MEDIA RELEASE

EDCON'S YEAR DOMINATED BY CORPORATE AND DEBT RESTRUCTURING, STRATEGIC CHANGE AND HARSH TRADING CONDITIONS

Unaudited and pertaining to the 52-week period ended 25 March 2017 compared to the prior comparative period

- *Debt restructuring finalised with new ownership and gross third party debt in the operating group significantly reduced to R6.2 billion as at 25 March 2017*
- *Sale of Legit business concluded for R637 million*
- *Controllable costs well managed*
- *Retail sales decreased by 6.7% to R25,343 million*
- *As a result of a challenging and competitive retail landscape, retail cash sales decreased by 2.4% while credit retail sales decreased by 13.4%*
- *In-house trade receivables book grows in excess of 150%*
- *Clearance of aged inventory, introduction of better entry price points and markdown activity negatively affected gross profit margin by 230 basis points*
- *Proforma adjusted EBITDA decreased by 45.0% to R1,383 million*

Johannesburg, 25 May 2017: The main feature over the last financial year has undoubtedly been the significant shareholder, debt and corporate restructuring that was finalised on 1 February 2017.

In September 2016, approximately 80% of the secured creditors of the Edcon Group entered into an agreement for the Group's comprehensive restructuring involving a transfer of control to certain of Edcon's creditors, a debt to equity swap and the establishment of a new holding company structure. As a result of the restructuring, as at 25 March 2017, the Edcon Group's gross third party debt significantly reduced to R6.2 billion from R27 billion as at 26 March 2016.

Edcon Chief Executive, Bernie Brookes, commented, "Once management had concluded this significant initiative, our primary focus shifted and continues to be on the needs of our large customer base, and the return of our business to its leading position in the market. Our revitalised strategic plan, which has advanced significantly over the year, is customer-centric and focuses on simplicity and people empowerment".

During the 52-week period ended 25 March 2017, management has directed its efforts toward the numerous restructuring initiatives, as well as on Edcon's continuity, and together with the harsh trading environment, it all resulted in a challenging financial year for the business. Underlying consumer demand in South Africa remained weak as a result of the ongoing, subdued growth in consumers' disposable income, tight credit conditions, low consumer confidence and a more restrictive governmental fiscal policy.

For its financial year ended 25 March 2017, the Edcon Group's retail sales decreased by 6.7% to R25,343 million compared to the financial year ended 26 March 2016, while comparative store sales declined by 6.7%.

Bernie Brookes, said, "Our weaker retail sales performance was also affected by the newly-introduced credit regulations during the first half of the year, as well as the shift in Easter and school holidays from the March month into April, which for Edcon is into its next financial period".

Merchandise categories across the Group, with the exception of homeware, traded down on the comparable period.

Furthermore, retail sales in the previous financial year included 12 months of sales from the Legit business, while this year only 10 months of sales were included from the Legit business following the sale of Legit, effective 29 January 2017 (excluding Legit Botswana which was sold effective 30 April 2017).

Cash and credit sales performance for the Group decreased by 2.4% and 13.4%, respectively, compared to last year. Credit sales contributed 36.0% of total retail sales, compared to 38.8% last year. Edcon concluded a new agreement with Absa in late November 2016, wherein it has been agreed to acquire 80% of all new credit applications for Edcon's in-house second look credit book. Bernie Brookes, said, "This agreement with Absa has contributed positively to stronger new credit sales in the second half of the financial period, and as a result our in-house book has grown in excess of 150% when compared to this time last year".

Group gross profit margins decreased from 38.8% to 36.5% mainly as a result of a drive to clear aged inventory coupled with high markdown and clearance activity across all retail divisions as well as the introduction of planned competitive entry price points, which did not provide the sales lift volumes required to offset the negative impacts on gross profit.

Store costs increased by 5.6%, to R6,826 million from R6,463 million previously. Operating costs, excluding non-recurring costs, decreased by 9.2% from R4,614 million to R4,191 million. This is mainly attributable to a decrease in manpower costs following the restructuring of Edcon's head office, which concluded towards the end of the last financial year.

Total capital investments were R682 million, an increase of R130 million, or 23.6% compared to capital investments of R552 million in the previous financial year. The increase was driven by investments in the information systems infrastructure in the latter part of the year as the Group embarked on its strategy to simplify and upgrade its existing information technology infrastructure.

Edcon opened 76 new stores which, combined with store refurbishments, resulted in investments in stores of R200 million (excluding Edgars Zimbabwe), compared to the previous financial year, where 96 new stores were opened, resulting in an investment in stores of R354 million (excluding Edgars Zimbabwe).

The **Edgars Division**, which includes Edgars stores, reported total retail sales of R10,164 million, a decrease of 6.7% from R10,898 million. Cash sales decreased slightly by 0.3% and credit sales decreased by 13.3%. Comparable store sales were 6.6% lower, which was in line with the total sales decrease as average space increased only marginally by 0.7%. Gross profit margin in this division decreased by 2.0%, from 43.2% to 41.2%, primarily due to a planned focus on competitive entry price points, higher input costs in the first half of the current period and high markdown activity on the back of better entry price points.

Within the **Discount Division**, which includes Jet and Jet Mart stores, sales decreased by 6.3% from R9,552 million to R8,954 million this year, and comparable store sales decreased by 5.7%. Sales remained affected by lower credit sales, which decreased by 13.5%, and a 2.8% decline in cash sales. Jet customers remained affected by the prevailing, unfavourable, macro-economic conditions in South Africa. The gross profit margin in this division decreased by 2.8%, from 35.2% to 32.4%, primarily as a result of aggressive clearance of aged inventory, higher input costs in the first half of the financial period and higher levels of markdown activity. Better entry price points initiated during the financial year 2017 did not deliver any meaningful uplift to offset the pressures on the gross profit margin. Average space decreased by 0.9%.

The **Specialty Division**, which includes Boardmans, Red Square, Edgars Active, Edgars Shoe Gallery, Legit, CNA and the mono-branded stores, reported retail sales of R5,523 million, a decrease of R352 million, or 6.0%, compared to retail sales of R5,875 million last year. Credit sales decreased by 12.6% and cash sales decreased by 3.7%. Gross margin decreased by 2.1%, from 35.4% in the previous financial year to 33.3%, mainly as a result of aggressive pricing competition, the clearance of aged inventory and the exit from unprofitable international brands during the period. These brands included, among others, Geox, Express, Lucky Brand, River Island, Tom Tailor and One Green Elephant.

Sales from operations **outside of South Africa** remained below expectations with retail sales decreasing by 7.0% compared to the prior financial year, primarily due to weaker trading performances. The fluctuation in the Rand which strengthened over the current financial period also contributed to lower Rand sales reported on consolidation of the African subsidiaries.

Following the challenging trading performance in financial year 2017, trading during April 2017, the first month of the new financial year, has showed an improvement.

Bernie Brookes commented, “It is pleasing to note that our adjusted EBITDA for the first month of April 2017, the first month of the new financial year, has increased by more than 25%. Furthermore, credit sales also improved during the month of April 2017 and outperformed cash sales growth for that month. Our strategic plan is giving positive indications: we are sitting at our best-ever stock levels, exiting unprofitable international brands, and our customer service levels are showing improvements, but we acknowledge that we still have tremendous work to get through during the current financial year”.

In line with an improved trading performance during April 2017, Edcon has also seen improving results with respect to the Net Promoter Score system with many customers seeing value in the price points and service being provided. The lower initial markup across the business is expected to be offset by lower markdowns in this financial year, as the initiatives around value gain traction.

Bernie Brookes added, “We believe the gross margin will benefit from a considerably improved aged stock profile post the clearance of aged stock in the 2017 financial year”.

As previously announced, on 24 April 2017, the Edcon Group received an adverse decision from the National Consumer Tribunal (NCT) alleging that the Edcon Group had violated the National Credit Act, 32 of 2005 (NCA) by requiring the payment of club fees in terms of its credit agreements. The Edcon Group appealed this decision on 10 May 2017 and a decision on the appeal is pending.

MEDIA RELEASE

Edcon maintains that it has not violated the NCA and is confident that it will be vindicated in due course. In this regard, Edcon notes that the NCT did not find (and could not have found) that the selling of a Club product is unlawful in and of itself, rather, the finding was that the inclusion of Club in a credit agreement is contrary to the NCA. Edcon is of the view that no consumer could have been disadvantaged by choosing to purchase an option product and receiving full value for their purchase.

ends

Contact details:

Edcon

Vannie Pillay

GM: Corporate Affairs and Communication

chr@edcon.co.za

Aprio

Communications Advisor to Edcon

South Africa: Julian Gwillim

julian@aprio.co.za

About Edcon

The Edcon Group is southern Africa's largest non-food retailer. We have been in operation for more than 80 years and have expanded our footprint to 1,343 stores as at 25 March 2017, including 187 stores in eight countries outside of South Africa. During the current financial period, we operated our business under three principal operating divisions comprising nine key store chains as well as mono-branded stores throughout southern Africa. Our Legit store chains with the exception of those operating in Botswana were sold effective 29 January 2017 and the Edgars Shoe Gallery store chains closed during the 2017 financial year.

- Our *Edgars Division*, is targeted at middle-to-upper-income customers and includes the *Edgars* store chains, and accounted for 40.1% of total retail sales in the 52-week period ended 25 March 2017. We had 212 stores in our Edgars Division and an average retail space of 728 thousand square meters for the financial year 2017.
- Our *Discount Division*, which consists of discount stores selling value merchandise targeted at lower- to middle-income customers, includes store chains *Jet* and *Jet Mart*, and accounted for 35.3% of total retail sales in the 52-week period ended 25 March 2017. We had 515 stores in this division and an average retail space of 582 thousand square meters for the financial year 2017.
- Our *Specialty Division*, which consists of specialty stores selling value merchandise targeted at middle to upper-income customers, includes store chains *CNA*, *Edgars Active, Edgars Shoe Gallery, Boardmans Legit,* and *Red Square* as well as our mono-branded stores, and accounted for 21.8% of total retail sales in the 52-week period ended 25 March 2017. We had 565 stores in our Specialty Division and an average retail space of 253 thousand square meters for the financial year 2017.
- Our business in Zimbabwe is independently managed and reported. It accounted for 2.8% of total retail sales reported in the 52-week period ended 25 March 2017. As at 25 March 2017, our business in Zimbabwe we reported 51 stores and an average retail space of 40 thousand square meters for the 52-week period.

MEDIA RELEASE

We have secured exclusive rights to a number of international brands in South Africa, including *Topshop, Mac, Lipsy, Bobbi Brown, Dune, TM Lewin, Salsa, Jigsaw, Calvin Klein, Kiehl's, Victoria Secrets Beauty and Accessories, Vince Camuto, Doc Martens, Jo Malone and Gosh.* Most of these brands are still relatively new to South Africa and are available on an exclusive basis in our Edgars stores and Specialty division's mono-branded stand-alone stores. Edcon controls a company that holds the exclusive rights to *Accessorize, La Senza* and *Inglot.* As at 25 March 2017, we had a total of 88 mono-branded stores. The results of both the shop-in-shop within Edgars' stores and stand-alone stores are included in the Specialty Division.

We also sell mobile phones, related accessories and airtime across all of our divisions, which accounted for 11.1% of our total retail sales in the 52-week period ended 25 March 2017. Our popular retail store chains allow us to serve a wide cross-section of society in the countries in which the Group operates.

We offer credit and insurance products to the Group's customers via our strategic partnerships. We still hold our own foreign book and our own second look credit book, which are worth R252 million and R418 million, respectively, and consolidate the Edgars Zimbabwe book of R294 million, which is managed by Edgars Zimbabwe as of 25 March 2017.

The Group owns a controlling stake in Celrose Proprietary Limited which controls Eddels Proprietary Limited, which are both South African manufacturing businesses. Celrose manufactures apparel whilst Eddels manufactures footwear.

Our *Thank U* rewards program, which was introduced in 2012, allows customers to earn *Thank U* points for their purchases in most of our stores which can be redeemed on future purchases. As at 25 March 2017, the *Thank U* rewards program had over 11 million members.

Our primary operations are in South Africa where the Group generated 88% of our retail sales in financial year 2017. The rest of our operations are in neighbouring Namibia, Botswana, Lesotho, Swaziland, Mozambique, Ghana, Zimbabwe and Zambia, where we operate 187 retail outlets. Edgars Zimbabwe is managed independently and disclosed as a separate division.

For more information, please visit the Edcon website: www.edcon.co.za