21 September 2018

This notice is important and requires your immediate attention

EDCON ACQUISITION PROPRIETARY LIMITED (“EDCON”)

UNAUDITED TRADING UPDATE

FOR THE 53 WEEKS ENDED 31 MARCH 2018 AND FOR THE 13 WEEKS ENDED 30 JUNE 2018

Pending completion of our audit of the financial statements for the financial year ended 31 March 2018, Edcon Acquisition Proprietary Limited ("Edcon" and, together with its consolidated subsidiaries, the "Group" or the "Edcon Group") is providing the following trading update (the "Trading Update") which provides an update on the Edcon Group's financial performance for the financial year ended 31 March 2018 and the 13-week period ended 30 June 2018.

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

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

The financial information contained in this Trading Update is based on management accounts, rather than derived from our financial statements for fiscal year 2018 (as defined below) or the first quarter 2018, as applicable. Our independent auditors, Deloitte & Touche, have not audited, reviewed, compiled or performed any procedures with respect to the financial data included herein. Accordingly, our independent auditors do not express an opinion or any other form of assurance with respect thereto. The preliminary results presented herein are based on a number of assumptions that are subject to inherent uncertainties and subject to change. We cannot assure you that, upon completion of our financial statements for the 53-week period ended 31 March 2018 ("fiscal 2018") or the 52-week period ending 30 March 2019 ("fiscal 2019"), as applicable, and the review by our independent auditors of our results for fiscal 2018 or fiscal 2019, as applicable, we will not report materially different results than those indicated herein.

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

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

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

The Edcon Group urges you to refer to the section entitled "Risk Factors" in its annual report for 52-week period ended 25 March 2017

INDEX

PART A – TRADING UPDATE FOR THE 53 WEEKS ENDED 31 MARCH 2018

PART B – TRADING UPDATE FOR THE 13 WEEKS ENDED 30 JUNE 2018

PART A

EDCON ACQUISITION PROPRIETARY LIMITED (“EDCON”)

UNAUDITED TRADING UPDATE

FOR THE 53 WEEKS ENDED 31 MARCH 2018

SUMMARY HISTORICAL AND PRO FORMA FINANCIAL AND OTHER DATA

The following historical financial data relates to the unaudited consolidated financial statements for the 53-week period ended 31 March 2018, audited consolidated financial statements for the 52-week period ended 25 March 2017 and the unaudited consolidated financial statements for the 52-week period ended 26 March 2016 of Edcon Acquisition Proprietary Limited and its consolidated subsidiaries. The consolidated financial statements for the period ended 31 March 2018 have not been audited by Deloitte & Touche. Pending the completion of our audit of the financial statements for the year ended 31 March 2018, this trading update is being provided. Unless the context requires otherwise, references in this notice to “fiscal 2018” (or “FY 2018”) and “fiscal 2017” (or “FY2017”) and “fiscal 2016” (or “FY 2016”) shall mean the 53-week period ended 31 March 2018, the 52-week period ended 25 March 2017 and the 52-week period ended 26 March 2016 respectively.

Throughout this notice, Edgars refers to the Edgars division, which comprises our Edgars, Red Square and Boardmans stores, Jet refers to the Jet division incorporating both Jet, Jet Mart and Edgars Active stores, and the Specialty division comprises of our CNA, Edgars Shoe Gallery, Legit and our Mono-branded stores.

In this notice, we also discuss certain summary historical and pro forma financial and other data in the following section entitled “Management’s discussion and analysis of unaudited trading update”.

The statements in this section regarding industry outlook, our expectation regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward looking statements. These forward looking statements are subject to numerous risks and uncertainties, some of which are described in more detail in our annual report for fiscal 2017, which we recommend you review in connection with this quarterly report. Our actual results may differ materially from those contained in or implied by any forward looking statements.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF UNAUDITED TRADING UPDATE

Key features

Pertaining to the 53-week period ended 31 March 2018 compared to the prior comparative period

- Retail sales decreased by 2.5% to R23,597 million (excluding the 53rd week, sale of Legit, closure of Edgars Shoe Gallery stores and the exit of non-profitable international brands), while average space (excluding Legit) decreased by 1.7%
- Gross profit margin increased 100 bps to 37.5% from 36.5% (excluding the impact of the 53rd week, sale of Legit, closure of Edgars Shoe Gallery stores and the exit of non-profitable international brands) due to better input costs, improved negotiated supplier rebates and discounts and a decrease in clearance and promotional markdowns
- Retail cash sales decreased by 0.4% while credit retail sales decreased 3.4% excluding the impact of the Legit sale
- Store costs were well managed increasing by 0.5% excluding the impact of the 53rd week, the Legit sale, closure of Edgars Shoe Gallery and the exit of non-profitable international brands
- Our in-house trade receivables book as at 31 March 2018 was R694 million, up 66.0% from R418 million as at 25 March 2017. The provision for impairment increased by R260 million, or 174.5%, from R149 million
- Proforma adjusted EBITDA excluding the 53rd week decreased by 64.9% to R488 million impacted by a challenging and competitive retail environment, a R260 million provision for impairment of trade receivables and an increase in net bad debts written off of R59 million[1]

1. Refer to the table on page 14.

Introduction

Operational results

The trading environment in fiscal 2018 continued to be challenging and weak macro-economic conditions continued to undermine growth in consumer spending. Underlying consumer demand remained weak on the back of tight credit conditions, low growth in consumer disposable income, lackluster private sector employment, and political uncertainty in our first three quarters of fiscal 2018 as well as restrictive fiscal policy. The Group faced increased price competition from established market participants as well as new market entrants. The FNB/BER Consumer Confidence Index (CCI) recorded below zero for the first three quarters of fiscal 2018 and increased to an all-time high of +26 in our fourth quarter due to positive change in the country’s leadership. Nevertheless, business conditions remained very weak placing pressure on sales volumes and profitability.

Retail sales in fiscal 2018 include approximately one month of sales from the Legit Botswana business which was sold effective 30 April 2017 and fiscal 2017 included 10 months retail sales from the remaining Legit business which was sold effective 29 January 2017. For fiscal 2018, Group retail sales for the 53-week period, decreased by 4.8% to R24,115 million compared to the 52-week retail sales of R25,343 million in fiscal 2017. Excluding the impact of the 53rd week, the sale of the Legit business, the closure of Edgars Shoe Gallery during the 2017 financial year and the exit of non-profitable international brands, retail sales decreased by R611 million, or 2.5%, to R23,597 million in fiscal 2018, from R24,208 million in fiscal 2017. Retail sales were affected by weak consumer demand and fierce price competition through ongoing promotions and clearance activity by competitors. During fiscal 2018, Edcon opened 101 stores and closed 106 stores. Average retail space excluding Legit decreased by 1.7% compared to fiscal 2017. Like-for-like retail sales excluding the 53rd week decreased by 1.9% with positive retail sales growth achieved in ladieswear in the Edgars division and ladieswear and childrenswear in the Jet division. These category retail sales increases are encouraging signs when compared to negative growth across all merchandise categories with the exception of home in the 2017 financial year. The merchandise strategy of rationalising suppliers, rationalising range, introducing fresher inventory and more competitive pricing has improved our customer franchise. Credit sales decreased by 5.3% (excluding Legit and Edgars Shoes Gallery, a decrease of 3.4%) compared to a decrease of 13.4% in the 2017 financial year. Cash sales decreased by 4.6% (excluding Legit and Edgars Shoes Gallery, a decrease of 0.4%) compared to a decrease of 2.4% in the 2017 financial year. Credit sales contributed 35.8% of total retail sales in the 2018 financial year compared to 36.0% in fiscal 2017.

The Group benefited in the current year from our new agreement with Absa implemented in late November 2016, pursuant to which we agreed to acquire 80% of all new credit applications for our in-house second look credit book. This agreement with Absa has positively contributed to stronger new credit sales in the first half of fiscal 2018. Our in-house trade receivables book as at 31 March 2018 was R694 million, up 66.0% from R418 million as at 25 March 2017. This is an immature and growing book and the Group implemented revised scorecards during the third quarter of fiscal 2018 as well as revised collection and fraud strategies to address increasing bad debts. The provision for impairment of trade receivables increased during the year by R260 million, or 174.5%, to R409 million for the fiscal 2018, from R149 million for fiscal 2017.

Retail gross profit margin for the 53-week period, increased by 80bps to 37.3% (excluding the 53rd week, 37.4%) for fiscal 2018, from 36.5% for fiscal 2017. Excluding the impact of the 53rd week, sale of Legit, closure of Edgars Shoe Gallery and the exit of non-profitable international brands, retail gross profit margin increased 100 bps to 37.5% from 36.5% and retail gross profit increased by R14 million, or 0.2% to R8,849 million for fiscal 2018, from R8,835 million in the 2017 financial year. The increase in the retail gross profit margin and retail gross profit was due to better input costs, improved negotiated supplier rebates and discounts as well as, a reduction in clearance and promotional markdowns.

Store costs excluding the impact of the 53rd week, sale of the Legit business, exit of Edgars Shoe Gallery and non-profitable international brands were well managed increasing by R36 million, or 0.5%, compared to fiscal 2017. Store cost savings were achieved through the closure of non-profitable trading stores. The 53-week period store costs decreased by R5 million, or 0.1%, from R6,826 million in fiscal 2017 to R6,821 million in fiscal 2018.

Operating costs excluding non-recurring costs increased by R448 million, or 11.0%, from R4,089 million in fiscal 2017 to R4,537 million in fiscal 2018 and were affected by a significant increase of R260 million in the provision for impairment of trade receivables and a R59 million increase in net bad debts written off attributable to, suboptimal collection processes and macro-economic impacts on customers. Excluding the significant impact of the provision level and bad debts, other operating costs excluding non-recurring costs would have increased by 3.2%.

Proforma adjusted EBITDA decreased by R804 million, or 57.8%, to R587 million for fiscal 2018, from R1,391 million in the 2017 financial period. Excluding the impact of the 53rd week, proforma adjusted EBITDA decreased by R903 million, or 64.9%.

Total capital investments in fiscal 2018 were R473 million, a decrease of R209 million, or 30.6% compared to capital investments of R682 million in fiscal 2017. The decrease was mainly due to a decrease in the Group’s information systems infrastructure investment as the Group took a decision during fiscal 2018 to revisit the information technology strategy which commenced in the 2017 financial year. Investments in stores during fiscal 2018 increased when compared to fiscal 2017 due to an increase in store openings and an increase in store refurbishments during the current financial period.

Net cash outflow from operating activities decreased by R1,147 million from an outflow of R2,031 million in fiscal 2017 to an outflow of R884 million in fiscal 2018, primarily as a result of the weaker trading performance in fiscal 2018, fees incurred in connection with the Restructuring in fiscal 2017, improvements in working capital cash flows and a reduction in net cash financing costs of R392 million which were offset by an increase in taxation paid of R38 million, or 30.4%, from R125 million in fiscal 2017 to R163 million in fiscal 2018 for tax payments to non-domestic jurisdictions.

At the end of fiscal 2018, the Edcon Group had cash and cash equivalents of R1,379 million, a decrease of R408 million, or 22.8%, compared to R1,787 million in fiscal 2017. Net third party debt was R6,291 million as at 31 March 2018, an increase of R2,431 million from R3,860 million reported at 25 March 2017 which included, R584 million cash held in escrow for the Legit business sold. The increase is due to a decrease in cash and cash equivalents (including amounts in escrow) utilised for working capital and interest payments, as well as an increase in third party debt due to foreign exchange movements and interest costs capitalised.

The primary focus of the Group remains its customers with our strategy aiming to positively position Edcon as an iconic business and key player in the retail landscape, with strong independent brands and trusting committed stakeholders.

Sale of Legit business in Botswana

On 15 September 2016, the Group agreed to the sale of its Legit business for R637 million (the "Legit Sale") to Retailability Proprietary Limited, a retail fashion holding company which operates over 200 stores across South Africa, Namibia and Botswana (including the Beaver Canoe and Style chains) and, in which Metier Private Equity is a material shareholder. This sale was aligned with Edcon's strategic drive to create a simpler, more agile business that is focused on carefully selected offerings in which the Group believes it can add significant value.

Following the satisfaction of closing conditions relating to the Legit Botswana sale, the sale became effective on 30 April 2017. In connection with the Legit Botswana sale, the Edcon Group recognised a profit of R39 million in the current financial period.

The terms of the sale agreement with Retailability Proprietary Limited stipulated that the finalisation of the sale consideration of R637 million was subject to a working capital and cash adjustment. The final sale consideration amounted to R607 million and a R30 million adjustment recognised in fiscal 2018. The purchase consideration for the Legit sale had been placed in in an escrow account in the 2017 financial year to comply with certain claw-back requirements of the South African Companies Act and on 31 July 2017, R607 million which includes the Legit Botswana proceeds was released to the Group following the successful Restructuring completed in the 2017 financial period.

National Consumer Tribunal - Club fees

On 24 April 2017, the National Consumer Tribunal (the "NCT") rendered a judgement in a complaint referred to it by the National Credit Regulator (the "NCR") declaring that the Edcon Group was in contravention of the National Credit Act, 32 of 2005 by requiring the payment of club fees in the terms of its credit agreements. The Group appealed the NCT's judgement to the High Court. On 24 May 2018, the High Court issued a judgement in favour of the Group, reversing the NCT's judgement on appeal and dismissing the NCR's complaint with costs. On 25 June 2018, the NCR filed an application with the Supreme Court of Appeal for special leave to appeal the decision of the High Court. The Group is currently awaiting a decision in this regard.

Trading update

Key operational data

(unaudited)

Retail sales growth (%)	***53-weeks FY2018 Actual***	***52-weeks FY2018 Actual***	***52-weeks FY2017 Actual***	***52-weeks FY2016 Actual***	***52-weeks FY2018 LFL(1)***	***52-weeks FY2017 LFL(1)***	***52-weeks FY2016 LFL(1)***
Edgars	(1.3)	(3.1)	(5.7)	(1.2)	(1.5)	(7.4)	(4.1)
Jet	0.2	(1.8)	(6.0)	(1.8)	(2.2)	(5.8)	(3.3)
Specialty(2)	(36.6)	(37.7)	(9.5)	(1.4)	(8.9)	(6.7)	(11.5)
Zimbabwe(3)	17.1	17.1	(14.6)	2.9	(17.1)	(14.3)	9.2
Total	(4.8)	(6.6)	(6.6)	(1.3)	(1.9)	(6.8)	(4.4)

(1) Like-for-like sales (same store sales). FY2018 excludes the impact of the 53rd week.

(2) Excluding the 53rd week, Legit, Edgars Shoe Gallery and non-profitable brands being exited, retail sales decreased by 9.1% in FY2018, 7.4% in FY2017 and 4.9% in FY2016.

(3) On a constant currency basis retail sales increased 5.3% and LFL sales increased 5.3% in FY2018.

(unaudited)

Gross profit margin (%)(1)	***53-weeks FY2018***	***52-weeeks FY2018***	***52-weeks FY2017***	***52-weeks FY2016***	***52-weeks pts change(3)***
Edgars	40.8	40.9	40.6	42.0	0.3
Jet	33.3	33.3	32.0	35.7	1.3
Specialty(2)	35.9	36.0	34.6	35.7	1.4
Zimbabwe	45.1	45.1	45.3	45.6	(0.2)
Total	37.3	37.4	36.5	38.8	0.9

(1) Gross profit divided by retail sales. Gross profit is derived from retail sales less retail cost of sales.

(2) Excluding the 53rd week, Legit, Edgars Shoe Gallery and non-profitable brands being exited, gross profit margin in FY2018 was 37.1%, FY2017 33.9% and FY2016 33.4%.

(3) FY2018 % change on FY2017 for a 52-week period.

(unaudited)

Other	***FY2018***	***FY2017***	***FY2016***	***pts change(1)***
Total number of stores (2)	1 310	1 315	1 539	(0.4)
Average retail space (‘000 sqm)	1 528	1 603	1 607	(4.7)
Customer accounts (‘000s) (3)	2 557	2 915	3 400	(12.3)
Thank U cards (‘000s)	8 700	11 000	12 000	(20.9)

(1) FY2018 % change on FY2017.

(2) The number of stores have been restated for fiscal 2017 and 2016 to exclude carve out stores within existing stores.

(3) Customer accounts includes Zimbabwe customer credit accounts of 158,782 FY2018, 165,014 FY2017, and 181,979 FY2016.

(4) All data in the above table is as at 31 March 2018, 25 March 2017 and 26 March 2016 respectively.

Edcon’s retail business comprises three principal retail divisions, each of which are discussed below.

Edgars

Retail sales in the Edgars division decreased by R147 million, or 1.3% from R11,113 million in fiscal 2017 to R10,966 million in fiscal 2018. Excluding the impact of the 53rd week, retail sales decreased by R350 million, or 3.1% to R10,763 million in fiscal 2018. Edgars cash sales increased by 0.8% during fiscal 2018 whilst credit sales decreased by 3.9% over the same period. Same store sales excluding the 53rd week decreased by 1.5% compared to fiscal 2017. Ladieswear reported improved trading performance throughout the year having realised benefits from new strategies implemented in these categories. The remaining categories underperformed compared to the 2017 financial period however some improvement was achieved, reducing the rate of decline in these categories compared to the 2017 financial period.

Average space decreased by 2.0% to 749 thousand square meters when compared to fiscal 2017. During the year ended 31 March 2018, we opened 6 Edgars stores, 3 Kelso stores, 2 Free 2BU stores and 2 J-Exchange stores and closed 19 Edgars stores, 5 Red Square stores and 5 Boardmans stores, bringing the total number of stores in the Edgars division to 266.

Gross profit margin in our Edgars division improved slightly by 20bps to 40.8%, (excluding the 53rd week, 40.9% or, 30bps improvement) for fiscal 2018, from 40.6% for fiscal 2017. The increase is due to better input costs, increased supplier discounts and a decrease in markdown activity compared to fiscal 2017.

Jet

Retail sales increased by R24 million, or 0.2% from R10,180 million in fiscal 2017, to R10,204 million in fiscal 2018. Excluding the impact of the 53rd week, retail sales decreased by R180 million, or 1.8% to R10,000 million in fiscal 2018. During fiscal 2018, credit sales of the Jet division decreased by 1.1% whilst cash sales grew by 0.8%. Ladieswear performed positively compared to the 2017 financial period following strategic initiatives introduced whilst the remaining categories including menswear, childrenswear, footwear, home and hardlines underperformed in a competitive market. Like-for-like retail store sales excluding the 53rd week, decreased by 2.2%.

Average space marginally decreased by 0.6% to 649 thousand square meters when compared to the 2017 financial year. During the year we opened 77 Jet stores, 1 Jet Mart store and 2 Edgars Active stores and closed 12 Jet stores, 14 Jet Mart stores and 16 Edgars Active stores, bringing the total number of stores in the Jet division to 734.

Gross profit margin of the Jet division increased from 32.0% for fiscal 2017 to 33.3% for fiscal 2018. Excluding the 53rd week, gross profit margin improved 130bps to 33.3%. The improvement in the margin is due to better input cost management, increased supplier rebates and a reduction in markdown activity.

Specialty

Specialty includes CNA and mono-branded stores as well as the Legit Botswana business up until the effective date of sale on 30 April 2017. The 2017 financial year includes the Legit business of which, the majority was sold on 31 January 2017, as well as the Edgars Shoe Gallery stores which were closed during the 2017 financial year.

Total retail sales for fiscal 2018 amounted to R2,123 million, a decrease of R1,225 million, or 36.6% compared to retail sales of R3,348 million in fiscal 2017. Excluding Legit, Edgars Shoe Gallery, unprofitable international brands being exited such as Lucky Brand, Tom Tailor, River Island, One Green Elephant, Geox, Express and others as well as the 53rd week impact, retail sales for fiscal 2018 was R2,012 million, a decrease of R201 million, or 9.1% compared to retail sales of R2,213 million in the 2017 financial year. Credit sales, excluding the Legit and Edgars Shoe Gallery businesses decreased by 13.1% whilst cash sales decreased by 15.0%. Like-for-like retail sales decreased by 8.9%.

Average store space decreased by 38.4% to 90 thousand square meters compared to fiscal 2017 due to the sale of the Legit business, closure of Edgars Shoe Gallery and the exit of unprofitable international brands. Excluding Legit, average space decreased by 8.2% as unprofitable stores were closed or converted. During fiscal 2018, we opened 1 CNA store and 7 mono-branded stores and closed 5 CNA stores, 2 Samsung stores and 19 mono-branded stores. Nine Legit stores were removed from the division's portfolio following the sale of the Legit Botswana business to Retailability Proprietary Limited in April 2017, bringing the total number of stores in the Specialty division to 259.

Gross margin in the Specialty division increased by 130bps from 34.6% in fiscal 2017 to 35.9% in fiscal 2018. Excluding Legit, Edgars Shoe Gallery and unprofitable international brands being exited as well as the 53rd week, gross margin increased by 320bps from 33.9% in fiscal 2017 to 37.1% in fiscal 2018. The increase in margin is due to supplier discounts, increased rebates and a change in product mix particularly within the CNA business as it refocuses on being a specialist stationery store.

Rest of Africa

The total number of Edcon group stores outside of South Africa decreased by 8, from 195 stores at the end of fiscal 2017, to 187 at the end of fiscal 2018. The decrease in the number of stores includes 9 Legit stores which were disposed of through the sale of the Legit Botswana business to Retailability Proprietary Limited. Retail sales including the 53rd week, from these stores decreased by 2.4% (8.4% decrease excluding Zimbabwe). Retail sales decreased in all territories except Ghana and Zimbabwe on a Rand basis, with the biggest decrease in Namibia. The retail sales in Swaziland, Lesotho, Namibia, Zambia and Botswana, were impacted by the sale of the Legit business. Zambia, Ghana and Zimbabwe reported an increase in local currency retail sales. Sales from stores outside South Africa contributed 12.2% (9.1% excluding Zimbabwe) of retail sales for fiscal 2018, down from 11.9% (9.4% excluding Zimbabwe) during the prior period.

Credit and financial services

At 31 March 2018, excluding Edgars Zimbabwe, we had 352 thousand fewer credit customers compared to fiscal 2017. On a twelve month rolling basis, credit sales (excluding Zimbabwe) decreased from 36.3% of total retail sales in fiscal 2017 to 35.1% in fiscal 2018. Edcon's in-house trade receivables book at 31 March 2018 was R694 million, up R276 million, or 66.0% from R418 million as at 25 March 2017. Edcon has benefited from its new arrangement with Absa which slowed the rate of decline in credit sales. It will still however, take time to drive meaningful new credit customers and grow the number of credit accounts. The Edcon own book is still an immature and growing book and as a result, the provision for impairment of trade receivables increased by R260 million, or 174.5%, to R409 million for the fiscal 2018, from R149 million for the 2017 financial year. Revised scorecards were implemented during the third quarter of fiscal 2018 as well as revised collection and fraud strategies which resulted in an improved performance in the last quarter of fiscal 2018. This trend is expected to continue which over time will improve the provisioning levels and bad debts incurred by the Group.

On 31 January 2017, in connection with the Restructuring completed in fiscal 2017, Edcon Acquisition Proprietary Limited acquired the investment in Hollard Business Associates Proprietary Limited ("HBA") from Edcon Holdings Limited as contemplated in the Restructuring Agreement. The share of profits from the insurance business which is consolidated, represents 12 months of profit for fiscal 2018 and only two months of profits for the 2017 financial year with no comparatives for the 2016 financial year.

The table below presents the consolidated share of insurance profits as if incurred for a full 12 month period for the 2017 and 2016 financial years:

				(unaudited)
Profits from insurance business	***FY2018***	***FY2017***	***FY2016***	***pts change[(1)]***
Share of profits from insurance business as reported	617	184[(2)]		
10 months share of profits from the insurance business		600[(3)]		
Share of profits/proforma share of profits from insurance business for a 12 month period	617	784	725[(3)]	(21.3)

(1) FY2018 % change on FY2017.

(2) Represents 2 month share of profits for fiscal 2017.

(3) Share of profits from the insurance business for the 10 months ending 31 January 2017 and the 12 month period ending 26 March 2016 respectively, previously included in the Consolidated Statement of Comprehensive Income of Edcon Holdings Limited.

Edcon's share of the profits from the insurance business as presented in the table above compared to the proforma share of profits of R784 million in fiscal 2017, decreased by R167 million or, 21.3% to R617 million for fiscal 2018. The decrease in insurance profits is as a result of the decline in the number of credit accounts with decreased insurance premiums received, offset by savings in the cost base of the insurance business.

Financial review

Summary financial information

				(unaudited)
Rm	***53-weeks FY2018***	***52-weeks FY2017***	***52-weeks FY2016***	***% change***(1)
Total revenues	26 253	27 505	29 200	(4.6)
Retail sales	24 115	25 343	27 147	(4.8)
Gross profit – retail sales(2)	9 002	9 243	10 521	(2.6)
Gross profit margin from retail sales (%)	37.3	36.5	38.8	0.8 pts
Proforma Adjusted EBITDA(3)	587	1 391	2 516	(57.8)
Capital expenditure	473	682	552	(30.6)
Net third party debt including cash and derivatives	6 291	3 860	25 329	63.0
Net third party debt/proforma adjusted EBITDA (times)	10.7	2.8	10.1	(7.9)

(1) FY2018 % change on FY2017, 53-weeks on 52-weeks.

(2) Gross profit – retail sales is derived from retail sales less retail cost of sales.

(3) See table on page 14 which reconciles trading profit/loss to adjusted EBITDA and proforma adjusted EBITDA. Excluding the 53rd week, proforma adjusted EBITDA was R488 million, a decrease of 64.9% compared to fiscal 2017.

Revenues

Total revenues decreased by R1,252 million, or 4.6%, from R27,505 million in fiscal 2017 to R26,253 million in fiscal 2018. Retail sales decreased by R1,228 million or 4.8% to R24,115 million in fiscal 2018, from R25,343 million in fiscal 2017. Retail sales excluding the impact of the 53rd week, sale of Legit, closure of Edgars Shoe Gallery and the exit of non-profitable international brands, decreased by R611 million or 2.5% to R23,597 million in fiscal 2018, from R24,208 million in fiscal 2017, mainly as a result of a competitive and challenging retail environment and a reduction in promotional activity following the introduction of better entry price points in the 2017 financial year. Cash retail sales excluding Legit and Edgars Shoe Gallery, decreased by 0.4% whilst, credit sales decreased by 3.4% compared to the prior financial period. Club fee income decreased by R92 million as club membership exits continued across both the Edgars and Jet divisions which were not offset by new membership drives during the current financial period. The Absa administration fee income decreased by R25 million due to a lower number of credit accounts and finance income decreased by R9 million due to a decrease in average cash and cash equivalents balances in fiscal 2018. The decrease in retail sales, club fee income, Absa administration fee and finance income was partially offset by an increase in finance charges on trade receivables of R42 million as our own trade receivables book continued to grow over the financial period compared to fiscal 2017, an increase of R18 million from manufacturing sales to third parties as third party retailers re-engineer supply chains to reduce lead times for products and an increase of R433 million on consolidating the share of profits from the insurance business which is offset by a decrease of R391 million relating to a brand and administration fee which was previously earned by the Group prior to Edcon Acquisition Proprietary Limited acquiring the investment in Hollard Business Associates Proprietary Limited ("HBA") from Edcon Holdings Limited as contemplated in the Restructuring Agreement concluded in the 2017 financial year.

Retail gross profit

Retail gross profit margin increased by 80bps to 37.3% for fiscal 2018, from 36.5% for fiscal 2017. Excluding the impact of the 53rd week, sale of Legit, closure of Edgars Shoe Gallery and the exit of non-profitable international brands, gross profit increased by R14 million, or 0.2% to R8,849 million for fiscal 2018, from R8,835 million in the 2017 financial year and the gross profit margin increased 100 bps to 37.5% from 36.5%. The increase in the gross profit and gross profit margin was due to better input costs, improved negotiated supplier rebates and discounts as well as, a reduction in clearance and promotional markdowns although still higher than anticipated for fiscal 2018, as competitors promoted and cleared aggressively during the current period.

Reconciliation of Adjusted EBITDA and proforma Adjusted EBITDA

Proforma adjusted EBITDA decreased by R804 million, or 57.8%, to R587 million for fiscal 2018, from R1,391 million in the 2017 financial period. Excluding the impact of the 53rd week, proforma adjusted EBITDA decreased by R903 million, or 64.9%. Proforma profits from the insurance business decreased by R167 million – refer to *Credit and financial services,* club fee income decreased by R92 million and the Absa administration fee decreased by R25 million, offset by a R42 million increase on finance charges on trade receivables - refer to *Revenues.* Other operating costs excluding non-recurring costs, were negatively impacted by a R260 million increase in the provision for impairment of trade receivables and an increase in net bad debts written off of R59 million coupled with inflationary cost increases which was not supported by the top line gross profit growth achieved.

The following table reconciles the loss or profit for the periods to adjusted EBITDA and proforma adjusted EBITDA for each of the periods indicated:

				(unaudited)
Rm	***FY2018***	***FY2017***	***FY2016***	***% change***(1)
Trading (loss)/profit	(1 362)	(373)	767	(265.1)
Depreciation and amortisation	966	951	1 004	
Net asset write off(2)	103	68	19	
Gain on sales of written down trade receivables(3)			(29)	
Losses from brands to be exited(4)	47	81	27	
EBITDA losses from Edgars Shoe Gallery(5)		4	-	
EBTIDA (losses)/gains from the Legit business(6)	4	(100)	(142)	
Rand depreciation adjustment(7)			52	
Other non-recurring costs(8)	829	545	598	
Adjusted EBITDA	587	1 176	2 296	(50.1)
Brand and administration fee income from insurance business(9)		(385)	(505)	
Share of profits from insurance business(9)		600	725	
Proforma adjusted EBITDA	587	1 391	2 516	(57.8)
53rd week impact (10)	(99)			
Proforma adjusted EBITDA excluding the 53rd week	488	1 391	2 516	(64.9)

(1) FY2018 % change on FY2017.

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

(3) Relates to gains realised on the sale of a portfolio of written down trade receivables.

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

(5) Adjustment to remove the EBITDA losses or gains from the Edgars Shoe Gallery retail format which the Specialty division strategically exited during financial 2017.

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

(7) Foreign exchange gains recognised below the trading profit line which hedged the exposure in cost of sales as a result of the significant devaluation of the Rand in the 2016 financial year.

(8) Non-recurring costs in FY2018 related to employee restructuring costs of R35 million, onerous lease charges of R158 million, post-retirement medical aid buy-out costs of R7 million, recovered costs in fiscal 2018 of R2 million as a result of flood and storm damage incurred during FY2017, R4 million brand penalty cost, a R18 million tax provision raised for potential VAT debits which may be unrecoverable, R85 million non-recurring cost incurred in respect of our agreement with Absa, R16 million transitional project related expenditure, R44 million strategic initiative costs which excludes costs incurred from the transaction with creditors and the Restructuring concluded in the 2017 financial period, R29 million incurred in connection with the refinancing undertaken by the Group in the 2018 financial period, R28 million cost relating to a change for the net realisable value of inventory accounted for in the 2018 financial year but relating to the 2017 financial year, R19 million relating to non-recurring management bonuses, R47 million for non-recurring legal costs associated with exiting and negotiating contracts, R26 million for the launch of our revamped Loyalty Programme and R315 million (includes R156 million of IT costs previously capitalised, written off in the 2018 financial year) IT strategy costs incurred as the Group re-strategised the IT infrastructure and contracts. Non-recurring costs in FY2017 related to a credit from employee restructure costs of R16 million, onerous lease charges of R223 million, a R1 million credit for the post-retirement medical aid buy-out, unrecovered costs of R8 million as a result of flood and storm damage during FY2017, R7 million brand penalty cost, a R42 million credit which reverses a penalty provision raised in FY2016, R28 million non-recurring cost incurred in respect of our agreement with Absa, R215 million transitional project related expenditure, R117 million strategic initiative costs which excludes costs incurred from the transaction with creditors and the Restructuring and R6 million of other non-recurring costs. Non-recurring costs in FY2016 related to employee restructure costs of R72 million, onerous lease charges of R123 million and R1 million lease cancellation cost, post-retirement medical aid buyout of R26 million, once-off lease adjustment of R33 million, penalty costs of R57 million, transitional project related expenditure of R70 million and strategic initiative costs of R216 million.

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

(10) Impact of the 53rd week.

The table below reconciles previously reported pro forma adjusted EBITDA to pro forma adjusted EBITDA reported on page 14 for fiscal 2017 and financial year 2016:

		(unaudited)
Rm	***FY2017***	***FY2016***
Proforma Adjusted EBITDA previously reported[(1)]	1 383	2 514
EBITDA losses from additional brands exited[(2)]	8	2
Proforma Adjusted EBITDA[(3)]	1 391	2 516

(1) Refer to the Annual Report of Edcon Acquisition Proprietary Limited for the 52 weeks ended 25 March 2017.

(2) Relates to EBITDA losses from additional international brands targeted and agreed to exit during FY2018.

(3) Proforma Adjusted EBITDA as reported on page 14.

Costs

				(unaudited)
Rm	***53-weeks FY2018***	***52-weeks FY2017***	***52-weeks FY2016***	***% change***(1)
Store costs	6 821	6 826	6 463	(0.1)
Other operating costs(2)	4 537	4 089	4 459	11.0
Non-recurring costs(3)	829	545	598	52.1

(1) FY2018 % change on FY2017, 53-weeks on 52-weeks.

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

(3) Refer to footnote 8 on page 15 for the table which reconciles the loss or profit for the periods to adjusted EBITDA and proforma adjusted EBITDA for each of the periods indicated.

Total store costs were well managed during the current financial year decreasing by R5 million, or 0.1%, from R6,826 million in fiscal 2017 to R6,821 million in fiscal 2018. Excluding the impact of the 53rd week, sale of the Legit business, exit of Edgars Shoe Gallery and non-profitable international brands, total store costs increased by approximately R36 million, or 0.5%, compared to the 2017 financial year. Store cost savings were achieved through the closure of 106 unprofitable stores during fiscal 2018, offset by 101 stores opened during the year. Rental and manpower costs constituted 60.8% of total store costs in fiscal 2018.

Other operating costs, excluding non-recurring costs increased by R448 million, or 11.0%, from R4,089 million in fiscal 2017 to R4,537 million in fiscal 2018. Other operating costs were impacted by a R260 million increase in the provision for impairment of trade receivables and a R59 million increase in net bad debts written off. As the own book has grown and matured, the collection processes have remained sub-optimal and as a result, the provision for impairments was increased. Excluding non-recurring costs, the impact of the additional trade receivables impairment provision and bad debt increase, other operating costs were well managed increasing by only 3.2%.

Non-recurring costs increased by R284 million, or 52.1%, from R545 million in the 2017 financial year to R829 million in fiscal 2018. The increase is attributable to an increase in employee restructure costs incurred at head office of R51 million, an additional post-retirement medical aid charge of R8 million, a R42 million provision released in the 2017 financial year, a R18 million provision raised in the current year for amounts potentially unrecoverable and in dispute, R57 million settlement costs negotiated with a strategic partner, R26 million costs incurred relaunching our customer loyalty programme during the current year, a R19 million one-off bonus paid to senior management in the current year, a change in estimate to the valuation of inventory in the current year of which R28 million recognised as non-recurring related to the 2017 financial year, R29 million incurred for refinancing negotiations commenced in the current year, R47 million for non-recurring legal costs and costs incurred for exiting and re-negotiating contracts and R311 million relating to IT strategy costs where Edcon embarked on a project to simplify and upgrade the IT environment. These increased costs were offset by a reduction in onerous lease charges of R65 million, a decrease of R199 million in transitional related costs, a R69 million decrease in strategy costs incurred, a R10 million reduction in natural disaster costs incurred and not recovered through insurance cover, a R3 million decrease in brand penalty costs as brand exits advanced in the current year and a R6 million decrease in other non-recurring costs which were incurred in the 2017 financial year.

Income from Absa for administering the book in fiscal 2018 of R600 million is included in other income.

Depreciation and amortisation

The depreciation and amortisation charge increased by R15 million, or 1.6%, from R951 million in fiscal 2017 to R966 million in fiscal 2018. The depreciation charge increased by R12 million mainly due to the investment in information technology and new store openings offset by store closures. The amortisation charge increased by R3 million following managements re-assessment of the useful lives of the Edgars and Jet brands at the end of the 2017 financial year, whereby management concluded that a finite useful life of 20 years more appropriately reflected the period over which management is able to estimate the probability of expected future economic benefits resulting from these brands offset by finite life brands which were fully amortised during fiscal 2018.

Foreign exchange management

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

				(unaudited)
Rm	***53-weeks FY2018***	***52-weeks FY2017***	***52-weeks FY2016***	***% change***(1)
Derivative (losses)/gains		(6)	726	
Foreign exchange gains/(losses)	185	4 014	(3 578)	
Net movement gains/(losses)	185	4 008	(2 852)	(95.4)

(1) FY2018 % change on FY2017, 53-weeks on 52-weeks.

Edcon manages its foreign exchange risk on liabilities on an ongoing basis. At the end of fiscal 2018, 62% of the Group's total gross debt was hedged by virtue of it being denominated in local currency, whilst 38% was unhedged. During the financial year ending 31 March 2018, the ZAR depreciated against the Euro from EUR:R13.45 at 25 March 2017 to EUR:R14.55 at 31 March 2018 and the ZAR appreciated against the US dollar from USD:R12.48 to USD:R11.81. The Group recognised a foreign exchange gain of R440 million on the non-current amount owing to group companies and related parties which are predominantly US dollar based loans, offset by foreign exchange losses of R184 million recognised on the EUR Super senior refinancing facility and the EUR Refinanced A1 facility combined. Additionally, the Group incurred other foreign exchange losses of R71 million predominantly related to forward exchange contracts on imported inventory as the Rand depreciated against the US dollar.

Net financing costs

				(unaudited)
Rm	***53-weeks FY2018***	***52-weeks FY2017***	***52-weeks FY2016***	***% change***(1)
Finance income	93	102	63	
Financing costs	(1 531)	(3 584)	(4 541)	
Net financing costs	(1 438)	(3 482)	(4 478)	(58.7)

(1) FY2018 % change on FY2017, 53-weeks on 52-weeks.

Net financing costs decreased by R2 044 million, or 58.7%, from R3,482 million in fiscal 2017 to R1,438 million in fiscal 2018. This decrease is primarily due to the Agreement with Creditors and Restructuring concluded in the 2017 financial year, whereby existing debt of the Edcon Holding Limited Group (other than super senior bank debt outstanding under the ZAR Super senior RCF term loan and LC Facility and the EUR Super senior liquidity facility) was delegated up to K2016470260 (South Africa) Limited ("Holdco 1"), the indirect parent of Edcon Acquisition Proprietary Limited, and K2016470219 (South Africa) Limited ("Holdco 2" and, together with Holdco 1, the Holdcos"), the ultimate parent company of the Group.

Cash paid net finance costs decreased by R392 million, or 41.2%, from R951 million in fiscal 2017 to R559 million in fiscal 2018 following the Agreement with Creditors and Restructuring concluded in the 2017 financial year.

Cash flow

Operating cash outflow before changes in working capital increased by R648 million, or 96.9%, from an outflow of R669 million in fiscal 2017 to an outflow of R21 million in fiscal 2018, mainly due to the payment of fees in connection with the Restructuring of R1,032 million in fiscal 2017 and a weaker trading performance as operating cost growth exceeded retail sales growth.
In the 2018 financial year, the Group recorded a working capital outflow of R141 million compared to an outflow of R286 million in fiscal 2017 due to:

(i) Proceeds of R39 million from the sales of the trade accounts receivable book during the 2017 financial period the proceeds of which were received in the current financial year, compared to Rnil million proceeds in fiscal 2017;

(ii) A net increase in trade receivables of R311 million in fiscal 2018 compared to a net increase of R78 million in fiscal 2017 as we continued to grow our in-house trade receivables debtors book;

(iii) A decrease in sundry receivables and prepayments of R125 million in fiscal 2018 compared to an increase of R108 million in the 2017 financial year;

(iv) A decrease in inventory of R337 million in fiscal 2018 compared to a decrease of R106 million in fiscal 2017 mainly due to a reduction in purchases;

(v) A decrease in trade and other payables of R331 million in fiscal 2018 compared to a decrease of R449 million in fiscal 2017 as a result of lower inventory inputs in fiscal 2018; and

(vi) A decrease in amounts owing by group companies and related parties of R243 million was recognised in fiscal 2017 while no cash flowed to group companies and related parties in fiscal 2018.

Net cash outflow from operating activities decreased by R1,147 million from an outflow of R2,031 million in fiscal 2017 to an outflow of R884 million in fiscal 2018, primarily as a result of the weaker trading performance in fiscal 2018, fees incurred in connection with the Restructuring in fiscal 2017, an improvement in working capital cash flows as detailed above and a reduction in net cash financing costs of R392 million offset by an increase in taxation paid of R38 million, or 30.4%, from R125 million in fiscal 2017 to R163 million in fiscal 2018 relating to tax payments to non-domestic jurisdictions.

Capital expenditure

Rm	53-weeks FY2018	52-weeks FY2017	52-weeks FY2016	(unaudited) % change(1)
Edgars	134	102	157	
Expansion	*(10)*	*61*	*118*	
Refurbishment	*144*	*41*	*39*	
Jet	111	76	101	
Expansion	*41*	*19*	*88*	
Refurbishment	*70*	*57*	*13*	
Specialty	24	22	96	
Expansion	-	*17*	*78*	
Refurbishment	*24*	*5*	*18*	
Edgars Zimbabwe	15	12	20	
IT	161	421	149	
Other corporate capex	28	49	29	
	473	682	552	(30.6)

(1) FY2018 % change on FY2017, 53-weeks on 52-weeks.

Capital expenditure decreased by R209 million, or 30.6%, to R473 million for fiscal 2018, from R682 million in fiscal 2017. In fiscal 2018, Edcon opened 109 new stores which, combined with store refurbishments, resulted in investments in stores of R269 million (excluding Edgars Zimbabwe), compared to fiscal 2017 during which the Group opened 76 new stores, resulting in an investment in stores of R200 million (excluding Edgars Zimbabwe). Edcon invested R161 million in information systems infrastructure in fiscal 2018 compared to R421 million in fiscal 2017 where the Group commenced investments in our information systems infrastructure as it embarked on its strategy to simplify and upgrade its existing information technology infrastructure. During fiscal 2018, R156 million of the R421 million capital expenditure capitalised in the 2017 financial year was written off as the Group re-evaluated its information technology strategy.

The Group is planning to spend approximately R400 million in the 2019 financial year.

Net debt, liquidity and capital resources

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

			(unaudited)		
			53-weeks	52-weeks	52-weeks
Rm[1]	**Cash**	**PIK**	***FY2018***	*FY2017*	*FY2016*
Super senior debt					
EUR Refinanced Facility A1 due 28 September 2018[2,3]	*E+9.00%*	*8.00%*	691	576	
EUR Super Senior Facility due 28 September 2018 – Facility A2[2,3]	*E+9.00%*	*8.00%*	2 187	1 779	2 033
ZAR Super Senior RCF Term Loan due 28 September 2018[3,4]	*J+5.00%*	*3.00%*	2 278	2 116	3 249
ZAR Converted revolving credit Facility until 28 September 2018[4,5]	*J+5.00%*	*3.00%*	1 867	1 250	
ZAR Super Senior Hedging Debt due 31 December 2017[6]	*JIBAR*	*8.00%*			662
EUR Super Senior Term Loan due 31 December 2017[6]	*EURIBOR*	*8.00%*			638
EUR Super Senior PIK notes due 30 June 2019[6]		*8.00%*			1 876
Senior secured debt					
ZAR term loan due 31 December 2017[6]	*J+7.00%*	*3.00%*[4]			3 011
EUR fixed rate note due 1 March 2018[6]	*9.50%*				10 504
USD fixed rate note due 1 March 2018[6]	*9.50%*				3 845
Lease liabilities			261	305	340
EUR Senior secured PIK Toggle notes due 30 June 2019	*9.75% (no toggle)*	*12.75% (toggle)*			482
Senior					
Other loans[7]			386	205	332
Gross third party debt			7 670	6 231	26 972
Derivatives					50
Cash held in escrow on Legit sale				(584)	
Cash and cash equivalents			(1 379)	(1 787)	(1 693)
Net third party debt			6 291	3 860	25 329

(1) FX rates at end FY2018 were R11.81:$ and R14.55:€; FY2017 were R12.48:$ and R13.45:€ and FY2016 were R15.46:$ and R17.26:€.

(2) The maturities were extended effective 28 November 2017 in exchange for a cash margin uplift from 4.0% to 9.0%.

(3) The maturity was extended to 28 September 2018. The ZAR RCF term loan springs to mature on 28 September 2018. On 20 September 2018, the requisite majority of lenders agreed to extend the maturity date until 31 January 2019 with the potential for automatic extension of such date until 31 March 2019, subject to certain conditions.

(4) The ZAR Converted revolving credit facility springs to mature on 28 September 2018. On 20 September 2018, the requisite majority of lenders agreed to extend the maturity date until 31 January 2019 with the potential for automatic extension of such date until 31 March 2019, subject to certain conditions.

(5) The total available facility is R1,825 million which was fully drawn at 31 March 2018 and R42 million interest was capitalised as at that date.

(6) This debt was restructured or amended as part of the Restructuring concluded in the 2017 financial year.

(7) The portion of this debt relating to Zimbabwe was R55 million in fiscal 2018, R140 million in fiscal 2017 and R278 million in financial year 2016. Included in other loans as at 31 March 2018, is R282 million which relates to supplier financing classified as current interest-bearing debt which has payment terms of 70 days from statement date and bears interest at prime plus 2%.

(8) At the end of the period R175 million of a Super Senior LC facility were utilised for guarantees and LC's.

At the end of the financial year cash and cash equivalents were R1,379 million, a decrease of R408 million or 22.8%, compared to R1,787 million in fiscal 2017. As at 31 March 2018, net third party debt was R6,291 million, an increase of R2,431 million from R3,860 million reported at 25 March 2017. The increase in net third party debt is due to the R408 million decrease in cash and cash equivalents and R584 million released from escrow and utilised for working capital, interest capitalised of R508 million, R42 million of fees amortised and foreign exchange losses of R184 million on the EUR Refinanced facility A1 and EUR Super senior facility as well as a net drawdown of R568 million on the ZAR Converted revolving credit facility during the 2018 financial year and an increase of R181 million in other loans (includes R282 million supplier financing classified as current interest-bearing debt, refer to the table on page 20), offset by, a decrease of R44 million in lease liabilities.

Waiver and Amendment Agreement

As discussed in our unaudited trading update for the 13-weeks ended 23 December 2017 dated as of 7 March 2018, we entered into Waiver and Amendment Agreements (the "Waivers") with lenders under our Super Senior Liquidity Facilities Agreement and Super Senior Credit Facilities Agreement, effective 6 March 2018.

Under the terms of the Waivers, *inter alia*, such lenders agreed to waive existing defaults and events of default that had occurred on or prior to 6 March 2018 and to defer certain obligations with respect to the provision of certain financial accounts and reports, as well as approving the provision of the short-term Bridge Facility.

In addition, the Waivers amend the terms of our Super Senior Liquidity Facilities Agreement and Super Senior Credit Facilities Agreement to capitalise all accrued but unpaid cash margin under the related facilities and at the end of each interest period going forward, subject to the terms and conditions stipulated in the Waivers.

In addition in connection with the Waivers, as detailed in our consent solicitation statement dated 19 March 2018 and our press release dated 26 March 2018, the Holdcos successfully ratified certain amendments to the terms of their respective indebtedness, including, *inter alia*, the deferral of the requirement to (i) publish Edcon's annual report for the fiscal year ended 31 March 2018 and its quarterly reports for the quarters ended 23 December 2017 and 30 June 2018, (ii) provide related financial information, and (iii) hold conference calls with respect to such accounts and information, in each case until the earlier to occur of 24 September 2018 and the termination of the Waivers pursuant to the terms thereof.

EVENTS AFTER THE REPORTING PERIOD

National Consumer Tribunal ("NCT") Judgement

On 24 April 2017, the NCT rendered a judgement in a complaint referred to it by the National Credit Regulator (the "NCR") declaring that the Edcon Group was in contravention of the National Credit Act, 32 of 2005 by requiring the payment of club fees in the terms of its credit agreements. The Group appealed the NCT's judgement to the High Court. On 24 May 2018, the High Court issued a judgement in favour of the Group, reversing the NCT's judgement on appeal and dismissing the NCR's complaint with costs. On 25 June 2018, the NCR filed an application with the Supreme Court of Appeal for special leave to appeal the decision of the High Court. The Group is currently awaiting a decision in this regard.

Bridge Facility

On 19 March 2018, Noteholders of New Holdco 2 and New Holdco 1 (collectively the "HoldCos'") ratified amendments to the indentures governing the Notes which allowed for the incurrence of up to an additional R1 billion of Credit Facilities as defined in the indentures, and to provide current stakeholders the opportunity to participate in the financing. On 25 May 2018, the Group entered into a new bridge facility (the "Bridge Facility") which made available, commitments of up to R500 million by the lenders under the Group's existing super senior credit facilities agreement. The Bridge Facility consists of two tranches, one denominated in Euro ("Bridge Facility A1", EUR24 million commitment) and the other in Rand ("Bridge Facility A2", R142 million commitment) and originally matured on 28 September 2018 (refer below to - *"Waivers and Maturities Extensions"*). The Bridge Facility ranks senior to the Group's existing debt and is subject to the same intercreditor agreement which currently governs the ranking and priority of the Group's existing debt, as amended to reflect the incurrence of the Bridge Facility.

On 31 May 2018, the Group drew down R107 million (EUR7 million) on the Bridge Facility A1 and R142 million on the Bridge Facility A2. On drawdown of the Bridge facility A1 and A2, a financing fee of US$2 million was capitalised to the notional loans made under the relevant facility and added to the outstanding principal amount equal to the Bridge Facility A1 and A2 percentage of the US$2 million.

In July 2018, the Group drew down a further EUR14 million (R220 million) on the Super senior EUR Bridge Facility A1.

Waivers and Maturities Extensions

On 20 September 2018, the requisite majority of relevant lenders under our facilities agreed to extend the Waivers with respect to such facilities. Under the terms of the extension, the Waivers terminate upon the earlier to occur of: (i) 11:59pm (Johannesburg time) on 31 January 2019, with the potential for automatic extension of such date until 31 March 2019, subject to certain conditions; and (ii) the time at which any of the termination events occur (and, if applicable, have not been remedied or waived prior to the expiry of any applicable grace periods set out in the Waivers). Upon termination of the Waivers, all amounts previously capitalised will immediately fall due.

On 20 September 2018, the requisite majority of relevant lenders under our Bridge Facility, Super Senior Liquidity Facilities and our Super Senior Credit Facilities agreed to extend the respective maturity dates thereunder until 31 January 2019, with the potential for an automatic extension until 31 March 2019, subject to certain conditions. In addition, the Group is continuing its review of strategic alternatives with respect to its business and corporate and capital structure, including, *inter alia*, a merger or acquisition process.

PART B

EDCON ACQUISITION PROPRIETARY LIMITED (“EDCON”)

UNAUDITED TRADING UPDATE

FOR THE THREE-MONTH PERIOD ENDED 30 JUNE 2018

SUMMARY HISTORICAL AND PROFORMA FINANCIAL AND OTHER DATA

This trading update relates to the unaudited consolidated financial statements for the 13-week period ended 30 June 2018.

The unaudited historical financial data in the Summary of Financial and Other Data and the Condensed Consolidated Financial Statements of Edcon Acquisition Proprietary Limited and its subsidiaries (the "Group") attached hereto, relates to the three-month period ended 24 June 2017 and the three-month period ended 30 June 2018. Unless the context requires otherwise, references in this notice to (i) "first quarter 2018" and "first quarter 2019" shall mean the 13-week period ended 24 June 2017 and the 13-week period ended 30 June 2018, respectively and (ii) "fiscal 2018" and "fiscal 2019" shall mean the 53-week period ended 31 March 2018 and the 52-week period ending 30 March 2019, respectively.

During the first quarter 2019, the Group reorganised its Edgars and Specialty divisions to align responsibility and enable a more agile organisation, whereby our mono-branded businesses transferred from the Specialty division into the Edgars division. Additionally, the Group established a new division the "Thank U Digital" division to consolidate our credit, insurance, loyalty, cellular and e-Commerce customer offering. The Specialty division has dissolved and our CNA operations, Legit Botswana business up to the date of disposal on 30 April 2017 are grouped under "Other retail businesses". As a result, throughout these reports Edgars refers to the Edgars division, which comprises our Edgars, Red Square, Boardmans and mono-branded operations, Jet refers to the Jet division, which comprises our Jet, Jet Mart and Edgars Active operations, and the other retail division, combines our CNA operations and the Legit Botswana business until 30 April 2017. In connection with this reorganisation of our divisions, we have restated our segmental results for the first quarter 2018 but not our segmental results for fiscal year 2018. As a result of the implementation of this new reporting structure, our divisional results for the first quarter 2019 are not directly comparable with our divisional results for fiscal year 2018.

The statements in this section regarding industry outlook, our expectation regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward looking statements. These forward looking statements are subject to numerous risks and uncertainties, some of which are described in more detail in our annual report for fiscal 2017, which we recommend you review in connection with this quarterly report. Our actual results may differ materially from those contained in or implied by any forward looking statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF UNAUDITED TRADING UPDATE

Key features

Pertaining to the first quarter 2019 compared to the first quarter 2018:

- ❖ Retail sales decreased by 8.5% and average trading space decreased by 4.0%
- ❖ Credit sales decreased by 11.6% while cash sales decreased by 6.5%
- ❖ Gross profit margin maintained at 38.9%
- ❖ Store costs increased marginally by 0.6%
- ❖ Other operating costs excluding non-recurring costs, increased 16.3% impacted by an increase in bad debts
- ❖ Adjusted EBITDA decreased by 131.9% to negative R114 million impacted by a tough trading environment and an increase in bad debts
- ❖ On 20 September 2018, the requisite majority of relevant lenders under our Bridge Facility, Super Senior Liquidity Facilities and our Super Senior Credit Facilities agreed to extend the respective maturity dates thereunder until 31 January 2019, with the potential for an automatic extension until 31 March 2019, subject to certain conditions.

Introduction

Operational results

Our trading environment remained challenging in the first quarter 2018 as the Group traded in a highly competitive environment while consumer spending remained under pressure and further impacted in the quarter by increases in VAT and fuel prices, tight credit conditions, a significant devaluation in the Rand as well as continued high levels of unemployment.

Retail sales decreased by R467 million, or 8.5%, from R5,508 million in first quarter 2018 to R5,041 million in for first quarter 2019. Retail sales were primarily impacted by a shift in the Easter period into the fourth quarter of fiscal 2018, a decrease in average retail space of 4.0% as the Group continued its strategic intent to close unprofitable stores. In addition, the Group faced fierce price competition by our competitors, supplier inefficiencies during the quarter, credit availability to customers and weak consumer demand following fuel price increases and a 1% increase to the VAT rate. Credit sales decreased by 11.6% while cash sales decreased by 6.5% compared to the first quarter 2018. Like-for-like retail sales decreased by 7.0%.

Despite the decrease in retail sales, the gross profit margin for the first quarter 2019 was 38.9%, in line with the first quarter 2018 due to a decrease in markdown activity in our Edgars division and an increase in supplier rebates as well as improvements in the gross profit from our Zimbabwe operations which was bolstered by the depreciation of the Rand.

Our in-house trade receivables book, excluding impairment provisions impacted by the adoption of International Financial Reporting Standards ("IFRS") 9, Financial Instruments effective 1 April 2018, increased by R397 million and R21 million compared to first quarter 2018 and the own book receivables balance as at 31 March 2018 respectively. Including the adoption of IFRS 9, Edcon's in-house trade receivables book as at 30 June 2018 was R604 million, up R35 million from R569 million as at 24 June 2017 and decreased by R90 million compared to R694 million as at 31 March 2018. Credit sales contributed 37.5% of total retail sales for the first quarter 2019, a decrease of 1.3%, from 38.8% in the first quarter 2018.

Our share of profits from the insurance business decreased by R58 million, or 31.9%, from R182 million for the first quarter 2018 to R124 million for the first quarter 2019 due to a decrease in insurance premiums as a result of credit account closures and policy cancellations mainly in the Absa owned book.

Store costs were well controlled increasing by only R9 million, or 0.6%, from R1,559 million in the first quarter 2018, to R1,568 million in the first quarter 2019, impacted by accounting credit entries relating to a decrease in the onerous lease provision and lease equalisation charge during the quarter. Excluding the impact of these accounting adjustments, store costs increased by 3.1% with store cost saving achieved through the closure of 34 stores across the Group and the opening of 11 Jet stores in the first quarter 2018.

Other operating costs, excluding non-recurring costs, increased by R156 million, or 16.3%, from R956 million in the first quarter 2018 to R1,112 million in the first quarter 2019 due to an increase in net bad debts of R88 million as well as increases in the credit business operating costs of R47 million of which, R37 million relates to increased costs incurred under our credit outsource arrangement.

The non-recurring costs decreased in the first quarter 2019 to a credit of R68 million, from a debit of R10 million for the first quarter 2018 of which R77 million related to an onerous lease provision release as the Group closes stores and exits leases previously classified as onerous.

Adjusted EBITDA decreased by R471 million, from R357 million for the first quarter 2018 to negative R114 million for the first quarter 2019 due to the weak trading performance and increased bad debts and credit operating costs during the quarter.

Net cash from operating activities decreased by R205 million from an inflow of R151 million in the first quarter 2018 to an outflow of R54 million in the current quarter, due to the weak trading performance, increased bad debt handovers, increased credit running costs and costs incurred to restructure our existing debt which were not offset through our working capital management efforts.

The Group has implemented a new corporate structure to enable a more agile organisation. Group and chain strategies have been revised to enable agility, accountability and financially driven decision-making. Stock and core retail space efficiency combined with effective cost management remain a key priority. Our efforts thus far are showing encouraging signs as cash sales become more resilient with stock turns and trading densities beginning to stabilise. We continue to hold the view that people performance will lead to operational performance, which in turn will result in financial performance.

Changes in senior management

During the quarter, the Group established the “Thank U Digital” division to consolidate our credit, insurance, loyalty, cellular and e-Commerce customer offerings and Jane Canny was appointed as the Chief Digital Officer on 1 July 2018. Jane initially joined the Group as the Chief Information Officer in January 2018 and has extensive experience in the retail information technology sector and operations.

Trading review

Key operational data

	(unaudited) Retail sales growth (%)				(unaudited) Gross profit margin (%)		
	Q1:FY19 Actual	***Q1:FY18 Actual***	***Q1:FY19 LFL(1)***	***Q1:FY18 LFL(1)***	***Q1:FY19 Actual***	***Q1:FY18 Actual***	***Pts change(2)***
Edgars(3)	(13.5)	(4.3)	(11.4)	(5.8)	43.4	42.6	0.8
Jet	(5.1)	(2.3)	(5.2)	(2.0)	34.1	34.7	(0.6)
Other retail(4)	(10.5)	(45.1)	(3.3)	3.8	34.6	35.9	(1.3)
Edgars Zimbabwe(5)	37.9	(14.3)	37.9	(14.3)	47.8	46.2	1.6
Total	(8.5)	(7.8)	(7.0)	(3.9)	38.9	38.9	0.0

	Q1:FY19 Actual	***Q1:FY18 Actual***	***% change***
Total number of stores	1 287	1 318	(2.4)
Average retail space (‘000 sqm)	1 492	1 554	(4.0)
Customer credit accounts (‘000s)(6)	2 318	2 675	(13.3)

(1) Like-for-like sales (same store sales).

(2) Q1:FY19 % change on Q1:FY18.

(3) Excluding non-profitable brands being exited, the Edgars division’s retail sales growth decreased by 12.7% in Q1:FY19 and a decrease of 2.6% in Q1:FY18. Financial gross profit margin in Q1:FY19 was 43.6% and 42.7% in Q1:FY18.

(4) Excluding the Legit business and Edgars Shoe Gallery business, retail sales growth in Q1:FY19 decreased by 10.0% and in Q1:FY18 decreased by 13.0%. Financial gross profit margin in Q1:FY19 was 34.6% Q1:FY18 was 35.8%.

(5) On a constant currency basis retail sales increased by 40.0% and LFL growth was positive 40.0% in Q1:FY19.

(6) Excludes Edgars Zimbabwe customer credit accounts Q1:FY19 of 156 260 and Q1:FY18 of 160 590.

Edgars

Retail sales in the Edgars division decreased by R362 million or, 13.5% from R2,690 million in the first quarter 2018 to R2,328 million in the first quarter 2019. Excluding non-profitable brands being exited, retail sales decreased by 12.7%. Retail sales growth was impacted by a tough economic and trading environment due to VAT and fuel price increases as well as fierce price competition by competitors, a decrease in average space of 5.5%, a decrease in promotional activity, the Easter shift and a change in credit legislation following a High Court ruling that consumers do not have to produce proof of income to access credit to which some of our competitors reacted to swiftly. Our customers applying for credit through our partnership with Absa were still required to submit this documentation during the quarter including customers applying on our own book as system development changes are required. Edgars cash sales decreased by 13.3% compared to the first quarter 2018 whilst credit sales decreased by 13.7% over the same period. All merchandise categories traded down compared to the first quarter 2018. Same store sales decreased by 11.4% compared to the first quarter 2018.

Average space decreased by 5.5% to 738 thousand square meters compared to the first quarter 2018. During the first quarter 2018, 15 stores were closed being, 4 Red Square stores, 3 Boardmans stores, 1 Kelso store and 7 mono-branded stores bringing the total number of stores in the Edgars division to 320.

Gross margin was 43.4% (43.6% excluding non-profitable brands being exited) for the first quarter 2019, an increase of 0.8%, from 42.6% for the first quarter 2018. The increase is due to a reduction in markdown activity in the first quarter 2019 compared to the first quarter 2018.

Jet

Retail sales in the Jet division decreased by R121 million, or 5.1%, from R2,363 million in the first quarter 2018, to R2,242 million in the first quarter 2019. The decrease in retail sales was due to supplier delivery inefficiencies, a tough trading environment, the Easter shift and a decrease in average retail trading space of 2.0% following our strategic intent to exit non-profitable stores and close or convert our Jet Mart stores to Jet stores when compared to the first quarter 2018. Credit sales decreased by 12.3% in first quarter 2019 compared to the first quarter 2018, impacted by our continued requirement in the quarter for customers to produce proof of income, while cash sales decreased by 1.7%. Home and Cellular grew positively compared to the first quarter 2018 whilst the remaining categories including ladieswear, menswear, childrenswear, footwear and hardlines underperformed compared to first quarter 2018. Same store sales decreased by 5.2%.

Average space decreased by 2.0% to 639 thousand square meters compared to the first quarter 2018. During the quarter, we opened 11 Jet stores and closed 2 Jet stores, 1 Jet Mart and 13 Edgars Active stores bringing the total number of stores in the Discount division to 729.

Gross profit margin decreased to 34.1% in the first quarter 2019 from 34.7% in the first quarter 2018 due to increased markdown activity to address aged inventory and further impacted by our decision to absorb the impact of the 1% VAT increase legislated and effective in the first quarter 2019.

Other retail

Other retail includes our CNA business and 9 Samsung stores in the first quarter 2019 while the first quarter 2018 also included the Legit Botswana business up until 30 April 2017.

Total retail sales for the first quarter 2019 was R289 million, a decrease of R34 million, or 10.5% compared to retail sales of R323 million in the first quarter 2018. Excluding Legit Botswana, retail sales decreased by 10.0%. The core strategy for CNA was completed in fiscal 2018 and the first quarter 2019, focused on the execution and refinement of the strategy which focuses on stationery as core product and an enhanced scholastic and home/office shopping experience.

Average store space decreased by 7.4% to 75 thousand square meters compared to the first quarter 2018 through our strategic intent to optimise our store base. During the quarter, we closed 3 CNA stores, bringing the total number of stores for Other retail stores to 187 which are CNA stores and includes 9 Samsung stores.

Gross profit margin decreased to 34.6% in the first quarter 2019 from 35.9% in the first quarter 2018 due to increased markdown activity to address excess and exiting categories by our CNA business.

Rest of Africa

Sales from countries other than South Africa increased by 0.6% (decreased 9.2% excluding Zimbabwe) compared to the first quarter 2018, and contributed 12.6% (9.3% excluding Zimbabwe) of retail sales for the first quarter 2019, up from 11.4% (and flat at 9.3% excluding Zimbabwe) in the first quarter 2018. Lesotho, Zambia, Ghana and Zimbabwe reported positive sales growths in Rand terms when compared to the first quarter 2018 whilst, Swaziland, Botswana, Namibia and Mozambique reported negative Rand sales growths compared to the first quarter 2018. Edcon has 187 stores outside of South Africa (including 51 in Zimbabwe).

Thank U Digital

The Group established a new division, namely the “Thank U Digital” division to consolidate our credit, insurance, loyalty, cellular and e-Commerce customer offerings.

At 30 June 2018, excluding Edgars Zimbabwe, our credit business had 357 thousand fewer credit customers compared to the first quarter 2018 as a result of continued credit account closures which exceeded the rate of account openings. On a twelve month rolling basis, credit sales (excluding Zimbabwe) has increased from 32.8% of total retail sales in the first quarter 2018 to 34.8% in the first quarter 2019 where the Group benefited from our revised arrangement with Absa. Edcon’s in-house trade receivables book as at 30 June 2018 was R604 million, up R35 million from R569 million as at 24 June 2017 and has decreased by R90 million compared to R694 million as at 31 March 2018. The decrease in our own book is attributable to an increase in the provision for the impairment of receivables on adoption of IFRS 9, Financial Instruments effective 1 April 2018. Excluding the impact of adopting IFRS 9, the own book on a gross basis, excluding the provision for impairment of receivables, increased by R397 million when compared to the gross own book balance at 24 June 2017 and by R21 million when compared to the gross balance as at 31 March 2018. IFRS 9, impairments considers an expected loss impairment approach versus an incurred loss approach under the prior IFRS, IAS 39, Financial Instruments. The Group’s finance charges on trade receivables, including Zimbabwe, increased by R9 million, or 10.8% from R83 million for the first quarter 2018 to R92 million for the first quarter 2018 due to the increase in trade receivables.

Edcon’s share of the profits from the insurance business decreased by R58 million, or 31.9%, from R182 million for the first quarter 2018 to R124 million for the first quarter 2019. The decrease is driven by a reduction in insurance premiums of approximately R122 million as a result of the number of credit accounts and insurance policies declining in the first quarter 2019 compared to the first quarter 2018 offset, by approximately a R57 million increase in profit share including the impact of reinsurances executed in prior periods and an R8 million decrease in the deferred taxation charge.

Our loyalty, cellular and e-Commerce running costs are included in other operating costs and are charged to the retail operating divisions for segmental reporting purposes. Operating costs for the first quarter 2019 applicable to loyalty, cellular and e-Commerce was R19 million, a decrease of R8 million, or 29.6%, from R27 million for the first quarter 2018 due to the consolidation of portfolios.

Financial review

Summary financial information

Rm	First quarter (unaudited) 2019	2018	% Change[1]
Total revenues	5 525	6 057	(8.8)
Retail sales	5 041	5 508	(8.5)
Gross profit – retail sales[2]	1 962	2 142	(8.4)
Gross profit margin from retail sales (%)	38.9	38.9	0.0 pnt
Adjusted EBITDA[3]	(114)	357	(131.9)
Capital expenditure	55	178	(69.1)
Net third party debt including cash and derivatives	7 005	4 208	66.5

(1) Q1:FY19 % change on Q1:FY18.

(2) Gross profit – retail sales is derived from retail sales less retail cost of sales.

(3) See table on page 31 which reconciles trading profit/loss to adjusted EBITDA.

Revenues

Total revenues decreased by R532 million, or 8.8%, from R6,057 million in the first quarter 2018 to R5,525 million in the first quarter 2019 due to weaker sales which decreased by R467 million compared to the prior period. Retail sales decreased primarily as a result of a shift in the Easter period, continued aggressive competition through additional promotional activities on offer by competitors, supplier delivery inefficiencies, credit availability to customers and a decrease in average trading space of 4.0%. Credit sales decreased by 11.6% compared to the prior period, while cash sales decreased by 6.5%. Club fees decreased marginally by R3 million as club membership exits across both the Edgars and Jet division were not offset by new membership take-ups. Our share of profits from the insurance business decreased by R58 million, or 31.9%, from R182 million for the first quarter 2018 to R124 million for the first quarter 2019 as insurance premiums decreased through cancellations and credit account closures, offset by increased profits attributable to the Group and a lower tax charge. Additionally, finance income decreased by R20 million, or 64.5%, from R31 million for first quarter 2018 to R11 million in the current quarter due to lower average cash balances compared to the comparative quarter. These decreases were offset by an increase of R9 million from finance charges on trade receivables or, 10.8% from R83 million for the first quarter 2018 to R92 million in the current quarter due to growth in the own book, as well as an increase in the Absa administration fee of R6 million affected by the number of active accounts and a R1 million increase in manufacturing sales to third parties, when compared to first quarter 2018.

Retail gross profit

Retail gross profit margin remained flat at 38.9% despite the decrease in retail sales compared to the first quarter 2018 achieved through a decrease in markdown activity in our Edgars division, an increase in rebates and gross profit improvements from our Zimbabwe operations which was bolstered by the depreciation in the Rand.

Adjusted EBITDA

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

	First quarter (unaudited)		
Rm	***2019***	***2018***	***% Change(1)***
Trading (loss)/profit	(225)	89	(352.8)
Depreciation and amortisation	180	240	
Net asset write off(2)	4	10	
EBITDA (gains)/losses from brands exited(3)	(8)	6	
EBITDA losses from the Legit business(4)	3	2	
Other non-recurring costs(5)	(68)	10	
Adjusted EBITDA	(114)	357	(131.9)

(1) Q1:FY19 % change on Q1:FY18.

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

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

(4) Adjustment to remove the EBITDA (gains)/losses relating to the write-off of remaining Legit balances and the Legit business sold.

(5) Non-recurring costs in Q1:FY19 related to a debit of R1 million for employee restructure costs, R77 million onerous lease credit, R1 million provision raised, R4 million information technology strategic costs incurred, R2 million non-recurring legal fees incurred and R1 million incurred for strategic costs. Non-recurring costs in Q1:FY18 related to a debit of R7 million for employee restructure costs, a R2 million credit for transitional project related expenditure accruals at 25 March 2017, reversed in the first quarter 2018, R4 million expense incurred from a brand penalty fee and unrecovered costs of R1 million as a result of flood and storm damage.

The table below reconciles previously reported adjusted EBITDA for the first quarter 2018 to adjusted EBITDA reported above:

	First quarter (unaudited)
Rm	***2018***
Adjusted EBITDA previously reported(1)	354
EBITDA losses from additional brands exited(2)	3
Adjusted EBITDA(3)	357

(1) Refer to the Unaudited Condensed Consolidated Financial Statements and Quarterly Report of Edcon Acquisition Proprietary Limited for the three month period ended 24 June 2017.

(2) Relates to EBITDA losses from additional international brands targeted and agreed to exit during fiscal 2018 and fiscal 2019.

(3) Adjusted EBITDA as reported above.

Costs

	First quarter (unaudited)		
Rm	***2019***	***2018***	***% change(1)***
Store costs	1 568	1 559	0.6
Other operating costs(2)	1 112	956	16.3
Non-recurring (income)/costs(3)	(68)	10	

(1) Q1:FY19 % change on Q1:FY18.

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

(3) Non-recurring costs in Q1:FY19 related to a debit of R1 million for employee restructure costs, R77 million onerous lease credit, R1 million provision raised, R4 million information technology strategic costs incurred, R2 million non-recurring legal fees incurred and R1 million incurred for strategic costs. Non-recurring costs in Q1:FY18 related to a debit of R7 million for employee restructure costs, a R2 million credit for transitional project related expenditure accruals at 25 March 2017, reversed in the first quarter 2018, R4 million expense incurred from a brand penalty fee and unrecovered costs of R1 million as a result of flood and storm damage.

Total store costs increased by R9 million, or 0.6%, from R1,559 million in the first quarter 2018, to R1,568 million in the first quarter 2019. The increase in store costs is attributable to accounting credit entries relating to a decrease in the onerous lease provision and lease equalisation charge. Excluding the impact of these IFRS accounting adjustments, store costs increased by 3.1% with store cost saving achieved through the closure of 34 stores across the Group and the opening of 11 Jet stores in the first quarter 2018. Rental and manpower costs constituted 64.7% of total costs for the first quarter of 2019.

Other operating costs, excluding non-recurring costs, increased by R156 million, or 16.3%, from R956 million in the first quarter 2018 to R1,112 million in the first quarter 2019. This increase is was predominantly driven by an increase in net bad debts of R88 million and an increase in operating costs relating to our credit business of R47 million of which R37 million related to increased costs incurred under our credit outsource arrangement.

Non-recurring costs decreased in the first quarter 2019 to a credit of R68 million, from a debit of R10 million for the first quarter 2018 of which R77 million related to an onerous lease provision release as the Group exits leases previously classified as onerous.

Depreciation and amortisation

The depreciation and amortisation charge for the first quarter 2019 decreased by R60 million, or 25.0%, to R180 million from R240 million in the first quarter 2018. The depreciation charge decreased by R8 million relating to a decrease in information technology investment whilst, amortisation of intangible assets decreased by R52 million following an impairment of the Edgars and Jet brands in fiscal 2018 and customer lists and relationships fully amortised in fiscal 2018.

Net financing costs

	First quarter (unaudited)		
Rm	***2019***	***2018***	***% change***
Interest received	11	31	
Financing costs	(444)	(354)	
Net financing costs	(433)	(323)	34.1

Net financing costs increased by R110 million, or 34.1%, from R323 million in the first quarter 2018 to R433 million in the first quarter 2019. The increase in net financing costs is due to a decrease in interest received of R20 million as a result of a decrease in the average cash balance on hand and an increase in financing costs of R90 million impacted by the weakening of the Rand and an increase to our debt balances following the capitalisation of interest on the ZAR RCF Term loan, ZAR Converted revolving credit facility, the EUR Super senior refinancing facility and the EUR Refinanced A1 facility following the Waiver entered with creditors in fiscal 2018. In addition, in May 2018, the Group drew down R107 million on the Bridge facility A1 and R142 million on the Bridge facility A2 which bears interest at an initial rate of JIBAR or EURIBOR monthly as appropriate plus a 17% payment-in-kind (“PIK”) margin.

Cash paid net finance costs decreased by R85 million, or 84.2%, from R101 million in the first quarter 2018 to R16 million for the first quarter 2019 as a result of the Waiver whereby the lenders agreed to amend the terms of the debt for the duration of the waiver period of all accrued but unpaid cash margin.

Foreign exchange management

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

	First quarter (unaudited)		
Rm	***2019***	***2018***	**% change**
Foreign exchange losses	(1 458)	(463)	(214.9)

Edcon manages its foreign exchange risk on liabilities on an ongoing basis. At the end of the first quarter 2019, 59% of the Group's total gross debt is hedged by virtue of it being denominated in local currency, whilst 41% is unhedged. The net negative exchange movement during the first quarter 2019 is the result of the Rand depreciating against the Euro from EUR:R14.55 as at 31 March 2018 to EUR:R15.95 as at 30 June 2018 as well as the U.S. dollar from USD:R11.81 to USD:R13.71 over the same period. In the first quarter 2018, the Rand had depreciated from EUR:R13.45 as at 25 March 2017 to EUR:R14.48 and the U.S. dollar from USD:R12.48 to USD:R12.97.

Cash flow

Operating cash before changes in working capital decreased by R440 million from an inflow of R173 million in the first quarter 2018 to an outflow of R267 million in the first quarter 2019. The decrease is due to the weaker trading performance, costs incurred to refinance our existing debt as well as an increase in bad debt handovers in the first quarter 2019 compared to the first quarter 2018.

The Group reported a working capital inflow of R251 million in the first quarter 2019, compared to an inflow of R142 million in the first quarter 2018, attributable to:

(i) a decrease in trade accounts receivable of R31 million following trade receivables impairments on the adoption of IFRS 9 compared to an increase of R157 million in the first quarter 2018 driven by the increase in the own trade receivables book offset, by proceeds received of R39 million relating to the sale of the written down trade receivables book in fiscal 2017;

(ii) an increase in sundry receivables and prepayments of R47 million in the first quarter 2019 compared to a decrease of R112 million in the first quarter 2018. The increase is due to cash benefits realised in the first quarter 2018 where the Group focused reducing receivables that had been owing to the Group;

(iii) an increase in inventory of R120 million in the first quarter 2019 compared to an increase of R315 million in the first quarter 2018 impacted by the timing of purchases and Easter shifts compared to the first quarter 2018; and

(iv) an increase in trade and other payables of R387 million in the first quarter 2019 compared to an increase of R463 million in the first quarter 2018 impacted by a decrease in purchases in first quarter 2019 compared to the first quarter 2018.

Net cash from operating activities decreased by R205 million from an inflow of R151 million in the first quarter 2018 to an outflow of R54 million in the current quarter, due to the weaker trading performance which was not offset through our working capital management efforts.

Capital expenditure

Rm	First quarter (unaudited)		
	2019	***2018[(1)]***	***% change***
Edgars	20	74	
Expansion	*20*	*24*	
Refurbishment	-	*50*	
Jet	16	34	
Expansion	*11*	*20*	
Refurbishment	*5*	*14*	
Other retail	*1*	6	
Expansion	*1*	*1*	
Refurbishment	-	*5*	
Edgars Zimbabwe	1	2	
IT	8	54	
Other corporate capex	9	8	
	55	178	(69.1)

(1) Q1:FY18 comparatives have been re-classified for the restructuring of the divisions.

Capital expenditure decreased by R123 million to R55 million in the first quarter 2019, from R178 million in the first quarter 2018. In the first quarter 2019, we opened 11 new stores which, combined with store refurbishments, resulted in investments in stores of R37 million (excluding Zimbabwe), compared to the first quarter 2018 during which we opened 26 new stores, resulting in an investment in stores of R114 million (excluding Zimbabwe). Edcon invested R8 million in information systems infrastructure in the first quarter 2019 compared to R54 million in the first quarter 2018 where the Group incurred costs to simplify and upgrade the existing IT infrastructure.

The Group has planned total capital expenditure of approximately R400 million for fiscal 2019.

Net debt, liquidity and capital resources

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

			First quarter (unaudited)	
Rm(1)	**Cash**	**PIK**	***2019***	***2018***
Super senior debt				
EUR Refinanced Facility A1 due 28 September 2018(6)	*E+9.00%*	*8.00%*	791	632
EUR Super Senior Facility due 28 September 2018 – Facility A2(6)	*E+9.00%*	*8.00%*	2 504	1 972
ZAR Super Senior RCF Term Loan due 28 September 2018(2, 6)	*J+5.00%*	*3.00%*	2 363	2 131
ZAR Converted revolving credit Facility until 28 September 2018(2, 3, 6)	*J+5.00%*	*3.00%*	1 937	1 250
EUR Bridge facility A1 due 28 September 2018(6)		*J+17.00%*	144	
ZAR Bridge facility A2 due 28 September 2018(6)		*J+17.00%*	155	
Senior secured debt				
Lease liabilities			249	302
Other loans(4)			331	206
Gross third party debt			8 474	6 493
Cash held in escrow on Legit sale				(634)
Cash and cash equivalents			(1 469)	(1 651)
Net third party debt			7 005	4 208

(1) FX rates at end Q1:FY17 were R12.97:$ and R14.48:€ and at the end of Q1:FY19 were R13.71:$ and R15.95:€.

(2) Springs to mature on 28 September 2018.

(3) The total available facility is R1,825 million which was fully drawn at 30 June 2018 and R119 million interest was capitalised as at that date.

(4) The portion of this debt relating to Zimbabwe was R54 million in Q1:FY19 and R137 million in Q1:FY18. Included in other loans as at 30 June 2018 is R234 million which relates to supplier financing which has payment terms of 70 days from statement date and bears interest at prime plus 2%.

(5) At the end of the period R157 million of a Super Senior LC facility were utilised for guarantees and LC's.

(6) On 20 September 2018, the requisite majority of lenders agreed to extend the maturity date until 31 January 2019 with the potential for automatic extension of such date until 31 March 2019, subject to certain conditions.

The total net third party debt increased by R2,797 million or 66.5% from R4,208 million as at 24 June 2017 to R7,005 million as at 30 June 2018 due to the weakening of the Rand against the Euro as well as interest capitalised on the EUR Refinanced A1 facility, EUR Super senior facility, ZAR RCF Term facility and the ZAR Converted revolving credit in terms of the Waiver concluded in fiscal 2018 with lenders.

Net third party debt increased by R714 million compared to that reported as at 31 March 2018 of R6,291 million due to the Rand depreciating against the Euro from 31 March 2018 to 30 June 2018, pay-in-kind interest capitalised during the quarter in terms of the Waiver as well as EUR7 million and R142 million drawn down on the EUR Bridge facility A1 and ZAR Bridge A2 facility respectively in May 2018.

We anticipate that the seasonality of our business will increase our cash needs in the near-term. As discussed in the risk factors included in our annual report for fiscal 2017, our liquidity may also be adversely affected by pressure from our credit insurers and suppliers, and by continuing pressure on credit sales and declining demand as a result of macro-economic and structural factors in South Africa.

EVENTS AFTER THE REPORTING PERIOD

Bridge Facility

In July 2018, the Group drew down a further EUR14 million (R220 million) on the Super senior EUR Bridge Facility A1.

Waivers and Maturities Extensions

On 20 September 2018, the requisite majority of relevant lenders under our facilities agreed to extend the Waivers with respect to such facilities. Under the terms of the extension, the Waivers terminate upon the earlier to occur of: (i) 11:59pm (Johannesburg time) on 31 January 2019, with the potential for automatic extension of such date until 31 March 2019, subject to certain conditions; and (ii) the time at which any of the termination events occur (and, if applicable, have not been remedied or waived prior to the expiry of any applicable grace periods set out in the Waivers). Upon termination of the Waivers, all amounts previously capitalised will immediately fall due.

On 20 September 2018, the requisite majority of relevant lenders under our Bridge Facility, Super Senior Liquidity Facilities and our Super Senior Credit Facilities agreed to extend the respective maturity dates thereunder until 31 January 2019, with the potential for an automatic extension until 31 March 2019, subject to certain conditions. In addition, the Group is continuing its review of strategic alternatives with respect to its business and corporate and capital structure, including, *inter alia*, a merger or acquisition process.

Corporate Information

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

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

*AUSTRALIAN

Group Secretary
CM Vikisi

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

Postal address
PO Box 100, Crown Mines, 2025

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

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

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

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