000	2011 52 weeks to 2 April R 000	2010 53 weeks to 3 April R 000
27.2 Directors' and prescribed officers remuneration	**Directors and prescribed officers**	Directors	Directors
Non-executive directors:			
Fees	**326**	295	295
	326	295	295
Executive directors and prescribed officers:			
Remuneration	**31 803**	11 536	11 645
Retirement, medical, accidental and death benefits	**2 848**	508	480
Bonuses	**22 780**	350	350
Other benefits	**95**	92	82
	57 526	12 486	12 557
Retired ex-directors	**80**	76	72
Total	**57 932**	12 857	12 924

Prescribed Officers are members of the executive committee.

	2012 52 weeks 31 March Rm	2011 52 weeks to 2 April Rm	2010 53 weeks to 3 April Rm
27. DIRECTORS AND EMPLOYEES *(continued)*			
27.3 Defined Benefit Pension Plan			
Edcon Pension Fund			
Actuarially determined amounts in profit or loss:			
Current service cost	**-**	-	-
Interest received	**-**	-	-
Net loss recognised in profit or loss	**-**	-	-

The contribution for the 2013 financial period is estimated to be approximately R1 million.

Actuarially determined amounts in other comprehensive income:			
Actuarial gain/(loss) on plan assets	**71**	(11)	66
Actuarial gain/(loss) on defined benefit obligation	**(320)**	(6)	(59)
Change in the effect of limiting the net benefit to the asset ceiling	**403**	17	(7)
Net amount recognised in other comprehensive income	**154**	-	-

27.3.1 Analysis of net defined benefit asset – pension fund (Rm)			
Defined benefit obligation	**(808)**	(494)	(490)
Fair value of plan assets	**1 075**	966	941
Effect of the asset ceiling	**(113)**	(472)	(451)
Net asset	**154**	-	-

The Edcon Pension Fund is a defined benefit fund that offers, amongst other benefits, a pension of 2% of final pensionable salary per year of service at retirement. A statutory valuation of the Fund was carried out by an independent firm of consulting actuaries on 31 December 2002 using the projected unit method of valuation. The actuarial value of liabilities for all pensioners and members was determined at R328 million and the contingency reserves were determined at R60 million. The fair value of assets calculated by reference to the market value was R644 million. The fund was accordingly fully funded and showed a surplus of R256 million. The company is required to contribute at a rate of 19.1% of salaries.

In the current period an actuarial estimate was performed using the projected unit credit method, and the fair value of the assets and liabilities is reflected above. The actuarial estimate was based on the principle assumptions as set out in note 27.3.6.

	2012 52 weeks to 31 March Rm	2011 52 weeks to 2 April Rm	2010 53 weeks to 3 April Rm

27. DIRECTORS AND EMPLOYEES *(continued)*

27.3 Defined Benefit Pension Plan *(continued)*

The main risks associated with the Fund are as follows:

- Risk of underfunding. The Fund is currently in a significant surplus position
- Longevity risk: The Fund has purchased annuities from a registered insurer to provide monthly pensions to pensioners
- Risk of insurer default on pension payments: Should the insurer default on the pension payments, the Fund would still be liable for the monthly pensions.

27.3.2 Reconciliation of defined benefit obligation – pension fund

	2012 Rm	2011 Rm	2010 Rm
Balance at the beginning of the period	**494**	490	440
Current service cost	**-**	-	-
Interest received	**43**	45	38
Actuarial loss due to demographic assumptions	**-**	-	-
Actuarial loss due to financial adjustments	**320**	6	59
Benefits paid	**(49)**	(47)	(47)
Balance at the end of the period	**808**	494	490

27.3.3 Reconciliation of fair value plan assets – pension fund

	2012 Rm	2011 Rm	2010 Rm
Balance at the beginning of the period	**966**	941	850
Interest received	**87**	85	71
Employer contributions	**1**	1	1
Benefits paid	**(49)**	(47)	(47)
Actuarial gain/(loss)	**71**	(11)	66
Expenses and premiums	**(1)**	(3)	
Balance at the end of the period	**1 075**	966	941
Composition quoted vs unquoted portfolio:			
Cash	**291**	290	326
Equity	**12**	8	121
Bonds	**224**	208	3
International offshore assets	**-**	2	7
Property and other	**548**	458	484
	1 075	966	941

27.3.4 Reconciliation of the effect of the asset ceiling – pension fund

	2012 Rm	2011 Rm	2010 Rm
Balance at the beginning of the period	**473**	451	410
Interest on asset ceiling	**43**	30	33
Change in the effect of limiting the net defined benefit asset to the asset ceiling	**(403)**	(9)	(8)
Balance at the end of the period	**113**	472	435

27. DIRECTORS AND EMPLOYEES *(continued)*

27.3 Defined Benefit Pension Plan *(continued)*

27.3.5 Surplus apportionment – pension fund

As reported in the previous period, proposals were submitted to the Financial Services Board (FSB) in 2002 to offer pensioners an enhanced pension in exchange for assuming all their medical aid liabilities. Similarly, a portion of the surplus was to be utilised to pay the lump sum to medical aid members' provident fund accounts to meet the existing post-retirement medical aid liability for service rendered to date.

The FSB did not accept the proposal and therefore a formal surplus apportionment scheme was prepared in accordance with Section 15B of the Pension Fund Act. The aim of the scheme was to distribute the surplus as at 31 December 2002 between the various stakeholders of the fund. This surplus scheme was submitted to the Financial Services Board for consideration in January 2011 and it was approved in February 2012.

The surplus scheme showed a total surplus of R256 million as at 31 December 2002, which corresponds with the statutory valuation of the fund at the same date. Of this surplus, Edcon Proprietary Limited was apportioned R100 million and members and former members were apportioned R156 million.

The surplus apportioned to members and former members has been increased with the returns earned on the surplus assets since the surplus apportionment scheme to date an amount of R232 million. This amount has been added to the liabilities and has therefore led to an actuarial loss on the liabilities of R232 million.

The surplus apportioned to the company has increased with the returns earned on the surplus assets since the surplus apportionment date and adjusted for estimated amounts of surplus utilised by the company after the surplus apportionment date to amount to R151 million.

In previous periods the asset ceiling to be recognised on the statement of financial position limited the asset to Rnil as the Group was not entitled to any of the surplus in the fund. Following the approval of the surplus scheme the Group is entitled to the amount that was apportioned to the employer surplus account, which was estimated to be R151 million. In addition, the economic benefit available to the company as a refund in future contributions, as described in Paragraph 20 of IFRIC 14, was determined to be R3 million. The total asset ceiling to be recognised on the statement of financial position therefore amounts to R154 million (2011: Rnil and 2010: Rnil). This has led to a reduction in the asset ceiling as shown in 27.3.4 above.

27.3.6 Valuation assumptions used – pension fund

The valuation is based on assumptions which include a discount rate of 8.25% (2011: 9.25% and 2010: 9.25%) per annum, an inflation rate and pension increase rate of 5.5% (2011: 6% and 2010: 5.5%) per annum, a salary increase rate of 6.5% (2011: 7% and 2010: 6.5%) per annum. The discount rate is determined with reference to market yields at the reporting date. The market yield is determined with reference to the yield curve for South African government bonds. The inflation rate is in line with the Government Monetary Policy target of 3% to 6% (2011 and 2010: 3% to 6%). The inflation rate assumed is used to determine both the salary and pension rate increases. The salary increase is based on the assumption that the increase will be 1% above inflation. The Fund has adopted a pension increase policy that targets 100% of inflation and, as a result, a pension increase of 5.5% is used in the valuation.

The duration of the active liabilities is approximately 23 years. This excludes the pensioners who are outsourced with an insurer, through the purchase of annuities from a registered insurer.

Sensitivity of Defined Benefit Obligation to Key Assumptions as at 31 March 2012:

Main result	Discount rate + 1%	Discount rate – 1%
Rm	Rm	Rm
809	805	814

Main result	Inflation+ 1%	Inflation – 1%
Rm	Rm	Rm
809	814	805

27. DIRECTORS AND EMPLOYEES *(continued)*

27.3.6 Valuation assumptions used – pension fund *(continued)*

The defined benefit obligation is largely insensitive to changes in the assumptions as the majority of the liabilities are in respect of outsourced pensioners, where the liabilities have been set equal to the annuity values provided by the insurer.

The sensitivity results above were calculated using an approximate formula to estimate the impact of a change in the assumptions.

27.4 Defined Contribution Plans

Contributions to the Group's significant defined contribution funds are at a rate of 17.3% of benefit salary and where funds are contributory, members pay a maximum of 7,5%. The employer's portion is charged against profit or loss.

Separate funds, independent of the Group, provide retirement and other benefits for all permanent employees and their dependants. During the period there were three defined contribution funds of significance, namely Edcon Provident Fund, SACCAWU National Provident Fund and FEDCRAW Provident Fund. A defined contribution fund is available to employees in Namibia and Botswana, Edcon Namibia Retirement Fund and Edcon Botswana Retirement Fund.

	Pensioners Number	Members Number	Contributions Rm
Membership of, and employer contributions to each of the funds were:			
2012 at 31 March			
Edcon Pension Fund	**1 067**	**15**	**1**
Edcon Provident Fund		**15 306**	**241**
Edcon Namibia Retirement Fund		**645**	**2**
Botswana Retirement Fund		**409**	**1**
SACCAWU National Provident Fund		**1 182**	**6**
FEDCRAW Provident Fund		**225**	**2**
Swaziland Provident Fund		**525**	**-**
	1 067	**18 307**	**253**
2011 at 2 April			
Edcon Pension Fund	1 141	17	1
Edcon Provident Fund		14 556	217
Edcon Namibia Retirement Fund		600	2
Botswana Retirement Fund		300	1
SACCAWU National Provident Fund		1 297	6
FEDCRAW Provident Fund		134	2
	1 141	16 904	229
2010 at 3 April			
Edcon Pension Fund	1 130	22	1
Edcon Provident Fund		15 037	209
Edcon Namibia Retirement Fund	13	210	1
Botswana Retirement Fund		192	1
SACCAWU National Provident Fund		1 007	6
FEDCRAW Provident Fund		390	3
	1 143	16 858	221

All funds are subject to the Pension Funds Acts of the various countries and, where required by law, actuarial valuations are conducted every three years. The market value of investments of the various Edcon funds as at 31 March 2012 was R3 512 million (2011 and 2010: R3 430 million and R2 863 million).

27. DIRECTORS AND EMPLOYEES *(continued)*

27.5 Medical aid fund

The Group operates a defined benefit medical aid scheme for the benefit of permanent employees. Effective 1 January 2012 the Group amalgamated this scheme with Discovery Health. The contributions of the short-term benefit for current employees amounted to R59 million for the period ending 31 March 2012 (2011 and 2010: R62 million and R58 million). Membership of the medical aid scheme is voluntary for all employees. Total membership currently stands at 4 544 principal members.

In terms of employment contracts and the rules of the schemes, certain post-retirement medical benefits are provided to 1 412 current and past employees by subsidising a portion of the medical aid contribution of members, after retirement. The medical aid payments for these employees for 2013 are estimated to be approximately R7 million. The actuarial valuation was based on the main assumptions set out in note 27.5.3.

	2012 52 weeks to 31 March Rm	2011 52 weeks to 2 April Rm	2010 53 weeks to 3 April Rm
27.5.1 Edcon Medical Aid			
Actuarially determined amounts in profit or loss:			
Current service cost	**3**	3	3
Financing costs	**11**	19	5
	14	22	8
Actuarially determined amounts in other comprehensive income :			
Actuarial loss/(gain)	**38**	-	-
Net amount recognised in other comprehensive income	**38**	-	-

27.5.2 The status of the Edcon Medical Aid Fund liability determined in terms of IAS 19 is as follows:

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
Recognised employee benefit liability	**182**	130	114
Reconciliation of employee benefit liability			
Balance at the beginning of the period	**130**	114	112
Current service cost	**3**	3	3
Financing cost	**11**	19	5
Actuarial loss/(gain)	**44**	-	-
Employee benefit payments	**(6)**	(6)	(6)
	182	130	114

27. DIRECTORS AND EMPLOYEES *(continued)*

27.5 Medical aid fund *(continued)*

27.5.3 Valuation Assumptions

Employee Benefit Liability Valuation Assumptions and Sensitivity

The valuation is based on assumptions which include a discount rate of 8.25% (2011 and 2010 : 9% and 9,3%) per annum, inflation rate of 5.5% (2011 and 2010 : 5,8% and 5,5%) per annum, income at retirement would increase by 7% (2011 and 2010: 7.25%) per annum, demographic assumptions based on a standard set of best estimate demographic assumptions, membership continuation and expected retirement age. The discount rate is determined with reference to market yields at the statement of financial position date. The market yield is determined with reference to the yield curve for South African government bonds. The inflation rate is in line with the Government Monetary Policy target of 3% to 6% (2011 and 2010: 3% to 6%). It was assumed that health care cost inflation would be the same as CPI inflation and that remuneration increases, including promotional increases would exceed inflation by 1,5% over the long-term and that income at retirement would be 60% of final salary. It was further assumed that no current in-service members eligible for benefits would discontinue membership upon reaching retirement with Edcon and that they would retire on their current medical scheme option and no changes would occur on retirement. An expected retirement age of 63 was used in the valuation with assumed rates of early retirement.

The valuation results are extremely sensitive to the assumptions used. The value of the liability could turn out to be overstated or understated depending on the extent to which actuarial experience differs from the above assumptions.

The effect of a 1% increase or decrease would have the following effects:

	Central Assumption			**Decrease 1%**			**Increase 1%**		
	2012	2011	2010	**2012**	2011	2010	**2012**	2011	2010
Inflation (CPI and health care costs) sensitivity	**5.5%**	5.8%	5.5%						
Accrued liability – Rm	**182**	130	114	**158**	113	101	**212**	151	130
Current service and interest cost – Rm	**14**	13	13	**12**	11	11	**17**	15	15
Retirement age sensitivity	**63 years**			**One year younger**			**One year older**		
Accrued liability – Rm	**182**	130	114	**190**	135	119	**174**	124	110
Discount rate	**8.25%**	9%	9.3%	**Decrease 1%**			**Increase 1%**		
Accrued liability – Rm	**182**	130	114	**212**	150	130	**158**	113	101
Post employment mortality tables	**PA (90) ult rated down 1 year to 0.75% improvement p.a. from 2006**			**PA (90) ult rated down 2 years with 1% improvement p.a. from 2006**					
Accrued liability – Rm	**182**	130	114	**203**	136	119			

27.5.4 Analysis of employee benefit liability (Rm)

	2012	2011	2010
Accrued liability for post retirement medical aid	**182**	130	114

			2012 **52 weeks to** **31 March** **Rm**	2011 52 weeks to 2 April Rm	2010 53 weeks to 3 April Rm
28.	**FINANCING COSTS AND INTEREST RECEIVED**				
28.1	**Financing costs**				
	Interest on senior secured floating rate notes		**1 466**	808	992
	Interest on senior floating rate notes		**382**	302	427
	Interest on senior secured fixed rate notes		**465**	48	
	Interest on other facilities		**467**	457	615
	Interest on super senior secured term loan			9	
	Interest on super senior secured term notes		**119**		
	Interest accrued on shareholder's loan (note 16)		**765**	843	849
	Fees amortised on senior secured floating rate notes (note 17.2)		**44**	37	31
	Fees amortised on senior floating rate notes (note 17.3)		**14**	12	11
	Fees amortised on senior secured fixed rate notes (note 17.4)		**16**	4	
	Employee benefits		**15**	13	13
	Foreign currency losses		**3**	24	6
	Forward exchange contracts			-	2
			3 756	2 557	2 946
28.2	**Interest received**				
	Interest received from independent third parties		**68**	60	31
	Employee benefits		**-**	-	-
	Total interest received		**68**	60	31
28.3	**Net financing costs**		**3 688**	2 497	2 915
29.	**TAXATION**				
29.1	**Taxation charge**				
	Current taxation	- this year	**118**	109	124
		- prior year	**19**	23	12
	Secondary taxation on companies	- this year			9
	Total current taxation		**137**	132	145
	Deferred taxation	- this year	**(490)**	(696)	(502)
		- prior years	**(5)**	3	(13)
		- capital gains tax inclusion rate change	**362**		
	Total deferred taxation credit		**(133)**	(693)	515
	Total		**4**	(561)	(370)
	Comprising:				
	South African normal taxation		**(114)**	(650)	(435)
	Secondary taxation on companies				9
	Foreign taxes		**118**	89	56
			4	(561)	(370)

		2012 52 weeks to 31 March Rm	2011 52 weeks to 2 April Rm	2010 53 weeks to 3 April Rm
29.	**TAXATION** *(continued)*			
29.2	**Taxation charge to other comprehensive income Current income tax related to items charged or credited directly to other comprehensive income:**			
	Unrealised gain on cash flow hedges	**5**	(27)	(11)
	Deferred income tax related to items charged or credited directly to other comprehensive income:			
	Unrealised gain on cash flow hedges	**(42)**	(42)	(12)
	Employee benefits	**32**		
	Income tax expense reported in other comprehensive income	**(5)**	(69)	(23)
29.3	**Deferred income tax comprises:**			
	Arising on deferred tax assets (note 8)			
	Provision for impairment of receivables	**(22)**	99	(38)
	Other payables	**(37)**	(6)	(3)
	Leave pay accrual	**(1)**	(1)	(4)
	Operating lease adjustment	**8**	1	(1)
	Interest rate swaps	**31**	(43)	(6)
	Assessed loss	**(332)**	(459)	(267)
	Other	**3**	(22)	(8)
	Arising on deferred tax liabilities (note 8)			
	Appro sales	**(13)**	(1)	(6)
	Property, fixtures, equipment and vehicles	**(38)**	(150)	(72)
	Intangible assets	**233**	(117)	(126)
	Prepayments	**-**	2	(2)
	Unearned finance income	**18**	1	38
	Interest rate swaps			(2)
	Revaluation reserve			(3)
	Deferred STC raised			(10)
	Other	**22**		8
		(128)	(696)	(502)
	Prior year adjustment	**(5)**	3	(13)
	Net deferred tax movement	**(133)**	(693)	(515)
29.4	**Reconciliation of rate of taxation (%)**			
	Standard rate – South Africa	**(28)**	(28)	(28)
	Adjusted for:			
	Equity accounted revenue of joint venture	**2**	1	1
	Disallowable expenditure	**4**		(1)
	Secondary taxation on companies	**-**	-	1
	Prior year charges	**1**	-	1
	Capital gain tax inclusion rate change	**18**		
	Foreign taxes	**3**	2	-
	Effective tax rate	**-**	(25)	(26)

29. TAXATION *(continued)*

29.5 Section 24I application

In terms of section 24I of the Income Tax Act, the ruling exchange rate to be used in determining the foreign exchange gains/losses on currency swaps, foreign currency forward contracts and forward exchange contracts (forward exchange contracts) on translation, is the market related forward rate for the remaining period of the forward exchange contract or such alternative rate used for accounting purposes in terms of IFRS, as prescribed by the Commissioner (“alternative rate”).

The Group approached the South African Revenue Service (“SARS”) during the 2008 financial year, requesting approval from the Commissioner to use such an alternative rate to determine foreign exchange gains/losses on its open forward exchange contracts. During the 2008 financial year, the movement in foreign exchange rates created large unrealised fair value gains on the revaluation of the forward exchange contracts. The impact is a timing difference over the life of the forward exchange contracts.

The Group is currently in the process of responding to further information requested by SARS, after various interactions and communication with SARS in which SARS initially denied the use of the alternative rate. Appropriate procedure is followed in attending to the queries and the matter will be escalated by SARS to their head office for further consideration.

Should the Group’s request for the use of the alternative rate be denied, the impact on the Group Financial Statements in the current period would be an increase in the taxation liability and an increase of the deferred taxation asset.

		2012 52 weeks to 31 March Rm	2011 52 weeks to 2 April Rm	2010 53 weeks to 3 April Rm
30.	**CASH FLOW**			
30.1	**Other non-cash items**			
	Net loss/(gain) on disposal of properties, fixtures, equipment and vehicles (note 25.6)	**22**	(8)	23
	Equity accounted investment in joint ventures	**(61)**	(6)	1
	Vat expense			2
	Operating lease adjustment	**3**	(2)	4
	Other non-cash items	**2**		8
	Employee benefit		16	2
	Deferred revenue	**80**		
		46	-	40
30.2	**Working capital movement**			
	(Increase)/decrease in inventories	**(543)**	(224)	138
	(Increase)/decrease in trade accounts receivable	**(1 094)**	(159)	731
	Increase in other receivables	**(135)**	(58)	(36)
	Increase in trade and other payables	**169**	372	119
		(1 603)	(69)	952
30.3	**Taxation paid**			
	Taxation liability at the beginning of the period	**(244)**	(236)	(470)
	Current taxation recognised in profit or loss (note 29.1)	**(137)**	(132)	(145)
	Current taxation recognised in other comprehensive income (note 29.2)	**(5)**	27	11
	Taxation liability at the end of the period	**241**	244	236
		(145)	(97)	(368)
30.4	**Investment to maintain operations**			
	Replacement of properties, fixtures, equipment and vehicles	**(559)**	(449)	(384)
	Proceeds on disposal of properties, fixtures, equipment and vehicles	**16**	100	120
		(543)	(349)	(264)
30.5	**Investment to expand operations**			
	Additions to leased premises	**(26)**	(7)	(21)
	Additions to properties, fixtures, equipment and vehicles	**(125)**	(18)	(68)
		(151)	(25)	(89)
30.6	**Increase in shareholder funding**			
	Share capital and share premium issued	**5**		
		5		
30.7	**Increase in super senior secured notes**			
	Increase in super senior secured notes	**1 010**		

		2012 52 weeks to 31 March Rm	2011 52 weeks to 2 April Rm	2010 53 weeks to 3 April Rm
30.	**CASH FLOW** *(continued)*			
30.8	**(Decrease)/increase long-term debt**			
	Senior secured fixed rate notes		4 781	
	Super senior secured term loan	**(985)**	985	
	Fees paid for senior secured fixed rate notes		(165)	
		(985)	5 601	
30.9	**Buy-back of senior floating rate notes**			
	Senior floating rate notes repurchased (note 17.2)	**(374)**		
	Discount on repurchase of senior floating rate notes	**36**		
		(338)		
30.10	**Proceeds from receivables-backed notes issued**			
	Receivables-backed notes issued (note 17 and 18)		1 400	4 300
	Repurchase of receivables-backed notes		(1 400)	
			-	4 300
30.11	**Increase/(decrease) in short-term debt**			
	Net increase/(decrease) in short-term debt	**751**	(350)	(4 950)
		751	(350)	(4 950)
30.12	**Decrease in capitalised finance lease**			
	Decrease in capitalised finance lease	**4**		
		4		
30.13	**(Decrease)/increase in cash and cash equivalents**			
	Cash on hand	**(1 105)**	299	838
	Cash on deposit	**(127)**	891	(92)
	Currency adjustments	**-**	11	28
		(1 232)	1 201	774

31. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

Financial assets by category

	Loans and receiva-bles Rm	**Fair value through other compre-hensive income Rm**	**Held to maturity invest-ments Rm**	**Available for sale Rm**	**Total Rm**
At 31 March 2012					
Derivative financial instruments (note 33.8)		**472**			**472**
Trade, other receivables and prepayments (note 10)	**10 426**				**10 426**
Cash and equivalents (note 11)	**1 083**				**1 083**
	11 509	**472**			**11 981**
At 2 April 2011					
Derivative financial instruments (note 33.8)		30			30
Trade, other receivables and prepayments (note 10)	9 195				9 195
Cash and cash equivalents (note11)	2 315				2 315
	11 510	30			11 540

31. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Financial assets by category *(continued)*

At 3 April 2010	Loans and receivables Rm	Fair value through other comprehensive income Rm	Held to maturity investments Rm	Available for sale Rm	Total Rm
Trade, other receivables and prepayments (note 10)	8 983				8 983
Cash and cash equivalents (note 11)	1 125				1 125
	10 108				10 108

Financial liabilities by category

	Financial liabilities at amortised cost Rm	Fair value through profit or loss	Fair value through other comprehensive income	Total Rm
At 31 March 2012				
Shareholder's loan (note 16)	**659**			**659**
Interest bearing debt (note 17)	**26 434**			**26 434**
Derivative financial instruments (note 33.8)			**860**	**860**
Trade and other payables (note 20)	**4 097**			**4 097**
Finance lease (note 19.2)	**329**			**329**
	31 519		**860**	**32 379**
At 2 April 2011				
Shareholder's loan (note 16)	8 184			8 184
Interest bearing debt (note 17)	24 440			24 440
Derivative financial instruments (note 33.8)		120	1 134	1 254
Trade and other payables (note 20)	3 878			3 878
	36 502	120	1 134	37 756
At 3 April 2010				
Shareholder's loan (note 16)	7 341			7 341
Interest bearing debt (note 17)	19 670			19 670
Derivative financial instruments (note 33.8)		3 332	578	3 910
Trade and other payables (note 20)	3 513			3 513
	30 524	3 332	578	34 434

32. MANAGEMENT OF CAPITAL

The Group considers share capital including ordinary and preference shares, share premium, the shareholder's loan, reserves and interest bearing debt as capital.

The shareholder's loan is considered to be capital as the amount is repayable in May 2037 and all interest is capitalised. The "A" and "B" preference shares are cumulative and redeemable at the option of the issuer and are therefore regarded as capital. The long-term interest bearing debt primarily consists of:

- Senior secured floating rate notes, maturing June 2014;
- Senior floating rate notes, maturing June 2015;
- Senior secured fixed rate notes, maturing March 2018;
- Super senior secured notes, maturing April 2016; and
- OtC receivables-backed notes, which mature between July 2012 and April 2017.

The senior secured floating rate notes and the senior floating rate notes were issued to finance the purchase of Edgars Consolidated Stores Limited and as such are regarded as permanent capital. The senior secured fixed rate notes and the super senior secured term loan were issued during the prior period to finance the settlement of the negative mark-to-market positions on the foreign currency swap contracts, which hedged the foreign currency exposure on the principal of the senior secured and the senior floating rate notes. The super senior secured notes were issued during the current period to repay the super senior secured term loan.

The objectives in managing this capital are to:

- Ensure appropriate access to equity debt markets.
- Ensure sufficient resilience against economic turmoil.
- Safeguard the Group's ability to continue as a going concern, be flexible and take advantage of opportunities that are expected to provide an adequate return to shareholders.
- Optimise weighted average cost of capital, given inherent constraints.

The Group manages its capital and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the current period.

The notes and banking facilities contain substantially the same covenants and events of default. These are set out in the Offering Memorandum for the floating rate notes dated 8 June 2007, the OtC Programme Memorandum dated 3 August 2009, the Offering Memorandum for the senior secured fixed rate notes dated 22 February 2011 and the programme memorandum the super senior secured notes dated 31 March 2011. During the period there have been no defaults.

The Group takes cognisance of select rating agency ratios that evaluate the ability of the capital to absorb losses and the flexibility that a combination of capital instruments provide. The value placed on the corporate rating is important as the Group has issued notes on the Irish Stock Exchange and the Johannesburg Securities Exchange.

33. FINANCIAL RISK MANAGEMENT

33.1 Treasury risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to moderate certain risk exposures.

33. FINANCIAL RISK MANAGEMENT *(continued)*

33.1 Treasury risk management *(continued)*

A treasury workgroup consisting of senior executives meets on a regular basis to update treasury policies and objectives, analyse currency and interest rate exposures and re-evaluate treasury management strategies against revised economic forecasts. Compliance with Group Treasury policies and objectives of the Board and exposure limits is reviewed at meetings of the Risk Management Workgroup.

33.2 Hedging Strategy

The foreign denominated floating and fixed rate notes expose the Group to both interest rate risk and/or foreign exchange risk. The Group has executed the following hedging strategy:

Euro Denominated Senior Secured Floating Rate Notes due 2014

From June 2007 to February 2011

- A series of interest rate swaps were entered into at a swap rate of pay of 4.529% fixed, receive three months EURIBOR, quarterly. Settlement dates match the quarterly payment dates for coupons on the notes up to 15 June 2011. The transaction hedges the interest rate risk on the cash flows occurring during the first four years of the senior secured floating rate notes (refer to note 17) and was designated as a cash flow hedge.

- A series of foreign currency forward contracts were entered into to buy EUR and sell ZAR corresponding to the EUR scheduled payments on the fixed leg of the interest rate swap above at each payment date up to 15 June 2011. Settlement dates match the payment dates of the interest rate swap. These foreign currency forward contracts therefore hedge the EUR/ZAR currency risk on the combined cash flows of the interest rate swap and the first four years of anticipated interest payments on the senior secured floating rate notes and were designated as a cash flow hedge.

- A foreign currency swap was entered into to hedge the repayment of the €1,180 million principal on the senior secured floating rate notes and matures on 15 June 2012. This swap was early-settled, and its mark-to-market position extinguished, on 2 March 2011.

February 2011 onwards

- Cross currency swaps were entered into which, (i) protect against interest rate variability in future interest cash flows on liabilities, (ii) protect against variability in future interest cash flows that are subject to fluctuations based on foreign exchange rates, and (iii) hedges the repayment of €963 million in principal on the notes to 15 March 2014 and €178 million to 15 June 2014. The hedges create an effective annual average fixed interest rate of 13.96% over the period of cover. The cross currency swaps have been designated as a cash flow hedge.

Euro Denominated Senior Floating Rate Notes due 2015

From June 2007 to February 2011

- A series of interest rate swaps were entered into at a swap rate of pay of 4.529% fixed, receive three months EURIBOR, quarterly. Settlement dates match the quarterly payment dates for coupons on the notes up to 15 June 2011. The transaction hedges the interest rate risk on the cash flows occurring during the first four years of the senior floating rate notes (refer to note 17) and was designated as a cash flow hedge.

33. FINANCIAL RISK MANAGEMENT *(continued)*

33.2 Hedging Strategy *(continued)*

Euro Denominated Senior Floating Rate Notes due 2015 *(continued)*

From June 2007 to February 2011 (continued)

- A series of foreign currency forward contracts were entered into to buy EUR and sell ZAR corresponding to the EUR scheduled payments on the fixed leg of the interest rate swap above at each payment date. Settlement dates match the payment dates of the interest rate swap. These foreign currency forward contracts hedge the EUR/ZAR currency risk on the combined cash flows of the interest rate swap and the first four years of anticipated interest payments on the senior floating rate notes and were designated as a cash flow hedge.

- A foreign currency swap was entered into to economically hedge the repayment of the €378 million principal on the senior floating rate notes and matures on 15 June 2012. This swap was early-settled, and its mark-to-market position extinguished, on 2 March 2011.

From February 2011 onwards

- Based on a notional value of €303 million, an interest rate swap was entered into at a swap rate of pay of 2.3437% fixed, receive three months EURIBOR, quarterly. Settlement dates match the quarterly payment dates for coupons on the notes up to 15 March 2014. The transaction hedges the interest rate risk on the cash flows occurring during the three years of the senior floating rate notes (refer to note 17) and have been designated as a cash flow hedge.

- Based on a notional value of €303 million, a series of foreign currency forward contracts were entered into to buy EUR and sell ZAR corresponding to the EUR scheduled payments on the fixed leg of the interest rate swap above at each payment date up to 15 March 2014. Settlement dates match the payment dates of the interest rate swap. These foreign currency forward contracts therefore hedge the EUR/ZAR currency risk on the combined cash flows of the interest rate swap and the three years of anticipated interest payments on the senior floating rate notes and have been designated as a cash flow hedge.

- A cross currency swap was entered into which, (i) protects against interest rate variability in future interest cash flows on liabilities, (ii) protects against variability in future interest cash flows that are subject to fluctuations based on foreign exchange rates, and (iii) hedges the repayment of €75 million in principal on the notes to 15 March 2014. The hedges create an effective annual average fixed interest rate of 17.29% over the period of cover. The cross currency swaps have been designated as a cash flow hedge.

Euro Denominated Senior Secured Fixed Rate Notes due 2018

- A series of cross currency swaps were entered into which protect against variability in future interest cash flows that are subject to fluctuations based on foreign exchange rates. The notional value of the hedge is €317 million and provides cover on the coupon of the notes up to 15 March 2014. The hedges create an effective annual average fixed interest rate of 10.86% over the period of cover. The cross currency swaps have been designated as a cash flow hedge.

33. FINANCIAL RISK MANAGEMENT *(continued)*

33.2 Hedging Strategy *(continued)*

US Dollar Denominated Senior Secured Fixed Rate Notes due 2018

- A cross currency swap was entered into which protects against variability in future interest cash flows that are subject to fluctuations based on foreign exchange rates. The notional value of the hedge is $190 million and provides cover on the coupon of the notes up to 15 March 2014. The hedge creates an effective annual average fixed interest rate of 10.99% over the period of cover. The cross currency swap has been designated as a cash flow hedge.

- A series of foreign currency forward contracts were entered into, with a notional value of $60 million, to buy USD and sell ZAR corresponding to the USD scheduled fixed rate interest payments on the senior secured 9.5% fixed rate notes at each payment date. These foreign currency forward contracts have been designated as a cash flow hedge.

33.3 Sensitivity analysis

33.3.1 Sensitivity analysis of non derivative financial liabilities

The Group recognises that movements in certain risk variables (such as interest rates or foreign exchange rates) might impact the value of its variable rate financial liabilities and also the amounts recorded in its other comprehensive income and its profit or loss for the period. Therefore the Group has assessed:
(a) what would be reasonably possible changes in the risk variables at the reporting date and
(b) the effects on profit or loss and other comprehensive income if such changes in the risk variables were to occur.

The sensitivity analysis takes into account the incremental change in value arising from a parallel fall or rise in the interest rate and the exchange rate. The following table shows the approximate interest rate and exchange rate sensitivities of variable rate financial liabilities and the resulting impact on profit or loss, and other comprehensive income for financial liabilities held at the reporting date:

Floating rate liabilities	Index	Sensitivity	Other Comprehensive income Rm	Profit or loss effect Rm
ZAR denominated	JIBAR	-50bps		25
	JIBAR	+50bps		(25)
EUR denominated	EUR-ZAR	-10%		638
	EUR-ZAR	-5%		319
	EUR-ZAR	5%		(319)
	EUR-ZAR	10%		(638)
USD denominated	USD-ZAR	-10%		193
	USD-ZAR	-5%		96
	USD-ZAR	5%		(96)
	USD-ZAR	10%		(193)

The impact of changes in interest rates on profit or loss relating to the foreign denominated senior secured floating rate notes and the senior floating rate notes, after considering the effect of the hedging instruments which hedge the coupon payments, is nil.

33. FINANCIAL RISK MANAGEMENT *(continued)*

33.3 Sensitivity analysis *(continued)*

33.3.2 Sensitivity analysis of derivatives

The Group recognises that movements in certain risk variables (such as interest rates or foreign exchange rates) might impact the value of its derivatives and also the amounts recorded in its other comprehensive income and its profit or loss for the period. Therefore the Group has assessed:
(a) what would be reasonably possible changes in the risk variables at the reporting date and
(b) the effects on profit or loss and other comprehensive income if such changes in the risk variables were to occur.

The sensitivity analysis takes into account the incremental change in value arising from a parallel fall or rise in the yield curve and the exchange rate.

The following table assumes all designated hedges will change in fair value through other comprehensive income, and considers sensitivities to forward interest rate curves, of +/- 50 and +/-100 basis points respectively. If these sensitivities were to occur, the impact on the profit or loss, and other comprehensive income for each category of financial instrument held at the reporting date is shown below:

	Index	Sensitivity	Derivative asset / (liability) Rm	Other comprehensive income Rm	Profit or loss effect Rm
Interest rate swaps	EURIBOR	-100bps	(56)	56	
	EURIBOR	-50bps	(27)	27	
	EURIBOR	+50bps	27	(27)	
	EURIBOR	+100bps	53	(53)	
Cross currency swaps	EURIBOR	-100bps	(220)	220	
	EURIBOR	-50bps	(103)	103	
	EURIBOR	+50bps	102	(102)	
	EURIBOR	+100bps	202	(202)	
Cross currency swaps	EUR-ZAR	-10%	(1 384)	1 384	
	EUR-ZAR	-5%	(692)	692	
	EUR-ZAR	5%	692	(692)	
	EUR-ZAR	10%	1 384	(1 384)	
Cross currency swaps	USD-ZAR	-10%	(27)	27	
	USD-ZAR	-5%	(14)	14	
	USD-ZAR	5%	14	(14)	
	USD-ZAR	10%	27	(27)	
Foreign currency forward contracts	EUR-ZAR	-10%	(45)	45	
	EUR-ZAR	-5%	(23)	23	
	EUR-ZAR	5%	23	(23)	
	EUR-ZAR	10%	46	(46)	
Foreign currency forward contracts	USD-ZAR	-10%	(8)	8	
	USD-ZAR	-5%	(4)	4	
	USD-ZAR	5%	4	(4)	
	USD-ZAR	10%	8	(8)	

33. FINANCIAL RISK MANAGEMENT *(continued)*

33.4 Foreign currency management

Material forward exchange contracts at 31 March 2012 are summarised below. Currency options are only purchased as a cost-effective alternative to forward exchange contracts. Currently no currency options are in place.

	Foreign currency m	Derivative fair value Rm	Contract equivalent Rm	Average rate %
Foreign currency exposure against Rand hedged import forward orders				
2012 US dollar	**50**	**26**	**407**	**8,14**
2011 US dollar	46	12	328	7,12
2010 US dollar	40	(11)	303	7,66
Foreign currency exposure against Rand hedged notes				
2012 Euro	**1 682**	**(297)**[1]	**16 557**	**9,84**
2012 US dollar	**53**	**(8)**	**399**	**7,51**
2011 Euro	1 882	(1 088)[1]	18 655	9,92
2011 US dollar	81	(55)	603	7,46
2010 Euro	1 723	(3 332)	23 762	13,79

[1] *Included in the fair value are cross currency swaps of R224 million (2011: R778 million) hedging the senior secured floating rate notes and R24 million (2011: R67 million) hedging the senior floating rate notes, which also hedges the interest rate risk on the floating rate notes.*

The Group, in terms of approved policy limits, manages short-term foreign currency exposures relating to trade imports and exports. Net uncovered Rand transaction exposures to the US dollar at 31 March 2012 amounted to Rnil million (2011 and 2010: Rnil million and R2 million). The Group policy is to restrict the net aggregate cover to between 80% and 120% of total foreign order exposure.

At 31 March 2012, in respect of future import commitments, if the South African Rand had weakened 5% against the US dollar, with all other variables held constant, profit or loss for the period would have increased by R19 million from revaluation of forward exchange contracts (2011 and 2010: R15 million and R16 million). Conversely at 31 March 2012, in respect of future import commitments, if the South African Rand had strengthened by 5% against the US dollar, with all other variables held constant, profit or loss for the period would have decreased by R19 million from revaluation of forward exchange contracts (2011 and 2010: R15 million and R16 million). Changes in the Rand/US dollar exchange rates of foreign currency creditors are largely offset by fair value changes on the forward exchange contracts.

The principal on the floating rate notes up to a nominal of EUR1 216 million, have been cash flow hedged through a cross currency swap (refer to note 7). The interest cash flows payable quarterly on notes maturing 2014 and 2015, and semi-annually for notes maturing in 2018, have been comprehensively hedged to 15 March 2014, and proportionally hedged to 15 June 2014 (Refer to note 7 and 33.2).

Gains and losses on translation of the floating and fixed rate notes will be offset by foreign exchange gains and losses on the cross currency swaps to the extent hedges are in place. At 31 March 2012, in respect of the notes exposures, if the South African Rand had weakened 5% against the Euro and US dollar, with all other variables held constant, profit or loss for the period would have decreased by R1 035 million (2011 and 2010: R977 million and R765 million respectively). Conversely, at 31 March 2012, in respect of the notes exposures, if the South African Rand had strengthened 5% against other currencies, with all other variables held constant, profit or loss for the period would have increased by R1 035 million (2011 and 2010: R977 million and R765 million respectively).

33. FINANCIAL RISK MANAGEMENT *(continued)*

33.5 Interest rate management

As part of the process of managing the Group's fixed and floating rate interest bearing debt and cash and cash equivalents mix, the interest rate characteristics of new and the refinancing of existing loans are positioned according to expected movements in interest rates. The maximum interest rate exposure and the repricing profile at 31 March 2012 is summarised as follows:

	Fixed Rate		Floating Rate	
	Short-term Rm	**Long-term Rm**	**Short-term Rm**	**Long-term Rm**
2012				
Interest-bearing debt		**4 781**	**2 901**	**17 656**
Rate %		**Refer to note 17**	**Refer to note 18**	**Refer to note 17**
2011				
Interest-bearing debt		4 781		20 150
Rate %		Refer to note 17		Refer to note 17
2010				
Interest-bearing debt	170		625	18 720
Rate %	9.1%		Refer to note 17 and 18	Refer to note 17

At 31 March 2012, if all interest rates on local borrowings had been 100 basis points lower, with all other variables held constant, profit or loss would have been R55 million (2011 and 2010: R45 million and R62 million) higher. Conversely, at 31 March 2012, if all interest rates on local borrowings had been 100 basis points higher with all other variables held constant, profit or loss would have been R55 million (2011 and 2010: R45 million and R62 million) lower.

At 31 March 2012, if all interest rates on interest-bearing trade receivables and short-term cash investments at that date had been 100 basis points lower, with all other variables held constant, profit or loss would have been R102 million (2011 and 2010: R101 million and R103 million) lower. Conversely, at 31 March 2012, if all interest rates at that date had been 100 basis points higher, with all other variables held constant, the profit or loss would have been R102 million (2011 and 2010: R101 million and R103 million) higher. This sensitivity is due to the high value of trade receivables attracting the Usury rate interest income.

As at 31 March 2012 the cash held on deposit and investments is as follows:

	Total Rm	**Floating rate Rm**
2012		
Cash on deposit and investments by currency		
US dollar	**6**	**6**
Euro	**1**	**1**
Sterling	**5**	**5**
Botswana Pula	**9**	**9**
Zambian kwacha	**4**	**4**
South African Rand	**1 058**	**1 058**
2011		
Cash on deposit and investments by currency		
US dollar	16	16
Euro	515	515
Sterling	(4)	(4)
Botswana Pula	46	46
South African Rand	1 742	1 742
2010		
Cash on deposit and investments by currency		
US dollar	36	36
Sterling	5	5
Botswana Pula	14	14
South African Rand	1 070	1 070

33. FINANCIAL RISK MANAGEMENT *(continued)*

33.5 Interest rate management *(continued)*

The following interest rate swaps and cross currency swaps are in place to hedge against interest payment exposures:

	Notes notional amount hedged Rm			Notes fixed interest % payable			Fair value of the interest rate hedges Rm		
	2012	2011	2010	**2012**	2011	2010	**2012**	2011	2010
Pay fixed / receive floating interest rate hedges > 1 year-Senior secured floating rate notes	**10 890**	11 259	11 259	**13.96**	13.98[1]	7.78	**224**[2]	854[2]	438
Pay fixed / receive floating interest rate hedges > 1 year-Senior floating rate notes									
• Cross currency swaps	**714**	714		**17.29**	17.29		**24**[2]	67[2]	
• Interest rate swaps	**2 892**	2 892	3 606	**9.58**	9.58[1]	10.03	**84**	6	140
Pay fixed / receive fixed interest rate hedges > 1 year-Senior secured fixed rate notes (Euro tranche)	**3 044**	3 044		**10.86**	10.86		**10**	58	
Pay fixed / receive fixed interest rate hedges > 1 year-Senior secured fixed rate notes (USD tranche)	**1 320**	1 320		**10.99**	10.99		**2**	38	

Refer to note 33.2 for details of hedging strategy.

[1] *Effective rate from 16 June 2011. There is still one payment due in June 2011 with an effective rate of 10.03% on the 2015 Senior floating rate notes and 7.78% on the 2014 Senior secured floating rate notes.*

[2] *Included in the fair value are cross currency swaps of R224 million (2011: R778 million), hedging the Senior secured floating rate notes and R24 million (2011: R67 million), hedging the Senior floating rate notes, which also hedges the foreign currency risk on the principle on the floating rate notes (refer to note 33.4).*

33.6 Credit risk management

Maximum exposure to credit risk is represented by the carrying amounts of derivative assets, trade accounts receivable and short-term cash investments in the Group statement of financial position. The Group only deposits short-term cash surpluses with financial institutions of high-quality credit standing. Credit limits per financial institution are established at the treasury meeting and are approved at the Audit and Risk Workgroup. Trade accounts receivable comprise a large, widespread customer base and risk exists on delinquent accounts and possible defaults by customers. The Group performs ongoing credit evaluations of the financial condition of customers. The granting of credit is controlled by application and behavioural scoring models, and the assumptions therein are reviewed and updated on an ongoing basis.

At 31 March 2012, the Group did not consider there to be any concentration of credit risk.

The derivatives are held with four counterparties of high credit worthiness. The credit worthiness is assessed on a regular basis. At period end all counterparties were classified as investment grade.

33. FINANCIAL RISK MANAGEMENT *(continued)*

33.7 Liquidity risk

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
The Group has minimised risk of working capital illiquidity as shown by its substantial banking facilities and reserve borrowing capacity.			
Total banking and loan facilities	**7 605**	7 605	7 988
Actual borrowings (notes 17 and 18)	**(5 051)**	(4 300)	(4 650)
Unutilised borrowing facilities	**2 554**	3 305	3 338
Total banking and loan facilities of the Group comprise:			
Revolving credit facility – Tranche A	**650**	650[2]	
Revolving credit facility – Tranche B1	**250**	250	3 500[4]
Revolving credit facility – Tranche B2	**2 217[1]**	2 217[3]	
OtC receivables-backed notes	**4 300**	4 300	4 300
Receivable purchase facility	**43**	43	43
OtC liquidity facility	**145**	145	145
	7 605	7 605	7 988

[1]Includes R1 450 million ancillary facilities.
[2]Includes R350 million ancillary facilities.
[3]Includes R1 750 million ancillary facilities.
[4]Includes R2 250 million ancillary facilities.

The maturity dates of the facilities are:

		2012	2011	2010
• Revolving credit facility	- Tranche A	June 2012	June 2012	June 2012
	- Tranche B1	December 2013	December 2013	
	- Tranche B2	March 2014	March 2014	
• Revolving credit ancillary facilities		Reviewed annually	Reviewed annually	Reviewed annually
• OtC receivables-backed notes (note 17.5)		July 2012 to April 2017	July 2012 to April 2017	July 2010 to April 2014
• Receivables purchase facility		April 2017	April 2017	April 2014
• OtC liquidity facility		April 2017	April 2017	April 2014

33.7.1 Maturity analysis of derivative financial instruments' cash flows

	2012	2011	2010
Cash outflows			
Due within one year	**2 561**	2 580	2 282
Total due within one year	**2 561**	2 580	2 282
After one year but within two years	**12 741**	2 472	545
After two years but within three years	**1 810**	12 536	21 623
After three years but within four years		1 810	
Total due after one year	**14 551**	16 818	22 168
Total	**17 112**	19 398	24 450
Cash inflows			
Due within one year	**1 326**	1 443	1 337
Total due within one year	**1 326**	1 443	1 337

33. FINANCIAL RISK MANAGEMENT *(continued)*

33.7 Liquidity risk *(continued)*

33.7.1 Maturity analysis of derivative financial instruments' cash flows *(continued)*

	2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
After one year but within two years	**13 235**	1 490	350
After two years but within three years	**2 081**	12 940	17 500
After three years but within four years		2 032	
Total due after one year	**15 316**	16 462	17 850
Total	**16 642**	17 905	19 187
Net cash (outflows)/inflows			
Due within one year	**(1 235)**	(1 137)	(945)
Total due within one year	**(1 235)**	(1 137)	(945)
After one year but within two years	**494**	(982)	(195)
After two years but within three years	**271**	404	(4 123)
After three years but within four years		222	
Total due after one year	**765**	(356)	(4 318)
Total	**(470)**	(1 493)	(5 263)

The maturity analysis of derivative financial instruments' cash flows reflects the expected cash outflows and inflows of the Group using undiscounted cash flows, settlement terms and expected movements in floating rates.

33.7.2 Maturity analysis of non derivative financial liabilities (including interest payments)

	2012	2011	2010
Trade and other payables (note 20)	**4 097**	3 878	3 513
Short-term interest bearing debt (note 18)	**4 709**	1 799	1 588
Total due within one year	**8 806**	5 677	5 101
After one year but within two years	**3 087**	3 940	703
After two years but within three years	**12 722**	3 143	3 893
After three years but within four years	**4 566**	12 924	1 146
After four years but within five years	**1 597**	4 154	15 701
After 5 years	**15 179**	14 034	13 993
Total due after one year	**37 151**	38 195	35 436
Total debt	**45 957**	43 872	40 537

The maturity analysis of non derivative financial liabilities are prepared on an undiscounted cash flow basis. The contractual maturity of the hedged cash flows of the foreign denominated notes are disclosed using the relevant derivative hedging rates. In respect of the cash flows that are not hedged, and subsequent to the hedge maturing, the period end floating interest rates and foreign exchange rates are used to calculate the cash flows of the foreign denominated notes.

33. FINANCIAL RISK MANAGEMENT *(continued)*

33.8 Fair value of financial instruments

The Group uses a three-level hierarchy to prioritise the inputs used in measuring fair value. The levels within the hierarchy are described below with level 1 having the highest priority and level 3 having the lowest. Fair value is principally applied to financial assets and financial liabilities. These are measured at fair value on a recurring basis as of 31 March 2012, 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:

		Fair value measurement using		
	Total Rm	**Level 1 (a) Rm**	**Level 2 (b) Rm**	**Level 3 (c) Rm**
31 March 2012				
Financial assets				
Cross currency swaps	**472**		**472**	
Total financial assets	**472**		**472**	
Financial liabilities				
Interest rate swaps	**84**		**84**	
Foreign currency forward contracts	**45**		**45**	
Cross currency swaps	**731**		**731**	
Total financial liabilities	**860**		**860**	
2 April 2011				
Financial assets				
Interest rate swaps	30		30	
Total financial assets	30		30	
Financial liabilities				
Interest rate swaps	111		111	
Foreign currency forward contracts	201		201	
Cross currency swaps	942		942	
Total financial liabilities	1 254		1 254	
3 April 2010				
Financial liabilities				
Interest rate swaps	578		578	
Foreign currency forward contracts	406		406	
Foreign currency swaps	2 926		2 926	
Total financial liabilities	3 910		3 910	

a) Level 1 – Based on quoted market prices in active markets.

b) Level 2 – Based on observable inputs other than Level 1 prices, 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.

c) Level 3 – 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.

33. FINANCIAL RISK MANAGEMENT *(continued)*

33.8 Fair value of financial instruments *(continued)*

All financial instruments have been recognised in the statement of financial position and there is 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, investments 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: 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 fair valued based on the exchange rate ruling at the reporting date. The market values are disclosed in note 17.

Forward instruments: forward exchange contracts are entered into to cover import orders, and fair values are determined using foreign exchange market rates at 31 March 2012. Forward exchange agreements and swaps are entered into to hedge interest rate and foreign exchange rate exposure of interest bearing debt and fair values are determined using market related rates at 31 March 2012.

34. RELATED-PARTY TRANSACTIONS

The Group Financial Statements include the financial statements of Edcon Holdings Proprietary Limited and subsidiaries and joint ventures. Related party relationships exist within the Group. During the period all purchasing and selling transactions were concluded at arm's length. Edcon Holdings Proprietary Limited is the ultimate South African parent entity and the ultimate parent of the Group is Edcon (BC) S.A.R.L.("Bain Capital"). The following table provides the total amount of transactions, which have been entered into with related parties:

	2012	
	Fee paid to related parties Rm	**Amounts owed to related parties Rm**
Loan including interest to shareholder – recognised in non-current liabilities		**659**
Loan including interest to shareholder – recognised in equity		**8 290**
Fee paid to Bain Capital affiliate	**134**	

	2011	
	Paid to related parties Rm	**Amounts owed to related parties Rm**
Loan including interest to shareholder		8 184
Fee paid to Bain Capital affiliate	39	

	2010	
	Paid to related parties Rm	**Amounts owed to related parties Rm**
Loan including interest to shareholder		7 341
Fee paid to Bain Capital affiliate	38	
Preference dividend paid to shareholders	5	

Transactions with joint ventures are detailed in note 6.

34 . RELATED-PARTY TRANSACTIONS *(continued)*

34.1 Compensation relating to key management personnel

	52 weeks to 31 March 2012	52 weeks to 2 April 2011	53 weeks to 3 April 2010
	Total including directors and prescribed officers Rm	Total including directors Rm	Total including directors Rm
Remuneration	**47**	33	30
Retirement, medical, accident and death benefits	**5**	4	4
Loyalty bonus	**25**	6	8
Other benefits			-
	77	43	42
Comprising:			
Short-term employee benefits	**72**	39	38
Post-employment benefits	**5**	4	4

Key management personnel includes directors and prescribed officers (refer to note 27.2) and members of the Chief Executive's Forum.

35. EVENTS AFTER THE REPORTING PERIOD

On 5 June 2012 the Group concluded a series of agreements with Absa Bank forming the establishment of a long-term strategic relationship for the provision of credit to the Group customers as well as the sale of the Group's Private Label store card portfolio to Absa Bank.

The Group and Absa Bank have further agreed to enter into a long-term, strategic relationship under which Absa Bank will provide retail credit to the Group customers and the Group will be responsible for all customer facing activities (the "Program").

Absa Bank will acquire the Card Portfolio, consisting of approximately 3.8 million active card accounts, for a cash consideration equal to the net book value of the Card Portfolio receivables at the effective date of the Acquisition. Absa Bank and the Group expect the purchase price of the Card Portfolio to be approximately R10 billion. The transaction is expected to close in the second half of calendar 2012.

In terms of the Program, Absa Bank will have responsibility for credit, management of fraud, risk, finance, legal and compliance operations of the store card business, while the Group will retain all customer facing activities, including sales and marketing, customer services and collections. This should ensure a seamless customer experience. The Group and Absa Bank will balance continued growth of the credit book with appropriate credit quality.

The transaction is a natural evolution for the business and a key milestone in its strategic plan. Moreover, it is attractive to the Group as it will (i) leverage the core competencies of both the Group and Absa Bank (ii) facilitate growth in retail; including growth in credit sales (iii) immediately improve Group's balance sheet; and (iv) allow the Group to focus and fund growth in its core business activities.

The Group store card business operates primarily in South Africa (approximately 94% of net receivables), with smaller operations in Botswana, Namibia, Lesotho and Swaziland. The net book value and number of active accounts references above refer to the entire portfolio. While it is the intention of Absa Bank (or one of its affiliates) to acquire these portfolios in the neighbouring countries, it is not a condition precedent to the South African transaction.

35 . EVENTS AFTER THE REPORTING PERIOD *(continued)*

The Acquisition and the Program are subject to a number of conditions precedent customary for a transaction of this nature, which include, but are not limited to, the following:

- the obtaining of regulatory approval for the Acquisition and/or the Program, as required; and
- the release of security interests over the Card Portfolio assets under the Group's various existing notes and funding structures.

Due to the sale of the trade receivables, the cash flows into the Credit and Financial Services cash-generating unit will change which might also impact the goodwill carrying value. The impact of the change cannot be estimated until the suspensive conditions on the contract have been met.

The transaction proceeds will reflect the net book value of the portfolio at the close of the transaction and will be used for the repayment of debt (including notes issued in terms of the Group's securitisation programme), investment in the business, and to cover transaction fees and expenses.

		2012 31 March Rm	2011 2 April Rm	2010 3 April Rm
36.	**CONSOLIDATION OF ONTHECARDS INVESTMENTS PROPRIETARY LIMITED (OtC)**			
	Included in the Group Statement of Financial Position by line are the following balances relating to the consolidation of OtC:			
	ASSETS			
	Non-current assets			
	Intangible assets	**79**	79	79
	Held-to-maturity investments		(78)[1]	(78)[1]
	Loan-Edcon Proprietary Limited	**(2 062)**	(2 062)	(2 062)
	Deferred tax	**53**	117	133
	Total non-current assets	**(1 930)**	(1 944)	(1 928)
	Current assets			
	Held-to-maturity investments	**(78)**[1]		
	Trade, other receivables and prepayments	**5 708**	5 646	5 468
	Cash and cash equivalents	**818**	639	684
	Total current assets	**6 448**	6 285	6 152
	Total assets	**4 518**	4 341	4 224
	EQUITY AND LIABILITIES			
	Equity attributable to shareholders			
	Retained profit/(loss)	**33**	(92)	(140)
	Total equity	**33**	(92)	(140)
	Non-current liabilities – third parties			
	Interest-bearing debt	**2 150**	4 300	3 855
	Total non-current liabilities	**2 150**	4 300	3 855
	Current liabilities			
	Interest-bearing debt	**2 150**		445
	Trade and other payables	**185**	133	64
	Total current liabilities	**2 335**	133	509
	Total equity and liabilities	**4 518**	4 341	4 224
	Total managed capital per IAS 1	**4 333**	4 208	4 120

[1] In November 2009, OtC issued R78 million of three-year receivables-backed notes to Edcon Proprietary Limited. These notes mature on 31 October 2012 and accrue interest at applicable JIBAR plus a margin of 4.5% payable quarterly in arrears. Refer to note 17.5.

	2012 52 weeks to 31 March Rm	2011 52 weeks to 2 April Rm	2010 53 weeks to 3 April Rm

36. CONSOLIDATION OF ONTHECARDS INVESTMENTS PROPRIETARY LIMITED (OtC) *(continued)*

Included in the Group Statement of Comprehensive Income by line, are the following amounts relating to the consolidation of OtC:

	2012 52 weeks to 31 March Rm	2011 52 weeks to 2 April Rm	2010 53 weeks to 3 April Rm
Total revenues	**539**	654	603
Income from credit	**506**	625	582
Expenses from credit	**(13)**	(191)	(403)
Trading profit and profit before financing costs	**493**	434	179
Interest received	**33**	29	21
Profit before financing costs	**526**	463	200
Financing costs	**(353)**	(398)	(348)
Profit/(loss)profit before taxation	**173**	65	(148)
Taxation	**(48)**	(17)	20
Profit/(loss) for the period	**125**	48	(128)

	2012 52 weeks to 31 March Rm	2011 52 weeks to 2 April Rm	2010 53 weeks to 3 April Rm
36. CONSOLIDATION OF ONTHECARDS INVESTMENTS PROPRIETARY LIMITED (OtC) *(continued)*			
Included in the Group Statement of Cash Flows by line, are the following amounts relating to the consolidation of OtC:			
Cash retained from operating activities			
Profit/(loss) before taxation	**173**	65	(148)
Interest received	**(33)**	(29)	(21)
Financing costs	**353**	398	348
Other non-cash items		29	185
Operating cash inflow before changes in working capital	**493**	463	364
Working capital movement	**6**	377	493
Trade accounts receivables	**(62)**	309	505
Other receivables			(19)
Trade and other payables	**68**	68	7
Cash inflow from operating activities	**499**	840	857
Interest received	**33**	29	21
Financing costs paid	**(353)**	(398)	(293)
Taxation paid		-	(22)
Net cash inflow from operating activities	**179**	471	563
Cash effects of financing activities			
Increase in held-to-maturity investments			78
Loan – Edcon Proprietary Limited			612
Proceeds from receivables-backed notes issued		1 400	4 300
Buy-back of receivables backed notes		(1 400)	
Purchase of trade receivables		(516)	(2 210)
Decrease in short-term interest bearing debt			(2 659)
Net cash (outflow)/inflow from financing activities		(516)	121
Increase/(decrease) in cash and cash equivalents	**179**	(45)	684
Cash and cash equivalents at the beginning of the period	**639**	684	-
Cash and cash equivalents at the end of the period	**818**	639	684

Corporate Information

Edcon Holdings Proprietary Limited
Incorporated in the Republic of South Africa
Registration number 2006/036903/07

Non-executive directors
DM Poler* (Chairman), EB Berk*, M Levin*, ZB Ebrahim, MMV Valentiny**

Executive directors
J Schreiber *** (Managing Director and Chief Executive Officer
SM Ross*, U Ferndale

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