**IMPORTANT NOTICE**

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS ("QIBs") WITHIN THE MEANING OF RULE 144A ("RULE 144A") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR (2) OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S ("REGULATION S") UNDER THE U.S. SECURITIES ACT.

*IMPORTANT: You must read the following before continuing.* The following disclaimer applies to the offering memorandum following this notice, and you are therefore advised to read this carefully before reading, accessing or making any other use of the offering memorandum. In accessing the offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

The offering memorandum has been prepared in connection with the proposed offer and sale of the securities (including the guarantees) described herein. The offering memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED HEREIN.

*Confirmation of your representation:* In order to be eligible to view the offering memorandum or make an investment decision with respect to the securities, you must be either (1) a QIB or (2) purchasing securities in offshore transactions outside the United States in reliance on Regulation S, provided that investors resident in a Member State of the European Economic Area must be a qualified investor (within the meaning of Article 2(1)(e) of Directive 2003/71/EC and any relevant implementing measure in each Member State of the European Economic Area). The offering memorandum is being sent at your request. By accepting the e-mail and accessing the offering memorandum, you shall be deemed to have represented to us and the initial purchasers named as such in the attached offering memorandum (the "Initial Purchasers") that:

(1) you consent to delivery of such offering memorandum by electronic transmission; and

(2) either:

   (a) you and any customers you represent are QIBs; or

   (b) the e-mail address that you gave us and to which the e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia.

Prospective purchasers that are QIBs are hereby notified that the seller of the securities will be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act pursuant to Rule 144A.

You are reminded that the offering memorandum has been delivered to you on the basis that you are a person into whose possession the offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located, and you may not, nor are you authorised to, deliver the offering memorandum to any other person. You may not transmit the attached offering memorandum (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Initial Purchasers. If you receive this document by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of us in such jurisdiction.

Under no circumstances shall the offering memorandum constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The offering memorandum has not been approved by an authorised person in the United Kingdom and is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Financial Promotion Order"), (ii) are persons falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the Financial Promotion Order, (iii) are outside the United Kingdom or (iv) are persons to whom an invitation or inducement to engage in investment activity within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA") in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). The offering memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which the offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

No person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the securities other than in circumstances in which section 21(1) of the FSMA does not apply to us.

The offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently none of the Initial Purchasers, or any person who controls any of the Initial Purchasers, or any of their directors, officers, employees or agents accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers.

**OFFERING MEMORANDUM**

# Edcon (Proprietary) Limited

**€317,000,000 9 1/2% Senior Secured Notes due 2018**
**U.S. $250,000,000 9 1/2% Senior Secured Notes due 2018**
guaranteed on a senior secured basis by Edcon Holdings (Proprietary) Limited
and certain of its wholly-owned subsidiaries

| | |
|---|---|
| The Issuer | The €317,000,000 senior secured notes due 2018 (the "EUR Senior Secured Notes") and the U.S. $250,000,000 senior secured notes due 2018 (the "USD Senior Secured Notes" and, together with the EUR Senior Secured Notes, the "Senior Secured Notes") will be issued by Edcon (Proprietary) Limited (the "Issuer"). The Issuer is a wholly-owned subsidiary of Edcon Holdings (Proprietary) Limited ("HoldCo") and is a member of Edcon, the leading clothing and footwear retailing group in South Africa. |
| Use of Proceeds | We intend to use the net proceeds from this offering, together with the proceeds from the Super Senior Rand Loan to be entered on or about the Issue Date, for general corporate purposes, including the refinancing of certain hedging obligations and existing indebtedness of Edcon. See "The Transactions" and "Use of Proceeds". |
| Maturity | The Senior Secured Notes will mature on 1 March 2018. |
| Interest Rate | • We will pay interest on the EUR Senior Secured Notes semi-annually, in cash, in arrears on 15 March and 15 September of each year, commencing on 15 September 2011, at a rate of 9.5% per annum.<br>• We will pay interest on the USD Senior Secured Notes semi-annually, in cash, in arrears on 15 March and 15 September of each year, commencing on 15 September 2011, at a rate of 9.5% per annum. |
| Redemption and Offers to Purchase | • We may redeem the EUR Senior Secured Notes and/or the USD Senior Secured Notes in whole or in part at any time prior to 1 March 2014 at 100% of their principal amount plus a make-whole premium and accrued and unpaid interest, as described herein.<br>• We may redeem the EUR Senior Secured Notes and/or the USD Senior Secured Notes in whole or in part at any time on or after 1 March 2014 at the respective redemption prices set forth herein.<br>• We may redeem up to 35% of the EUR Senior Secured Notes and/or the USD Senior Secured Notes prior to 1 March 2014 with the proceeds from certain equity offerings at the price set forth herein.<br>• We may redeem all, but not a portion, of the Senior Secured Notes upon the occurrence of certain tax events. If we sell certain assets or experience certain kinds of changes in control, we must, unless certain conditions are met, offer to repurchase the Senior Secured Notes at the prices set forth herein.<br>• We may be required to offer to repurchase the Senior Secured Notes if we have not refinanced our senior floating rate notes due 2015 on or prior to 15 March 2015 at a price equal to 100% of the principal amount of the Senior Secured Notes. |
| Ranking | The Senior Secured Notes will be senior secured obligations of the Issuer and will rank *pari passu* with all of the Issuer's existing and future indebtedness that is not subordinated to the Senior Secured Notes, senior to all of the Issuer's indebtedness that is subordinated to the Senior Secured Notes, effectively senior to all of the Issuer's existing and future indebtedness that is unsecured and structurally subordinated to all debt and liabilities of the Issuer's subsidiaries that do not guarantee the Senior Secured Notes. |
| Guarantees | The Senior Secured Notes will be guaranteed on a senior secured basis (the "Senior Secured Guarantees") by HoldCo, Edcon Acquisition (Proprietary) Limited ("BidCo") and Edgars Consolidated Stores Limited ("ECSL"). |
| Security | The Senior Secured Notes and the Senior Secured Guarantees will be secured, along with obligations under the Amended Super Senior Revolving Credit Facility, the Super Senior Rand Loan and certain hedging arrangements, by security interests over substantially all of the assets of the Issuer, HoldCo and, the other Senior Secured Guarantors. The Issuer's obligations under the Amended Super Senior Revolving Credit Facility and the Super Senior Rand Loan will be secured by security interests in the collateral that rank senior to the security interests with respect to the Senior Secured Notes and the Senior Secured Guarantees. |
| Listing | We have applied for the Senior Secured Notes to be listed on the Official List of the Irish Stock Exchange and to be admitted to trading on its Global Exchange Market. This Offering Memorandum constitutes listing particulars for such an application. There is no assurance that the Senior Secured Notes will be admitted to trade on the Global Exchange Market of the Irish Stock Exchange. |

**You should be aware that investing in the Senior Secured Notes involves risks. See "Risk Factors" beginning on page 19.**

The Senior Secured Notes and the Senior Secured Guarantees have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), or the securities laws of any state of the United States or of any other jurisdiction and may not be offered, sold or delivered in the United States unless registered under the U.S. Securities Act or an exemption from the registration requirements of the U.S. Securities Act is available. In the United States, the offering is being made only to "qualified institutional buyers" in reliance on Rule 144A under the U.S. Securities Act ("Rule 144A"). Prospective purchasers that are qualified institutional buyers are hereby notified that the Initial Purchasers of the Senior Secured Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. Outside the United States, the offering is being made in reliance on Regulation S under the U.S. Securities Act ("Regulation S"). See "Notice to U.S. Investors" and "Notice to Non-U.S. Investors" for additional information about eligible offerees and transfer restrictions. The EUR Senior Secured Notes will be issued in registered form in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof. The USD Senior Secured Notes will be issued in registered form in minimum denominations of U.S. $150,000 and integral multiples of U.S. $1,000 in excess thereof. The Senior Secured Notes will be represented on issue by one or more global notes, which are expected to be delivered to investors in book-entry form through the facilities of The Depository Trust Company ("DTC"), Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream") on or about 1 March 2011 (the "Issue Date").

EUR Senior Secured Notes Price: 100.000%

USD Senior Secured Notes Price: 100.000%

*Joint Lead Book-Running Managers*

**Barclays Capital** | **Deutsche Bank** *Joint Global Coordinator* | **Goldman Sachs International** *Joint Global Coordinator* | **Morgan Stanley**

**Offering Memorandum dated 16 March 2011**

JD BOXKETT

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## GENERAL

### Stabilisation

In connection with this offering, Goldman Sachs International (the "Stabilisation Manager"), or any person acting for it may over-allot Senior Secured Notes or effect transactions with a view to supporting the market price of the Senior Secured Notes at a level higher than that which might otherwise prevail for a limited period after the issue date of the Senior Secured Notes. However, there is no obligation on the Stabilisation Manager or any person acting for it to undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Senior Secured Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Senior Secured Notes and 60 days after the date of the allotment of the Senior Secured Notes.

### Responsibility statement

The Issuer accepts responsibility for the information contained in this Offering Memorandum. To the best of the knowledge and belief of the Issuer, the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Memorandum contains summaries with respect to certain terms of certain documents, but reference is made to the actual documents, including the indenture governing the Senior Secured Notes (the "Senior Secured Indenture"), copies of which we will make available to prospective purchasers upon request, for complete information with respect thereto. See "Available Information".

### Offering and transfer restrictions

The Senior Secured Notes and the Senior Secured Guarantees have not been and will not be registered under the U.S. Securities Act, or any securities law of any state of the United States. Unless so registered, the Senior Secured Notes and the Senior Secured Guarantees may not be offered or sold within the United States except in a transaction that is exempt from, or not subject to, the registration requirements of the U.S. Securities Act. As a result, the Senior Secured Notes are only being offered (a) to qualified institutional buyers as defined in Rule 144A in compliance with Rule 144A and (b) pursuant to offers and sales that occur outside the United States in compliance with Regulation S. Prospective purchasers of the Senior Secured Notes are hereby notified that the sellers of the Senior Secured Notes may be relying on the exemption from the provisions of the U.S. Securities Act provided by Rule 144A or Regulation S. See the sections entitled "Notice to U.S. Investors" and "Notice to Non-U.S. Investors".

The Senior Secured Notes offered hereby have not been approved or disapproved by the U.S. Securities and Exchange Commission or any other securities commission or other regulatory authority, nor have the foregoing authorities approved this Offering Memorandum or confirmed the accuracy or determined the adequacy of the information contained in this Offering Memorandum. Any representation to the contrary is unlawful.

We have prepared this Offering Memorandum solely for use in connection with the offer of the Senior Secured Notes to qualified institutional buyers under Rule 144A under the U.S. Securities Act and outside the United States under Regulation S under the U.S. Securities Act. You agree that you will hold the information contained in this Offering Memorandum and the transactions contemplated hereby in confidence. You may not distribute this Offering Memorandum to any person, other than a person retained to advise you in connection with the purchase of the Senior Secured Notes.

We have applied for the Senior Secured Notes to be listed on the Official List of the Irish Stock Exchange and to be admitted to trading on the Global Exchange Market thereof. However, we cannot assure you that the Senior Secured Notes will be listed on any exchange at the time the Senior Secured Notes are delivered to Barclays Bank PLC, Deutsche Bank AG, London Branch, Goldman Sachs International and Morgan Stanley & Co. International plc (collectively, the "Initial Purchasers") or at any other time.

The Senior Secured Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the U.S. Securities Act and other applicable laws. Prospective purchasers of the Senior Secured Notes should be aware that they may be required to bear the entire financial risk of the investment for an indefinite period of time.

The Senior Secured Notes may not be and, accordingly, are not being offered or sold to prospective investors in the Republic of South Africa ("South Africa") other than on reverse-solicitation basis. Accordingly, the offer of the Senior Secured Notes will not be an "offer to the public" (as such expression is defined in the South African Companies Act, No. 61 of 1973 (as amended) (the "SA Companies Act") in South Africa and this Offering Memorandum does not, nor is it intended to, constitute a "prospectus" (as that term is defined in the SA Companies Act) prepared and registered under the SA Companies Act." No South African residents or other offshore subsidiary may subscribe for or purchase any of the Senior Secured Notes or beneficially own or hold any or the Senior Secured Notes unless such subscription, purchase or beneficial holding or ownership is otherwise permitted under the South African exchange control regulations or the rulings promulgated thereunder or specific approval has been obtained from the Financial Surveillance Department of the South African Reserve Bank ("SARB").

This Offering Memorandum is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

We reserve the right to withdraw the offering of the Senior Secured Notes at any time, and we and the Initial Purchasers reserve the right to reject any commitment to subscribe for the Senior Secured Notes in whole or in part and to allot to you less than the full amount of Senior Secured Notes subscribed for by you.

**Prospective purchasers of the Senior Secured Notes must comply with all applicable laws**

The distribution of this Offering Memorandum and the offer and sale of the Senior Secured Notes in certain jurisdictions may be restricted by law. This Offering Memorandum does not constitute an offer of, or an invitation to purchase, any of the Senior Secured Notes in any jurisdiction in which, or to any person to whom, such offer or invitation would be unlawful.

Persons into whose possession this Offering Memorandum comes are required by us and the Initial Purchasers to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on the offer and sale of the Senior Secured Notes, see "Plan of Distribution", "Notice to U.S. Investors", and "Notice to Non-U.S. Investors".

**This Offering Memorandum is only as of its date**

Prospective purchasers should rely only on the information contained in this Offering Memorandum. Neither the Issuer nor the Initial Purchasers have authorised anyone to provide prospective purchasers with information different from that contained in this Offering Memorandum. If anyone provides prospective purchasers with different or inconsistent information, prospective purchasers should not rely on it. The Initial Purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of information set forth herein, and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchasers.

This Offering Memorandum and the information contained herein are subject to completion or amendment without notice.

**No investment, legal or tax advice**

In making an investment decision, you must rely upon your own examination of the Issuer, the Senior Secured Guarantors and their subsidiaries, the terms of the offering, and our financial information. You are not to construe the contents of this Offering Memorandum as investment, legal or tax advice. You should consult your own advisors as to those matters. The Issuer is not, and the Initial Purchasers are not, making any representation to you regarding the legality of an investment in the Senior Secured Notes by you under applicable investment or similar laws.

## INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

PURSUANT TO INTERNAL REVENUE SERVICE CIRCULAR 230, WE HEREBY INFORM YOU THAT THE DESCRIPTION SET FORTH HEREIN WITH RESPECT TO U.S. FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE USED, AND SUCH DESCRIPTION CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE U.S. INTERNAL REVENUE CODE. SUCH DESCRIPTION WAS WRITTEN IN CONNECTION WITH THE MARKETING OF THE SENIOR SECURED NOTES. TAXPAYERS SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

## NOTICE TO NEW HAMPSHIRE RESIDENTS

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

## PRESENTATION OF INFORMATION

**General**

References to "we", "us", "our", "Edcon" and other similar terms refer to ECSL and its consolidated subsidiaries in respect of periods prior to the acquisition by BidCo on 14 May 2007 of the ordinary and preference shares of ECSL (the "Share Acquisition") and refer to HoldCo and its consolidated subsidiaries in respect of periods after the Share Acquisition, except where the context requires otherwise.

**Definitions**

For a description of certain terms we use in this Offering Memorandum, see "Annex A—Glossary of Defined Terms". In addition, in this Offering Memorandum:

"2007 Indentures" means the 2007 Senior Indenture and the 2007 Senior Secured Indenture;

"2007 Notes" means the 2007 Senior Secured Notes and the 2007 Senior Notes;

"2007 Senior Indenture" means the indenture governing the 2007 Senior Notes;

"2007 Senior Notes" means the €630,000,000 senior floating rate notes due 2015 issued by HoldCo;

"2007 Senior Secured Guarantees" means the senior secured guarantees of the 2007 Senior Secured Notes by the 2007 Senior Secured Guarantors;

"2007 Senior Secured Guarantors" means HoldCo, BidCo and ECSL;

"2007 Senior Secured Indenture" means the indenture governing the 2007 Senior Secured Notes;

"2007 Senior Secured Notes" means the €1,180,000,000 senior secured floating rate notes due 2014 issued by the Issuer;

"Amended Super Senior Revolving Credit Facility" means our amended super senior revolving credit facility described in "Description of Certain Other Indebtedness—The Amended Super Senior Revolving Credit Facility";

"Bain Capital" means Bain Capital, LLC;

"BidCo" means Edcon Acquisition (Proprietary) Limited;

"Board" means the board of directors of HoldCo;

"C&F" means clothing and footwear;

"CAGR" means compound annual growth rate;

"CaymanCo" means Edgars Holdings Limited, a Cayman Islands exempted limited company;

"Code" means the United States Internal Revenue Code of 1986, as amended;

"EBITDA" means earnings before interest, taxation, depreciation and amortisation charges;

"EBITDAR" means earnings before interest, taxation, depreciation and amortisation charges and operating lease expenses;

"ECSL" means Edgars Consolidated Stores Limited;

"Empowerment Trust" means the Edcon Staff Empowerment Trust, which is a shareholder of HoldCo;

"EU" means the European Union;

"EUR", "€" and "euro" mean the single currency of the participating member states in the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time;

"EUR Senior Secured Notes" means the Senior Secured Notes offered hereby denominated in euro;

"Existing Hedging Arrangements" means those hedging arrangements currently in place for the Group related to currency and interest rate risk from the 2007 Notes;

"Existing Super Senior Revolving Credit Facility" means our senior revolving credit facility, prior to its amendment;

"fiscal year", when used in relation to any year, means the fiscal year ended on the Saturday of that year closest to 31 March;

"Founder Investor Trusts" means The Elephant Acquisition Primary Founder Investor Trust, The Elephant Acquisition Primary Founder Investor Trust 2, The Elephant Acquisition Secondary Founder Investor Trust, The Elephant Acquisition Secondary Founder Investor Trust 2 and The Elephant Acquisition Secondary Founder Investor Trust 3;

"GSI" means Goldman Sachs International;

"Hedge Refinancing" means the refinancing whereby the June 2012 principal hedges forming part of the Existing Hedging Arrangements are terminated and the New Hedging Arrangements entered into, as described in "The Transactions";

"HoldCo" means Edcon Holdings (Proprietary) Limited;

“IFRS” means International Financial Reporting Standards;

“Initial Purchasers” means Barclays Bank PLC, Deutsche Bank AG, London Branch, Goldman Sachs International and Morgan Stanley & Co. International plc;

“Investors” means funds advised by affiliates of Bain Capital and certain other investors;

“Issuer” means Edcon (Proprietary) Limited;

“Issue Date” means 1 March 2011;

“Intercreditor Agreement” means the intercreditor deed between, among others, the Issuer, the trustee for the Senior Secured Notes, the trustee for the 2007 Senior Secured Notes, the trustee for the 2007 Senior Notes and the agent for the Amended Super Senior Revolving Credit Facility as amended;

“IT” means information technology;

“JIBAR” means the Johannesburg Interbank Agreed Rate.

“LuxCo” means Edcon (BC) S.à r.l.;

“LTM 2010” means the 52 weeks ended 1 January 2011;

“New Hedging Arrangements” means those hedging arrangements that Edcon intends to enter into on or prior to the Issue Date relating to currency and interest rate risk from the 2007 Notes and the Senior Secured Notes;

“OtC” means OtC I and OtC II;

“OtC I” means OntheCards Investments Limited;

“OtC II” means OntheCards Investments II (Proprietary) Limited;

“OtC Securitisation Programme” means our securitisation programme pursuant to which we sold certain of our receivables to OtC I (until August 2010) and OtC II (after August 2010) on a non-recourse basis.

“Purchase Agreement” means the agreement between the Issuer, the Senior Secured Guarantors and the Initial Purchasers, whereby the Issuer agrees to sell and each Initial Purchaser agrees, severally and not jointly, to purchase all of the Senior Secured Notes;

“QIB” means qualified institutional buyer within the meaning of Rule 144A;

“rand”, “South African rand” and “R” mean the currency of the Republic of South Africa;

“Regulation S” means Regulation S under the U.S. Securities Act of 1933, as amended;

“Restricted Subsidiary” means, at any time, any subsidiary of HoldCo that is not then an Unrestricted Subsidiary under the Senior Secured Indenture; *provided*, *however*, that upon the occurrence of an Unrestricted Subsidiary ceasing to be an Unrestricted Subsidiary, such subsidiary will be included in the definition of Restricted Subsidiary.

“RLC” means the South African Retailers’ Liaison Committee;

“Rule 144A” means Rule 144A under the U.S. Securities Act of 1933, as amended;

“SARB” means the South African Reserve Bank;

“Senior Secured Guarantees” means the senior secured guarantees by the Senior Secured Guarantors of the Senior Secured Notes;

“Senior Secured Guarantors” means HoldCo, BidCo and ECSL;

“Senior Secured Indenture” means the indenture governing the Senior Secured Notes as described in “Description of the Senior Secured Notes”;

“Senior Secured Notes” means the EUR Senior Secured Notes and the USD Senior Secured Notes;

“South Africa” means the Republic of South Africa;

“southern Africa” means Botswana, Lesotho, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe;

“SPV Guarantee” means the guarantee provided on a limited recourse basis by the SPV Guarantor of the obligations of the Issuer under the Senior Secured Notes and the 2007 Senior Secured Notes, the obligations of the Senior Secured Guarantors under the Senior Secured Guarantees, the obligations of the 2007 Senior Secured Guarantors under the 2007 Senior Secured Guarantees, the obligations of the borrowers under the Amended Super Senior Revolving Credit Facility and the Super Senior Rand Loan, and the obligations of the hedging counterparties under the hedging arrangements described in “Description of the Senior Secured Notes—Security—SPV Guarantor and the SPV Guarantee”;

“SPV Guarantor” means Elephant OntheCards (Proprietary) Limited, the special purpose vehicle formed in connection with the security structure established to support the obligations of the Issuer under the Senior Secured Notes, the obligations of the Senior Secured Guarantors under the Senior Secured Guarantees, the obligations of the 2007 Senior Secured Guarantors under the 2007 Senior Secured Guarantees, the obligations of the borrowers under the Amended Super Senior Revolving Credit Facility and the Super Senior Rand Loan and the obligations of the hedging counterparties under the hedging arrangements, described in “Description of the Senior Secured Notes—Security”;

“sqm” means square metres;

“Stabilisation Manager” means Goldman Sachs International;

“STC” means Secondary Tax on Companies in South Africa;

“Subordinated Matching Loan” means the loan of the proceeds from the Subordinated Shareholder Loan from HoldCo to the Issuer described in “Related Party Transactions—Matching Loan”;

“Subordinated Proceeds Loan” means the loan of the proceeds from the 2007 Senior Notes from HoldCo to the Issuer described in “Related Party Transactions—Proceeds Loan”;

“Subordinated Shareholder Loan” means the Subordinated Shareholder Loan advanced by LuxCo to HoldCo described in “Related Party Transactions—Subordinated Shareholder Loan”;

“Super Senior Rand Loan” means the super senior rand loan expected to be entered into by and between Goldman Sachs Lending Partners LLC and the Issuer;

“U.K.” means the United Kingdom of Great Britain and Northern Ireland;

“United States” or “U.S.” means the United States of America;

“Unrestricted Subsidiary” means (i) any subsidiary of HoldCo designated as an Unrestricted Subsidiary under the Senior Secured Indenture by the Board under the circumstances described in “Description of the Senior Secured Notes—Certain Definitions—Unrestricted Subsidiary and (ii) any subsidiary of an Unrestricted Subsidiary;

“USD Senior Secured Notes” means the Senior Secured Notes offered hereby denominated in U.S. dollars;

“U.S. dollar” or “U.S. $” means the single currency of the United States of America; and

“U.S. GAAP” means generally accepted accounting principles in the United States.

**Market data**

We rely on data provided by the South African Retailers' Liaison Committee ("RLC") to estimate the size of the South African clothing and footwear ("C&F") market and the market share of individual C&F retailers. Unless otherwise specified, C&F market data provided in this Offering Memorandum refers to RLC data. The RLC collects and publishes sales and related data from RLC member companies, which are medium- and large-sized retailers operating in the C&F market. Members of the RLC change over time and therefore RLC data for different years may include different member companies.

We also use data published by SARB. SARB receives all of its data from Statistics South Africa ("Stats SA"), which was established under legal mandate from the Statistics Act (No. 6 of 1999). Stats SA collects statistics on the C&F market through a monthly survey of South African retailers in the clothing, footwear, textiles and leather goods industry. Questionnaires are sent to a sample of approximately 3,000 retailers from a population of approximately 28,000 retailers. All medium- and large-sized retailers are included within the survey, and random sampling is applied to small and very small companies.

In addition to RLC and SARB data included in this Offering Memorandum, we include information based on our knowledge of our sales and markets and on our own calculations based on such information. In some cases, there is no readily available external information (whether from trade associations, government bodies or other organisations) to validate market-related analyses and estimates, thus requiring us to rely on internally-developed estimates.

We believe that the market data contained in this Offering Memorandum provide fair and adequate estimates of the size of our markets and fairly reflect our competitive position within these markets. However, neither we nor the Initial Purchasers have independently verified the externally-sourced market or other industry data, including third-party or industry or general publications, that have been included in this Offering Memorandum. We cannot assure you of the accuracy and completeness of, and take no responsibility for, such data, and we cannot guarantee that a third party using different methods to assemble, analyse or compute market size and market share information would obtain or generate the same results. Similarly, while we believe our internal estimates to be reasonable, they have not been verified by any independent sources, and we cannot assure you as to their accuracy. In addition, third parties, including our competitors may define our markets differently than we do.

**Financial data**

We present in this Offering Memorandum financial statements for HoldCo on a consolidated basis for fiscal years 2009 and 2010, which have been audited by Ernst & Young Inc., South Africa. When used in this Offering Memorandum in relation to any year, "fiscal year", means the fiscal year ended on the Saturday of that year closest to 31 March of that year. In addition, we present HoldCo's unaudited interim condensed consolidated financial statements as of and for the 39-week periods ended 26 December 2009 and 1 January 2011, which have been reviewed by Ernst & Young Inc., South Africa. Our financial statements have been prepared in accordance with IFRS.

With effect 14 May 2007, the issued ordinary shares and preference shares in ECSL were acquired by BidCo whose sole shareholder is HoldCo. BidCo is the legal successor to ECSL and Holdco is the parent of the Group. As of 5 May 2007, all conditions precedent to the Share Acquisition had been fulfilled and the new Group consisting of Holdco and all its subsidiaries has been consolidated as from 6 May 2007.

The Group Financial Statements for the period ended 3 April 2010 incorporate the results for the 53 weeks ended 3 April 2010 of Holdco. The Group Financial Statements for the comparative period ended 28 March 2009 incorporate the results for the 52 weeks of HoldCo.

We present our financial statements in South African rand. We have translated, for your convenience, rand amounts presented in this Offering Memorandum into euro at the rate of R9.85 = €1.00, the Bloomberg Composite Rate on 11 February 2011. We have also translated euro and rand amounts related to the proceeds from this offering and the application of such proceeds based on this exchange rate. You should not view those conversions as a representation that the euro or rand amounts represent actual euro or rand amounts, or could be or could have been converted into euro or rand at the rate indicated or at any other rate. See "Exchange Rate Information".

Certain amounts set forth in this Offering Memorandum have been rounded and, as a result, figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

**Non-IFRS financial measures**

Certain ratios presented in this Offering Memorandum are supplemental measures of our performance that are not required by, or presented in accordance with, IFRS. In addition, we present EBITDA, EBITDAR, adjusted EBITDA and adjusted EBITDAR figures. None of EBITDA, EBITDAR, adjusted EBITDA and adjusted EBITDAR figures is a measure of our financial performance or liquidity and should not be considered as an alternative to net profit, operating profit or any other performance measure derived in accordance with IFRS or as an alternative to cash flow from operating activities as a measure of our liquidity. We believe that EBITDA is a useful indicator of our ability to incur and service our indebtedness and can assist securities analysts, investors and other parties to evaluate Edcon. We believe that EBITDAR is a common measure in the retail industry because it allows comparability across the sector for operations regardless of whether a retailer leases or owns its properties. We believe that adjusted EBITDA and adjusted EBITDAR are relevant measures for assessing our performance because they are adjusted for certain items which, we believe, are not indicative of our underlying operating performance and thus aids in an understanding of EBITDA and EBITDAR, respectively.

EBITDA, EBITDAR, adjusted EBITDA and adjusted EBITDAR and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. You should exercise caution in comparing EBITDA, EBITDAR, adjusted EBITDA and adjusted EBITDAR, as reported by us to EBITDA, EBITDAR, adjusted EBITDA and adjusted EBITDAR of other companies. EBITDA as presented here differs from the definition of "Consolidated EBITDA" contained in the indenture governing the Senior Secured Notes. None of EBITDA, EBITDAR, adjusted EBITDA or adjusted EBITDAR is a measurement of performance under IFRS and you should not consider EBITDA, EBITDAR, adjusted EBITDA and adjusted EBITDAR as an alternative to (a) operating profit or profit for the period (as determined in accordance with IFRS) as a measure of our operating performance, (b) cash flows from operating, investing and financing activities as a measure of our ability to meet our cash needs or (c) any other measures of performance under generally accepted accounting principles. EBITDA, EBITDAR and adjusted EBITDA have further limitations as an analytical tool, and you should not consider this item in isolation from, or as a substitute for an analysis of, our operating results, as reported under IFRS. Some of these limitations are:

- they do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- it does not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt;
- although depreciation and amortisation are non-cash charges, the assets being depreciated and amortised will often have to be replaced in the future, and none of EBITDA, EBITDAR, adjusted EBITDA and adjusted EBITDAR figures reflect any cash requirements for such replacements;
- it is not adjusted for any non-cash income or expense items that are reflected in our statements of cash flows; and
- other companies in our industry may calculate EBITDA, EBITDAR, adjusted EBITDA or adjusted EBITDAR figures differently than we do, limiting its usefulness as a comparative measure.

Due to these limitations, none of EBITDA, EBITDAR, adjusted EBITDA or adjusted EBITDAR figures should be considered as a measure of discretionary cash available to us. We rely primarily on our IFRS results of operations, using EBITDA, EBITDAR, adjusted EBITDA and adjusted EBITDAR figures only as supplemental performance measures. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The assets, liabilities and results of OtC I and OtC II, the entities that purchase our receivables pursuant to the OtC Securitisation Programme, are fully consolidated into our consolidated financial statements because we are deemed to control OtC I and OtC II within the meaning of IFRS. In this

Offering Memorandum, we present certain financial information that excludes the impact of OtC I and OtC II on our consolidated assets, liabilities and results because we believe that such information is useful for assessing our financial position. As we sell our receivables under our OtC Securitisation Programme on a non-recourse basis, we retain no rights to such receivables. In addition, the creditors of OtC have no recourse against us or any of our other consolidated subsidiaries in excess of the amount provided. Further, OtC has no recourse against any of our consolidated subsidiaries pursuant to the terms of our OtC Securitisation Programme. See footnote 13 to our Summary Historical Consolidated Financial Information and Other Data.

**Other**

The financial information included in this Offering Memorandum is not intended to comply with U.S. Securities and Exchange Commission requirements. Compliance with such requirements would require, among other things; the exclusion of certain non-GAAP financial measures.

Certain amounts and percentages included in this Offering Memorandum have been rounded. Accordingly, in certain instances, the sum of the numbers in a column of a table may not exactly equal the total figure for that column.

The content of and information set forth on any of our websites is not to be deemed to be incorporated into any portion of this Offering Memorandum.

The board of directors of the Issuer authorised the issuance of the Senior Secured Notes pursuant to a resolution passed in February 2011.

## FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes forward-looking statements within the meaning of U.S. securities laws. All statements other than statements of historical facts contained in this Offering Memorandum, including, without limitation, those regarding our future financial position and results of operations, our strategy, plans, objectives, goals, targets and future developments in the markets in which we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “anticipate”, “believe”, “continue”, “could”, “estimate”, “expect”, “forecast”, “aim”, “intend”, “will”, “may”, “plan”, “should” or similar expressions or the negative thereof, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others:

- inability to predict customer preferences and demand;
- loss of customers to competitors and price pressure as a result of competition;
- lower customer demand due to economic downturn;
- disruptions in our supply chain;
- disruptions to our facilities or IT system;
- an increase of bad debts among our credit card customers;
- interest rate fluctuations;
- changes in regulatory requirements, including BBBEE, and our ability to comply with them;
- loss of qualified management or personnel;
- macroeconomic and political conditions in South Africa;
- labour disputes and work stoppages; and
- fluctuations in the value of the rand.

These and other factors are discussed in the sections entitled “Risk Factors”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Offering Memorandum.

Because the risk factors referred to in this Offering Memorandum, and other factors, could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made in this Offering Memorandum by us or on our behalf, you should not place undue reliance on any of these forward-looking statements. Furthermore, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors will emerge in the future, and it is not possible for us to predict which factors they will be. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward-looking statements.

## EXCHANGE RATE INFORMATION

### South African rand—euro

The following table sets forth, for the period from 1 January 2006 through 11 February 2011, the Bloomberg Composite Rate expressed as rand per €1.00. The Bloomberg Composite Rate is a "best market" calculation. At any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications. The ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate.

| | Average[(1)] | Low | High | Period End |
|---|---|---|---|---|
| | (South African rand per euro) | | | |
| **Year** | | | | |
| 2006 | 8.52 | 7.17 | 10.03 | 9.25 |
| 2007 | 9.66 | 9.18 | 10.40 | 10.01 |
| 2008 | 12.08 | 9.99 | 14.98 | 13.28 |
| 2009 | 11.66 | 10.58 | 13.53 | 10.58 |
| 2010 | 9.70 | 8.76 | 10.81 | 8.87 |
| 2011 (through 11 February 2011) | 9.44 | 8.78 | 9.91 | 9.85 |

(1) The average rate for a year means the average of the closing Bloomberg Composite Rate on each business day during a year. The average rate for a month, or for any shorter period, means the average of the closing Bloomberg Composite Rate of each business day during that month, or during any shorter period, as the case may be.

The Bloomberg Composite Rate of the euro on 11 February 2011 was R9.85 = €1.00.

### South African rand—U.S. dollar

The following table sets forth, for the period from 1 January 2006 through 11 February 2011, the Bloomberg Composite Rate expressed as rand per U.S. $1.00. The Bloomberg Composite Rate is a "best market" calculation. At any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications. The ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate.

| | Average[(1)] | Low | High | Period End |
|---|---|---|---|---|
| | (South African rand per U.S. dollar) | | | |
| **Year** | | | | |
| 2006 | 6.77 | 5.96 | 7.88 | 7.01 |
| 2007 | 7.05 | 6.50 | 7.50 | 6.86 |
| 2008 | 8.27 | 6.74 | 11.57 | 9.53 |
| 2009 | 8.40 | 7.24 | 10.64 | 7.40 |
| 2010 | 7.32 | 6.63 | 7.96 | 6.63 |
| 2011 (through 11 February 2011) | 7.01 | 6.63 | 7.28 | 7.28 |

(1) The average rate for a year means the average of the closing Bloomberg Composite Rate on each business day during a year. The average rate for a month, or for any shorter period, means the average of the closing Bloomberg Composite Rate of each business day during that month, or during any shorter period, as the case may be.

The Bloomberg Composite Rate of the U.S. dollar on 11 February 2011 was R7.28 = U.S. $1.00.

Our inclusion of these exchange rates is not meant to suggest that the U.S. dollar or euro amounts actually represent such South African rand amounts or that such amounts could have been converted into South African rand at any particular rate, if at all.

## SUMMARY

*This summary highlights information from this Offering Memorandum. It is not complete and does not contain all of the information that you should consider before investing in the Senior Secured Notes. You should read this Offering Memorandum carefully in its entirety, including the "Risk Factors", our financial statements and the notes to those financial statements. In this Offering Memorandum, "fiscal year", when used in relation to any year, means the fiscal year ended on the Saturday of that year closest to 31 March. For a further description of some of the terms used below see "Annex A—Glossary of Defined Terms".*

### Overview

We are the largest non-food retailer in South Africa with a 29.3% market share of the South African clothing and footwear ("C&F") market, nearly twice that of our nearest competitor, and have been in operation for more than 80 years. Since opening our first *Edgars* store in 1929, we have expanded our footprint to include approximately 1,200 stores under 13 retail brands throughout southern Africa. Our leading brands include *Edgars, Jet, CNA, Boardmans* and *Red Square,* which are among the most recognisable retail brands in the region. We are the number one or number two retailer in the majority of our product lines, including clothing, footwear, mobile phones, cosmetics, stationery and books. We also have the largest base of consumer credit customers in southern Africa, with 3.8 million active private label credit cards.

Our primary operations are in South Africa, where we generate 94% of our retail sales. According to the RLC, C&F sales in South Africa, which accounted for 61% of our retail sales in fiscal year 2010, grew at a CAGR of 9.7% from fiscal year 2005 to December 2010, despite three quarters of recession when South Africa was facing the effects of the global economic downturn. C&F spend as a percentage of household expenditure has also increased, in part, as a result of a rapidly emerging black middle class, which has more than doubled in size since 2000. Our large retail footprint positions us to continue to benefit from this growth in the South African market. The balance of our operations is in neighbouring Namibia, Botswana, Lesotho and Swaziland.

Our strong operating performance generated revenue of R25,458 million (€2,585 million), including retail sales of R22,586 million (€2,293 million), and adjusted corporate EBITDA of R3,133 million (€318 million) in LTM 2010. From fiscal year 2005 to LTM 2010, we increased our retail sales by a CAGR of 9.2% and our adjusted EBITDA by a CAGR of 9.7%. As of 1 January 2011, we employed approximately 18,900 permanent employees.

### History

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

### Competitive strengths

We believe that we benefit from a number of key strengths including the following:

#### *Established and market-leading brands*

Our leading C&F brands include *Jet* and *Edgars*; *Edgars* is the number one department store retail brand, and *Jet* is the number one discount store retail brand in South Africa by sales. *Jet* and *Edgars* have been voted the number one and two brands among South African C&F retailers in each of 2004, 2005, 2006 and 2008. In 2009, *Edgars* was voted the number one C&F retailer and *Jet* was voted the

top South African C&F value retailer. We are also the market leader in cosmetics and mobile phones sold primarily under our *Edgars* and *Red Square* chains. Our *CNA* brand is the market leader in stationery, books, and magazines and is among the oldest and best known retail chains in southern Africa.

We believe that our leading brand position results from a combination of factors, including the range, diversity, quality of our products and the quality of our customer service. We believe our strong brand recognition and market-leading positions allow us to capitalise on the attractive C&F market, which grew at a CAGR of 9.7% from fiscal year 2005 to LTM 2010.

***Diversity of formats, customers and categories served***

Our retail business is organised into three divisions and operates through 13 chains, which have a diversified portfolio of private label and branded products including clothing, footwear, mobile phones, cosmetics, homewares, stationery and books. We also sell exclusive South African apparel brands such as *Jo Borkett* and *Marion and Lindie,* which we believe increases our appeal to customers. Our varied brands and broad range of products cover the entire South African socio-economic consumer base, including the expanding black middle class. We believe that the diversity of our business portfolio across different market segments and customer spending categories helps us to retain customers as their spending patterns evolve and reduces our exposure to adverse developments in any one product line or market segment. In addition, while we provide fresh and attractive assortments to our customers, a large proportion of the items sold in our stores are basic in nature and entail limited fashion risk. We believe this provides us with a base of predictable performance and profitability.

***Strong financial service business and loyalty programmes***

We instituted South Africa's first customer credit programme over 50 years ago and currently have 3.8 million active private label credit cards, giving us access to a customer network that we are able to target for specific marketing purposes. Our private label credit card customers have exclusive access to our *Edgars* and *Jet* clubs, of which there are a combined 2.2 million members each paying a small (R20 to R30) monthly fee. This entitles them to a range of benefits including reduced prices on travel and entertainment, as well as subscriptions to the *Edgars* and *Jet* magazines, respectively. Jet magazine is the most widely read lifestyle magazine in South Africa. Additionally, we have a customer loyalty programme for customers without one of our private label credit cards, which allows its approximately 625,000 cash loyalty members to accumulate points for purchases and redeem them for products in our stores. We believe that our private label cards, loyalty programme and membership clubs generate increased customer spending and repeat visits, and strengthen our customer relationships.

***Significant economies of scale***

As the largest non-food retailer in South Africa, we believe that our size provides us with the ability to obtain high quality products at lower prices than our competitors, as well as other scale advantages, such as those in real estate, IT development and infrastructure, and advertising. For example, we operate a portfolio of highly desirable retail locations, many of which have characteristics that would be very difficult to replicate. The strength of our brands allows us to obtain prime retail locations, as our stores are attractive tenants to landlords, and our *Edgars* and *Jet* chains usually serve as anchor tenants in malls and shopping centres. These prime retail locations help attract high foot traffic to our stores.

In addition, our scale allows us to devote more resources to the development of our IT systems than our competitors, while spending less as a percentage of retail sales. We believe that our IT systems give us an operational advantage over our competitors, as they are among the most advanced in the South African retail industry. We use the *Retek* IT system, modified with proprietary enhancements, to monitor product flow and gather detailed information such as consumer purchasing trends by store. We leverage this data, which we store in a data warehouse, to improve stock turn and product mix, facilitate merchandise selection and allocation, reduce stock imbalances and enhance customer service and supply chain management. We use the *VisionPLUS* IT system, also modified with

proprietary enhancements, to implement sophisticated credit management techniques, including credit scoring and ageing modules. The sophistication of our credit management system is evidenced by the credit management services we provide to third parties.

***Strong economic model with a focus on cash flow generation***

We believe we have a strong economic model with a focus on cash flow generation. In the past several years, we have worked to significantly improve working capital efficiency by increasing returns from new stores, more efficiently managing inventory and receivables, increasing the proportion of cash sales and improving the quality of credit sales. For example, the proportion of cash sales to total retail sales has increased from 48% in fiscal year 2009 to 50% in fiscal year 2010. Furthermore, total working capital decreased by R952 million (R460 million excluding OtC) in fiscal year 2010. This was due to a decrease in trade and other receivables of R695 million, a R138 million decrease in inventory, and a R119 million increase in payables. As a result, our cash flows generated from operating activities increased to R4,304 million (R3,448 million excluding OtC) in fiscal year 2010 from R2,162 million (R2,012 million excluding OtC) in fiscal year 2009.

***Experienced management team and strong equity sponsorship***

Our senior leadership team has a combined 65 years of experience with Edcon, and is responsible for implementing our business strategy described below, which has resulted in retail sales and adjusted EBITDA growth at a 9.2% and 9.7% CAGR, respectively, from fiscal year 2005 to LTM 2010. In January 2011, we announced that our current chief executive officer, Steve Ross will step down as chief executive officer after 13 years of leadership and will be replaced by Jürgen Schreiber, effective 1 April 2011. Our experienced senior management team has deep local and international retail experience that we believe will allow them to continue to successfully implement our strategy. Mr. Schreiber was, until recently, president and chief executive officer of Canadian health and beauty retailer *Shoppers Drug Mart Corp,* a publicly traded company, with approximately 45,000 employees, sales of over C$10 billion and a network of over 1,300 stores across Canada. Under his stewardship, the company strengthened its market position and achieved record sales and profitability. Steve Ross will assist with the transition, remaining on the Board of Edcon until May 2012, at which time he intends to retire and we believe that Mr. Schreiber will be a valuable addition to the team.

Our sponsor is an affiliate of Bain Capital, a leading global private investment firm, whose affiliates manage several pools of capital, including private equity, venture capital, public equity, global macro, and leveraged debt assets. Since its inception in 1984, Bain Capital has completed over 370 transactions in a broad set of industries, including such leading retailers and consumer companies as *Toys "R" Us, Gymboree, Burger King, Staples, Burlington Coat Factory, Michaels, Brookstone, Domino's Pizza, Dollarama, Sealy Corp., Sports Authority* and *Duane Reade*. Headquartered in Boston, Bain Capital has offices in New York, London, Munich, Mumbai, Hong Kong, Shanghai and Tokyo.

**Strategy**

We intend to pursue the following key elements of our business strategy:

***Focus on highly profitable categories and customers***

In recent years, management has initiated aggressive steps to reduce risk, improve cash flow and position Edcon for future growth. As part of that effort, we stopped selling selected products on credit, notably mobile phone air time minutes and certain food items. Our *Discom* store chain no longer offers any products on credit, having converted to a cash-only format, and we have restricted credit granting to higher risk customers. Through these initiatives we have reduced our bad credit card debt from 12.9% in fiscal year 2010 to 11.6% in LTM 2010. In addition, we have taken steps to optimise our store footprint by closing a number of underperforming discount stores, many of which were acquired in 2007. We plan to open 8 and 15 of our higher margin *Edgars* and *Jet* stores, respectively, in fiscal year 2012.

***Further enhance brand differentiation in Edgars and Jet***

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

***Further improve supply chain efficiencies***

We currently have over 1,800 suppliers for its retail business, with the average supplier providing only R8.6 million of goods in fiscal year 2010.

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

***Capitalise on market rebound***

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

***Maximise value and efficiency of credit and financial services business***

As the global economic downturn took hold in 2009, we decided to tighten our credit scoring criteria and better target higher income and lower risk customer segments. This resulted in significant cash flow savings for the group and substantial improvements in loss rates as evidenced by a year-on-year reduction in bad debt handover from 2009 to 2010 of over 30%. In mid-2010, we refocused and refined our collections processes to drive productivity and effectiveness resulting in improved collection results and further improving loss rates by the end of 2010. Additionally, the establishment of the Edcon telesales unit in 2009, introduction of service to sales initiatives and the creation of an Edcon business intelligence unit has allowed us to begin to more fully leverage our extensive customer database for insurance product cross selling to become a market leader in this area.

***Attract and maintain a high quality workforce***

We believe that our focus on employee training and satisfaction will allow us to continue to attract and retain a high quality workforce, reduce employee turnover, improve our customer satisfaction and increase the efficiency of our stock management. Through our extensive training programs, competitive pay packages and comprehensive employee wellness strategy, we have increased employee satisfaction and contained employee turnover. In 2010, the Company was voted the best company to work for in the retail sector by Deloitte's survey of South African employers. We maintain positive labour relations, and we have not lost any man-days from industrial action against us in more than ten years. We are committed to maintaining our positive relationship with our employees, and believe our continued ability to attract and retain quality employees will give us a key advantage over our competitors.

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

**Equity sponsor**

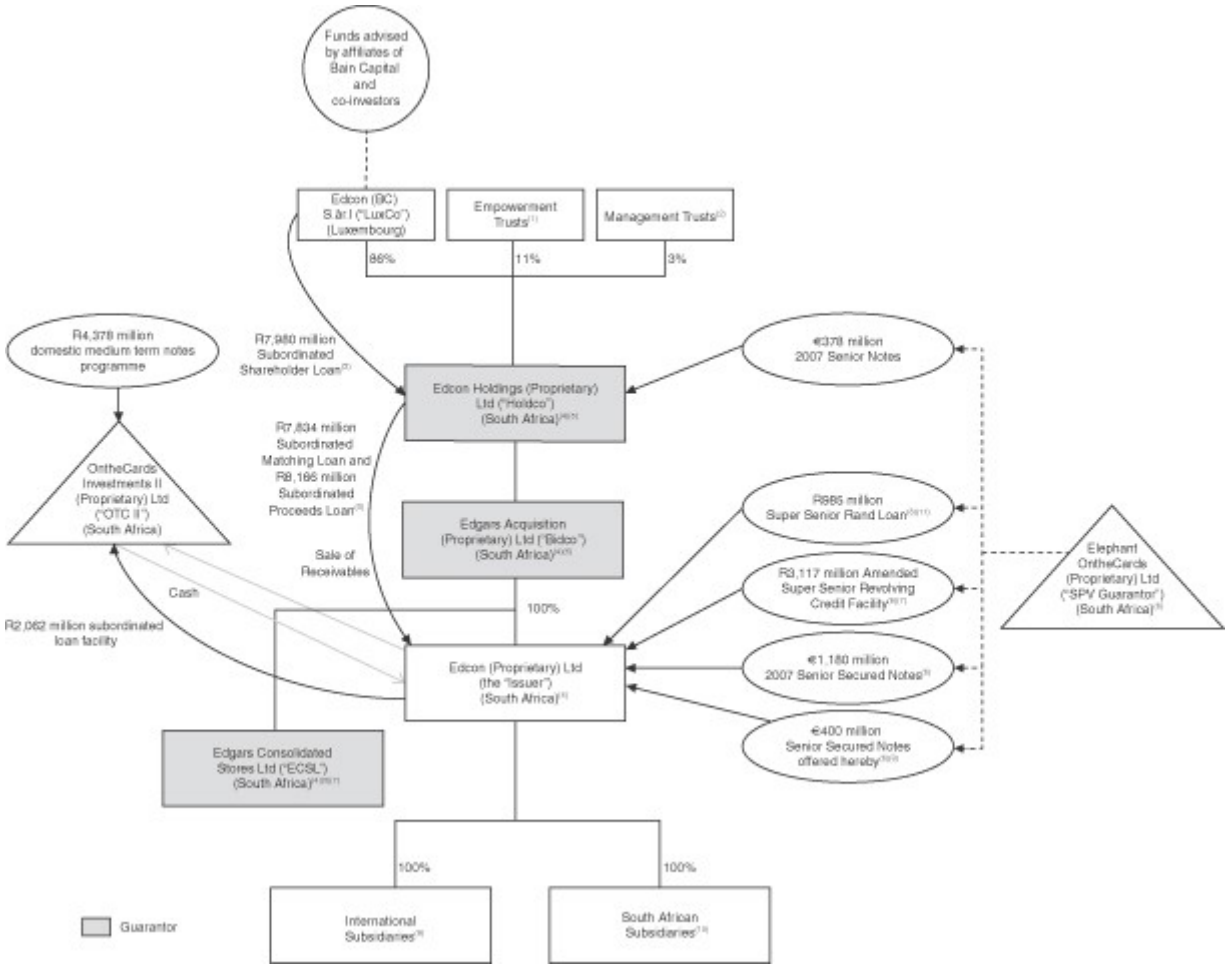
Our sponsor is an affiliate of Bain Capital, LLC ("Bain Capital"), a leading global private investment firm, whose affiliates manage several pools of capital, including private equity, venture capital, public equity, global macro, and leveraged debt assets. Since its inception in 1984, Bain Capital has completed over 370 transactions in a broad set of industries, including such leading retailers and consumer companies as *Toys "R" Us, Gymboree, Burger King, Staples, Burlington Coat Factory, Michaels, Brookstone, Domino's Pizza, Dollarama, Sealy Corp., Sports Authority* and *Duane Reade*. Headquartered in Boston, Bain Capital has offices in New York, London, Munich, Mumbai, Hong Kong, Shanghai and Tokyo. Funds advised by affiliates of Bain Capital beneficially hold economic interests in 83% of HoldCo.

**Corporate Information**

Edcon (Proprietary) Limited (the "Issuer"), is a company incorporated under the laws of South Africa on 5 February 2007 under Registration No. 2007/003525/07. Our headquarters are located at Edgardale, 1 Press Avenue, Crown Mines, Johannesburg, 2092, Republic of South Africa. Our telephone number is +27 11 495 6000. Our website address is www.edcon.co.za. The information on our website does not constitute part of this Offering Memorandum, and you should rely only on the information contained in this Offering Memorandum when making a decision as to whether to invest in the Senior Secured Notes.

## Summary Corporate and Financing Structure

The diagram below illustrates our corporate and financing structure after giving effect to the offering of the Senior Secured Notes and the use of proceeds therefrom in accordance with "Use of Proceeds" and "The Transactions". See "Use of Proceeds", "The Transactions", "Description of Certain Other Indebtedness" and "Description of the Senior Secured Notes".




(1) The Empowerment Trust was created in July 2005 as part of our Broad Based Black Economic Empowerment programme and its beneficiaries are predominantly black employees. See "Principal Shareholders and Share Capital".

(2) The beneficiaries of the management trusts are predominantly managers and directors of Edcon. See "Principal Shareholders and Share Capital".

(3) HoldCo has advanced the funds it received as the borrower under the Subordinated Shareholder Loan to the Issuer pursuant to the Subordinated Matching Loan and the proceeds from the 2007 Senior Notes pursuant to the Subordinated Proceeds Loan. On 1 January 2011, the outstanding balances under the Subordinated Matching Loan and the Subordinated Proceeds Loan were R7,834 million and R8,166 million respectively, including capitalised and accrued interest.

(4) HoldCo, BidCo and ECSL will guarantee the Senior Secured Notes on a senior secured basis pursuant to the Senior Secured Guarantees.

(5) The Issuer, BidCo, HoldCo and ECSL will provide secured counter-indemnities in favour of the SPV Guarantor in relation to the SPV Guarantor's obligations under the SPV Guarantee.

(6) The SPV Guarantor will provide the SPV Guarantee to the lenders under the Amended Super Senior Revolving Credit Facility, the lenders under the Super Senior Rand Loan the trustee of the Senior Secured Notes and the hedging providers under the New Hedging Arrangements.

(7) The Issuer may draw up to R3,117 million of revolving credit under the Amended Super Senior Revolving Credit Facility to fund working capital requirements from time to time. We expect no advances to be drawn under our Amended Super Senior Revolving Credit Facility on the Issue Date.

(8) Includes the EUR Senior Secured Notes and the USD Senior Secured Notes.

(9) The Issuer beneficially controls 15 subsidiaries located outside of South Africa in Botswana, Lesotho, Mozambique, Namibia, Swaziland, Zambia, and Guernsey. The international subsidiaries will not be guarantors of the Senior Secured Notes, as none of them are Material Subsidiaries within the meaning of the Senior Secured Indenture.

(10) The Issuer beneficially controls 12 South African subsidiaries. The South African subsidiaries will not be guarantors of the Senior Secured Notes, as none of them are Material Subsidiaries within the meaning of the Senior Secured Indenture.

(11) The Issuer may draw up to R985 million under the Super Senior Rand Loan. We expect the Super Senior Rand Loan to be fully drawn on the Issue Date.

## SUMMARY OF THE OFFERING OF THE SENIOR SECURED NOTES

*The summary below describes the principal terms of the Senior Secured Notes and the Senior Secured Guarantees. It is not intended to be complete and it is subject to important limitations and exceptions. For a more complete understanding of the Senior Secured Notes and the Senior Secured Guarantees, including certain definitions of terms used in this summary, see the sections entitled "Description of the Senior Secured Notes".*

| | |
|---|---|
| **Issuer** | Edcon (Proprietary) Limited. |
| **Senior Secured Notes Offered** | €317,000,000 in aggregate principal amount of EUR-denominated senior secured notes due 2018 (the "EUR Senior Secured Notes").<br><br>U.S. $250,000,000 in aggregate principal amount of USD-denominated senior secured notes due 2018 (the "USD Senior Secured Notes" and, together with the EUR Senior Secured Notes the "Senior Secured Notes"). |
| **Issue Price** | |
| EUR Senior Secured Notes | 100.000% plus accrued interest, if any, from the Issue Date. |
| USD Senior Secured Notes | 100.000% plus accrued interest, if any, from the Issue Date. |
| **Maturity** | 1 March 2018, subject to our obligation to offer to repurchase the Senior Secured Notes at the option of the Holders, at a price equal to, at 100% of the principal amount thereof, if we fail to refinance the 2007 Senior Notes prior to 15 March 2015. |
| **Interest** | |
| EUR Senior Secured Notes | 9.5% per annum, payable semi-annually in arrears on each 15 March and 15 September, commencing on 15 September 2011. Interest on the EUR Senior Secured Notes will accrue from the Issue Date and be payable in cash. |
| USD Senior Secured Notes | 9.5% per annum, payable semi-annually in arrears on each 15 March and 15 September, commencing on 15 September 2011. Interest on the USD Senior Secured Notes will accrue from the Issue Date and be payable in cash. |
| **Senior Secured Guarantees** | The Senior Secured Notes will be guaranteed on a senior secured basis (the "Senior Secured Guarantees") by HoldCo, BidCo and ECSL (the "Senior Secured Guarantors"). |
| **Ranking of the Senior Secured Notes and Senior Secured Guarantees** | The Senior Secured Notes and Senior Secured Guarantees will be the Issuer's and the Senior Secured Guarantors' secured senior obligations and will rank:<br><br>• *pari passu* in right of payment with all of the Issuer's and the Senior Secured Guarantors' existing and future indebtedness that is not subordinated in right of payment to the Senior Secured Notes or the Senior Secured Guarantees;<br><br>• senior in right of payment to the Issuer's and the Senior Secured Guarantors' existing and future indebtedness that is subordinated in right of payment to the Senior Secured Notes or the Senior Secured Guarantees; |

- effectively senior to all of the Issuer's and the Senior Secured Guarantors' existing and future unsecured indebtedness to the extent of the assets securing the Senior Secured Notes and the Senior Secured Guarantees;

- effectively junior to the Issuer's and the Senior Secured Guarantors' indebtedness under the Amended Super Senior Revolving Credit Facility and the Super Senior Rand Loan with respect to the Collateral.

The Senior Secured Notes and the Senior Secured Guarantees will be secured by substantially all of the assets of the Issuer and the Senior Secured Guarantors as described below under "—Security".

As of 1 January 2011, on a pro forma basis after giving effect to the Hedge Refinancing and the offering and sale of the Senior Secured Notes and the application of the proceeds therefrom, the Issuer would have had, in addition to the Senior Secured Notes:

- no indebtedness outstanding under the Amended Super Senior Revolving Credit Facility, with R3,117 million (€316 million) in revolving credit availability;
- R985 million (€100 million) of indebtedness under the Super Senior Rand Loan;
- €1,180 million of indebtedness represented by the guarantee of the 2007 Senior Secured Notes; and
- €378 million of indebtedness represented by the guarantee of the 2007 Senior Notes.

**Security** ..... A special purpose vehicle (the "SPV Guarantor") has been formed in connection with the security structure being established to support, among other things, the obligations of the Issuer under the Senior Secured Notes and the Senior Secured Guarantors under the Senior Secured Guarantees. The SPV Guarantor provided a guarantee (the "SPV Guarantee") on a limited recourse basis under South African law to or will extend the SPV Guarantee, as applicable to (i) the trustee for the holders of the 2007 Senior Secured Notes of the obligations of the Issuer under the 2007 Senior Secured Notes and of the guarantors thereof under their guarantees and, (ii) the lenders under the Amended Super Senior Revolving Credit Facility, (iii) the lenders under the Super Senior Rand Loan, and (iv) the hedging providers of the obligations of the hedging counterparties under the hedging arrangements. The SPV Guarantor will extend the benefit of the SPV Guarantee to the trustee for the holders of the Senior Secured Notes (the "Senior Secured Trustee") of the obligations of the Issuer under the Senior Secured Notes and of the Senior Secured Guarantors under the Senior Secured Guarantee. The SPV Guarantee will constitute the only liability of the SPV Guarantor. The Issuer and the Senior Secured Guarantors have counter-indemnified the SPV Guarantor for any and all amounts payable under the SPV Guarantee

and have secured their obligations under the counter-indemnities by granting security interests to the SPV Guarantor over substantially all of their assets. These security interests will not be granted directly to the holders of the Senior Secured Notes or the Senior Secured Trustee. The Senior Secured Trustee will not therefore be entitled to take any enforcement action with respect to the security interests in the assets of the Issuer or the Senior Secured Guarantors other than through the SPV Guarantee. The SPV Guarantor will be instructed exclusively in this regard by the Senior Secured Trustee acting in accordance with the Intercreditor Agreement. Recovery under the SPV Guarantee will be limited to amounts recovered by the SPV Guarantor under the counter-indemnity and security arrangements. See "Description of the Senior Secured Notes—Security—SPV Guarantor and the SPV Guarantee".

The SPV Guarantor's obligations to the holders of the Senior Secured Notes under the SPV Guarantee will rank on an equal and rateable basis with its obligations to the hedging providers under the hedging arrangements in connection with the Senior Secured Notes and on a junior basis to its obligations to the lenders under the Senior Revolving Credit Facility. See "Description of Certain Other Indebtedness—Intercreditor Agreement" and "Description of the Senior Secured Notes—Security".

The security interests in favour of the SPV Guarantor will be subject to release under certain circumstances as described in "Description of the Senior Secured Notes—Security".

As of 1 January 2011, on a pro forma basis after giving effect to the Hedge Refinancing, the offering and sale of the Senior Secured Notes, the total book value of the assets pledged to the SPV Guarantor for the benefit of the holders of the Senior Secured Notes, the lender's under the Super Senior Rand Loan, the holders of the 2007 Senior Secured Notes, the lenders under the Amended Super Senior Revolving Credit Facility and the hedging providers represented substantially all of HoldCo's total consolidated assets (except the assets of OtC II). See "Description of the Senior Secured Notes—Security".

**Optional Redemption**..... The Issuer may redeem the EUR Senior Secured Notes and/or the USD Senior Secured Notes in whole or in part at any time prior to 1 March 2014 at 100% of their principal amount plus a make-whole premium and accrued and unpaid interest. See "Description of the Senior Secured Notes—Optional Redemption".

The Issuer may redeem the Senior Secured Notes in whole or in part at any time on or after 1 March 2014 at the redemption prices as set forth herein, plus accrued and unpaid interest. See "Description of the Senior Secured Notes—Optional Redemption".

The Issuer may redeem up to 35% of the aggregate principal amount of the EUR Senior Secured Notes and/or the USD Senior Secured Notes at any time prior to

1 March 2014 with the net proceeds from certain equity offerings. See "Description of the Senior Secured Notes—Optional Redemption".

The Issuer may, but is not obliged to, redeem all, but not a portion, of the Senior Secured Notes upon the occurrence of certain tax events.

**Mandatory Offers** ..... Upon a change of control, HoldCo will be required to offer to purchase the Senior Secured Notes. The purchase price will be equal to 101% of the principal amount of the Senior Secured Notes, plus accrued and unpaid interest.

In certain circumstances, the Issuer will be required to offer to purchase the Senior Secured Notes with the net cash proceeds from asset sales. The purchase price will be equal to 100% of the principal amount of the Senior Secured Notes, plus accrued and unpaid interest.

In the event that on or prior to 15 March 2015, the Issuer has not refinanced the 2007 Senior Notes, the Issuer will be required to offer to purchase the Senior Secured Notes at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest.

**Certain Covenants** ..... The indenture governing the Senior Secured Notes (the "Senior Secured Indenture") will contain covenants that, among other things, will limit the ability of HoldCo and its subsidiaries (including the Issuer) to:

- incur or guarantee additional indebtedness;
- create liens;
- make investments or certain other restricted payments;
- transfer or sell assets and shares in subsidiaries;
- enter into certain business activities;
- enter into sale and leaseback transactions;
- merge, consolidate, amalgamate or combine with other entities;
- enter into transactions with affiliates; and
- impose restrictions on the ability of Restricted Subsidiaries to pay dividends or make other distributions.

These limitations will be subject to a number of important qualifications and exceptions and certain of these limitations will be suspended on certain conditions if and when, and for so long as, the Senior Secured Notes are rated investment grade. In addition, the Senior Secured Indenture will require any future Restricted Subsidiaries of HoldCo (other than Immaterial Subsidiaries, as defined in the Senior Secured Indenture) to provide a guarantee and security for the Senior Secured Notes. HoldCo and its Restricted Subsidiaries also will be allowed to designate all or any portion of the credit and financial services business as an Unrestricted Subsidiary if certain conditions are met. For

| | |
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| | more details see “Description of the Senior Secured Notes—Certain Covenants” and “Risk Factors—Risks related to our business and industry—Changes in our credit card arrangements could adversely affect our business”. |
| **Form of Notes** ..... | The EUR Senior Secured Notes will initially be issued in the form of global notes and will be deposited with, and registered in the name of, a common depositary for Euroclear and Clearstream.<br><br>Ownership of interests in the EUR global notes (“EUR Book-Entry Interests”) will be available only to participants in Euroclear and Clearstream or persons that hold interests through those participants. EUR Book-Entry Interests in the EUR Senior Secured Notes will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.<br><br>The USD Senior Secured Notes will initially be issued in the form of global notes and will be deposited with the Trustee as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC (in the case of USD Senior Secured Notes sold to QIBs in reliance on Rule 144A) and deposited with, and registered in the name of, a common depository for Euroclear and Clearstream (in the case of the USD Senior Secured Notes sold in reliance on Regulation S).<br><br>Ownership of interests in the USD global notes (“USD Book-Entry Interests”) will be available only to participants in DTC or Euroclear and Clearstream, as applicable, or persons that hold interests through those participants. USD Book-Entry Interests in the USD Senior Secured Notes will be shown on, and transfers thereof will be effected only through, records maintained in book-entry by DTC or Euroclear and Clearstream, as applicable, for their respective participants. |
| **Denominations** ..... | The EUR Senior Secured Notes will have a minimum denomination of €100,000 or any integral multiple of €1,000 in excess thereof.<br><br>The USD Senior Secured Notes will have a minimum denomination of U.S. $150,000 or any integral multiple of U.S. $1,000 in excess thereof. |
| **Use of Proceeds** ..... | The proceeds from the issuance of the Senior Secured Notes are expected to be approximately €383 million after deducting fees and expenses associated with the offering. We intend to use the net proceeds from this offering, together with the proceeds from the Super Senior Rand Loan, for general corporate purposes, including the refinancing of certain hedging obligations and existing indebtedness of Edcon. See “The Transactions” and “Use of Proceeds”. |
| **Transfer Restrictions** ..... | The Senior Secured Notes and the Senior Secured Guarantees have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of |

| | |
|---|---|
| | the United States or of any other jurisdiction and may not be offered, sold or delivered except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in compliance with all other applicable laws. |
| **Governing Law** | The Senior Secured Indenture, the Senior Secured Notes and the Senior Secured Guarantees will be governed by and construed in accordance with the laws of the State of New York. The security agreements will be governed by and construed in accordance with the laws of South Africa. The Intercreditor Agreement is governed by and will be construed in accordance with the laws of England and Wales. |
| **Listing** | Application has been made to the Irish Stock Exchange for the Senior Secured Notes to be admitted to the Official List and traded on its Global Exchange Market. |
| **Trustee, Transfer Agent and Principal Paying Agent** | The Bank of New York Mellon. |
| **Registrar** | The Bank of New York Mellon (Luxembourg) S.A. |
| **U.S. Registrar** | The Bank of New York Mellon. |
| **Taxation** | For a discussion of certain material tax consequences of an investment in the Senior Secured Notes, see the section entitled “Certain Tax Considerations”. |
| **Risk Factors** | See the section entitled “Risk Factors” for a discussion of certain factors that prospective purchasers of the Senior Secured Notes should carefully read and consider before investing in the Senior Secured Notes. |

For additional information regarding the Senior Secured Notes, see “Description of the Senior Secured Notes”.

## Summary Historical Consolidated Financial Information and Other Data

The following tables present summary historical consolidated financial information and other data for HoldCo for the periods ended and as of the dates indicated therein.

Our summary historical financial data as of and for the fiscal years 2009 and 2010 have been derived from HoldCo's audited historical consolidated financial statements as of and for the fiscal years 2009 and 2010 included elsewhere in this Offering Memorandum. Those financial statements have been audited by Ernst & Young Inc., South Africa, as stated in their reports thereon also included elsewhere in this Offering Memorandum. When used in this Offering Memorandum in relation to any year, "fiscal year" means the fiscal year ended on the Saturday of that year closest to 31 March of that year.

We present financial information for 39-week 2010 as a basis for comparing our unaudited interim condensed consolidated financial statements for 39-week 2011 in a meaningful way. Such financial information is not audited nor reviewed. We believe a comparison of our unaudited interim condensed consolidated financial statements for 39-week 2011 with our unaudited interim condensed consolidated financial statements for the 39 weeks ended 26 December 2009 (i.e., the end of the third quarter of fiscal year 2010) would not be a meaningful comparison of our results of operation because the latter do not reflect our trading during the last week of the calendar year, in which we usually record higher retail sales than average. "39-week 2010" and "39-week 2011", when used in this Offering Memorandum, mean the 39-week-periods ended 2 January 2010 and 1 January 2011, respectively.

Our summary historical financial data as of and for the 52 weeks ended 1 January 2011 (the "LTM 2010") has been derived by adding the unaudited historical financial data for 39-week 2011 to the unaudited historical financial data for the 13 weeks ended 3 April 2010. This data has been prepared for illustrative purposes only and is not prepared in the ordinary course of our financial reporting. Such compilation has not been audited or reviewed.

You should read the summary historical consolidated financial information and other data presented below in conjunction with the information contained in "Presentation of Information—Financial Data", "Risk Factors", "Capitalisation", "Selected Historical Financial Information and Other Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements, including the related notes, included elsewhere in this Offering Memorandum. Historical results are not indicative of future expected results. In addition, our results for 39-week 2011 should not be regarded as indicative of our expected results for fiscal year 2011.

**OntheCards Investments II (Proprietary) Limited and OntheCards Investments Limited**

The assets, liabilities and results of OtC I and OtC II, the entities that purchase our receivables pursuant to the OtC Securitisation Programme, are fully consolidated into our consolidated financial statements because we are deemed to control OtC I and OtC II within the meaning of IFRS. In this Offering Memorandum, we present certain financial information that excludes the impact of OtC I and OtC II on our consolidated assets, liabilities and results because we believe that such information is useful for assessing our financial position. As we sell our receivables under our OtC Securitisation Programme on a non-recourse basis, we retain no rights to such receivables. In addition, the creditors of OtC have no recourse against us or any of our other consolidated subsidiaries in excess of the amount provided. Further, OtC has no recourse against any of our consolidated subsidiaries pursuant to the terms of our OtC Securitisation Programme. See footnote 13 to "Summary Historical Consolidated Financial Information and Other Data".

| | 52 weeks ended 28 March 2009 | 53 weeks ended 3 April 2010 | 39 weeks ended 2 January 2010 | 39 weeks ended 1 January 2011 | 52 weeks ended 1 January 2011 | 52 weeks ended 1 January 2011[2] |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| | (audited) | (audited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| **Income statement data**[1] | | | | | | |
| Revenues | R 25,195 | R 24,876 | R 18,996 | R 20,054 | R 25,458 | € 2,585 |
| *Retail sales*[3] | *22,075* | *21,888* | *16,743* | *17,917* | *22,586* | 2,293 |
| Cost of sales | (13,774) | (13,848) | (10,530) | (11,251) | (14,257) | (1,447) |
| **Gross profit** | **R 8,301** | **R 8,040** | **R 6,213** | **R 6,666** | **R 8,329** | **€ 846** |
| Other income[4] | 467 | 473 | 360 | 361 | 474 | 48 |
| Store costs | (3,847) | (4,078) | (3,002) | (3,249) | (4,300) | (437) |
| Other operating costs[5] | (2,628) | (2,338) | (1,797) | (2,007) | (2,530) | (257) |
| Additional depreciation and amortisation[6] | (656) | (690) | (520) | (499) | (669) | (68) |
| **Retail trading profit** | **R 1,637** | **R 1,407** | **R 1,254** | **R 1,272** | **R 1,304** | **€ 132** |
| Income from credit | 2,271 | 2,049 | 1,567 | 1,371 | 1,853 | 188 |
| Expenses from credit | (1,772) | (1,771) | (1,377) | (880) | (1,274) | (129) |
| Equity accounted earnings of joint venture | 349 | 435 | 309 | 349 | 475 | 48 |
| **Operating profit** | **R 2,485** | **R 2,120** | **R 1,753** | **R 2,112** | **R 2,358** | **€ 239** |
| Fees incurred funding facilities | — | (33) | (28) | (10) | (15) | (2) |
| Gain on buy-back of 2007 Senior Notes | 1,350 | — | — | — | — | — |
| Net fair value movement on floating rate notes and associated derivatives | (1,050) | (459) | (70) | (1,453) | (1,842) | (187) |
| Impairment of indefinite life brands and goodwill | (697) | (137) | — | — | (137) | (14) |
| **Profit before financing costs** | **R 2,088** | **R 1,491** | **R 1,655** | **R 649** | **R 364** | **€ 37** |
| Net financing costs | (3,255) | (2,915) | (2,223) | (1,840) | (2,514) | (255) |
| Taxation | 472 | 370 | 187 | 348 | 531 | 54 |
| **Net earnings** | **R (695)** | **R (1,054)** | **R (381)** | **R (843)** | **R (1,619)** | **€ (164)** |
| **Cash flow data**[1] | | | | | | |
| Operating cash inflow before changes in working capital | R 3,715 | R 3,352 | R 2,667 | R 3,018 | R 3,582 | € 364 |
| Working capital movement | (1,553) | 952 | 300 | (421) | 845 | 86 |
| Cash generated from operating activities | 2,162 | 4,304 | 2,967 | 2,597 | 4,427 | 449 |
| Net cash invested | (568) | (353) | (345) | (355) | (363) | (37) |
| Net cash inflow from financing activities | 793 | (650) | (649) | (350) | (351) | (36) |
| Increase in cash and cash equivalents | (113) | 774 | 2 | 223 | 1,506 | 153 |

| | At 28 March 2009 | At 3 April 2010 | At 1 January 2011 | At 1 January 2011[2] |
|---|---|---|---|---|
| | (audited) | (audited) | (unaudited) | (unaudited) |
| | (in millions) | | | |
| **Financial Position**[1] | | | | |
| Cash and cash equivalents | R 379 | R 1,125 | R 1,332 | € 135 |
| Working capital | 8,721 | 7,685 | 8,131 | 825 |
| Total assets | 37,340 | 33,768 | 34,937 | 3,547 |
| Total debt at unhedged rates | 24,900 | 19,670 | 17,746 | 1,802 |
| Total net debt including cash and derivatives | 23,456 | 22,455 | 22,590 | 2,293 |
| Total equity and shareholder's loan | 6,066 | 5,752 | 5,781 | 587 |

| | At 28 March 2009 | At 3 April 2010 | At 1 January 2011 |
|---|---|---|---|
| **Select operating data (unaudited)**[1] | | | |
| Number of stores | 1,233 | 1,228 | 1,198 |
| Same store sales growth[7] | 3.2% | (4.7)% | 6.0% |
| Average retail space (in '000 sqm) | 1,251 | 1,316 | 1,321 |
| Trading density | 17,646 | 16,645 | 17,372 |
| Number of customer credit accounts (in '000s) | 4,290 | 3,993 | 3,804 |

| | 52 weeks ended 28 March 2009 | 53 weeks ended 3 April 2010 | 39 weeks ended 2 January 2010 | 39 weeks ended 1 January 2011 | 52 weeks ended 1 January 2011 | 52 weeks ended 1 January 2011[2] |
|---|---|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| | (in millions) | | | | | |
| **Other financial data**[1] | | | | | | |
| EBITDA[8] | R 3,187 | R 2,716 | R 2,574 | R 1,569 | R 1,590 | € 161 |
| Adjusted EBITDA[8] | 3,693 | 3,368 | 2,681 | 3,046 | 3,612 | 367 |
| Adjusted corporate EBITDA[9] | 3,410 | 3,044 | 2,453 | 2,663 | 3,133 | 318 |
| Operating lease expenses[10] | 1,269 | 1,425 | 1,054 | 1,119 | 1,490 | 151 |
| Adjusted EBITDAR[8] | 4,962 | 4,793 | 3,735 | 4,165 | 5,102 | 518 |
| Capital expenditure | 569 | 473 | 345 | 355 | 363 | 37 |
| Depreciation and amortisation[6] | 1,099 | 1,225 | 919 | 920 | 1,226 | 124 |

| | 52 weeks Ended 1 January 2011 | |
|---|---|---|
| | (in millions) (unaudited) | |
| **Pro forma data** | | |
| Pro forma corporate net interest expense[11] | R 2,513 | € 255 |
| Pro forma total corporate debt net of cash and cash equivalent[12] | 19,172 | 1,946 |
| Ratio of pro forma total corporate debt net of cash and cash equivalent to adjusted corporate EBITDA | 6.1x | |
| Ratio of adjusted corporate EBITDA to pro forma corporate net interest expense | 1.25x | |

(1) Except as otherwise indicated, figures presented in the summary financial statements above include the impact of consolidating OntheCards Investments Limited ("OtC I") and OntheCards Investments II (Proprietary) Limited ("OtC II"). See footnote 13 for a presentation of certain key line items excluding the impact of consolidating OtC I and OtC II.

(2) For your convenience, rand amounts have been translated into euros at an exchange rate of R9.85 = €1.00, the Bloomberg Composite Rate on 11 February 2011. See "Exchange Rate Information".

(3) Retail sales reflect total revenues less administration and club fees, preference dividend, finance charges on trade receivables, equity accounted earnings of joint ventures, finance charges, interest received and manufacturing sales to third parties.

(4) Other income comprises fees from our *Edgars* and *Jet* clubs and manufacturing sales to third parties.

(5) Other operating costs includes amortisation of trademarks, auditors' remuneration, depreciation of properties, fixtures, equipment and vehicles, fees payable, lease-related expenses, cost of inventories expensed and VAT expense.

(6) Additional depreciation and amortisation relates to the amortisation of intangibles and the incremental depreciation arising from the fair value adjustments in relation to the Share Acquisition. These figures are included in "Other operating costs" in our historical consolidated financial statements included elsewhere in this Offering Memorandum.

(7) Same store sales growth represents the change in retail sales from our stores that have been open for at least two years. For the purpose of same store sales growth calculations, a store will be included if it was open for trade at the beginning of the 52- or 53-week period preceding the 52- or 53-week and at the end of that period for which same store growth information is presented.

(8) We present EBITDA, adjusted EBITDA and adjusted EBITDAR because we believe they are frequently used by securities analysts, investors and other interested parties in evaluating similar issuers and as a supplemental measure of our ability to service our debt. Nevertheless, EBITDA, adjusted EBITDA and adjusted EBITDAR have limitations as analytical tools, and you should not consider them in isolation from, or as a substitute for, an analysis of our operating results as reported under IFRS. See "Presentation of Information—Non-IFRS financial measures".

(9) This adjustment reflects adjusted EBITDA excluding the impact of consolidating OtC I and OtC II. See footnote 13 for a presentation of certain key line items excluding the impact of consolidating OtC I and OtC II.

The following table reconciles net earnings to EBITDA, adjusted EBITDA and adjusted EBITDAR (unaudited)[(1)].

| | 52 weeks ended 28 March 2009 | 53 weeks ended 3 April 2010 | 39 weeks ended 2 January 2010 | 39 weeks ended 1 January 2011 | 52 weeks ended 1 January 2011 | 52 weeks ended 1 January 2011[(2)] |
|---|---|---|---|---|---|---|
| | | | (millions) (unaudited) | | | |
| Net earnings | R (695) | R (1,054) | R (381) | R (843) | R (1,619) | € (164) |
| Taxation | (472) | (370) | (187) | (348) | (531) | (54) |
| Net financing costs | 3,255 | 2,915 | 2,223 | 1,840 | 2,514 | 255 |
| Depreciation and amortisation | 1,099 | 1,225 | 919 | 920 | 1,226 | 124 |
| EBITDA | R 3,187 | R 2,716 | R 2,574 | R 1,569 | R 1,590 | € 161 |
| Net fair value movement on notes and associated derivatives[(a)] | 1,050 | 459 | 70 | 1,453 | 1,842 | 187 |
| Gain on buy-back of senior floating rate notes[(b)] | (1,350) | — | — | — | — | — |
| Impairment of intangible assets[(c)] | 697 | 137 | — | — | 137 | 14 |
| VAT expense[(d)] | 90 | — | — | — | — | — |
| Net asset write-off[(e)] | 19 | 23 | 9 | 14 | 28 | 3 |
| Fees incurred funding facilities | — | 33 | 28 | 10 | 15 | 2 |
| Adjusted EBITDA | R 3,693 | R 3,368 | R 2,681 | R 3,046 | R 3,612 | € 367 |
| Operating lease expenses[(12)] | 1,269 | 1,425 | 1,054 | 1,119 | 1,490 | 151 |
| Adjusted EBITDAR | R 4,962 | R 4,793 | R 3,735 | R 4,165 | R 5,102 | € 518 |

(a) Prior to the issuance of the 2007 Notes we executed currency and interest rate derivatives to hedge the repayment of the interest and principal on the 2007 Notes to 2011 and 2012 respectively. This adjustment relates to the revaluation of the 2007 Notes to the spot exchange rate and change in the fair value of these derivatives.

(b) On 27 June 2008, we repurchased a nominal value of €252 million of the 2007 Senior Notes for €138,6 million, or 55% of the principal amount thereof. As a result of the buy-back we recognised a gain, net of associated fees, of R1,350 million.

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

(d) This adjustment relates to a reversal of VAT input charges claimed from the South African Revenue Services ("SARS") in fiscal year 2009 of R90 million, that arose as a result of legislative interpretation, by SARS of the Value Added Tax Act, during fiscal 2009 which they applied retrospectively.

(e) This adjustment relates to assets written off, net of related proceeds.

(10) Operating lease expenses principally include rent for our stores and our head office premises.

(11) Pro forma net corporate interest expense reflects the estimated net interest expense that would have been payable during LTM 2010, excluding the impact of consolidating OtC I and OtC II as adjusted to give effect to the offering of the Senior Secured Notes, the application of the proceeds therefrom and the Transactions as if they had occurred at the beginning of such period.

(12) Pro forma total corporate net debt reflects our pro forma total debt, net of cash and cash equivalent excluding the impact of consolidating OtC I and OtC II.

(13) The following tables reconciles the consolidated financial information of HoldCo presented in the tables above to financial information of HoldCo and its subsidiaries, excluding the impact of consolidating OtC I and OtC II.

| | 52 weeks ended 28 March 2009 | | |
|---|---|---|---|
| | (in millions) | | |
| | Including OtC | Consolidation adjustments for OtC | Excluding OtC |
| | (audited) | (audited) | (unaudited) |
| **Comprehensive income data** | | | |
| **Revenues** | R 25,195 | R 530 | R 24,665 |
| Operating profit from credit and financial services | 848 | 283 | 565 |
| **Other financial data** | | | |
| Adjusted EBITDA | 3,693 | 283 | 3,410 |
| **Financial position data** | | | |
| Working capital | 8,721 | 3,887 | 4,834 |
| Total assets | 37,340 | 2,518 | 34,822 |
| Total debt at unhedged rates | 24,900 | 2,659 | 22,241 |
| Total net debt including cash and derivatives | 23,456 | 2,659 | 20,797 |
| **Cash flow data** | | | |
| Operating cash inflow before changes in working capital | 3,715 | 283 | 3,432 |
| Working capital movement | (1,553) | (133) | (1,420) |

| | 53 weeks ended 3 April 2010 | | |
|---|---|---|---|
| | (in millions) | | |
| | Including OtC | Consolidation adjustments for OtC | Excluding OtC |
| | (audited) | (audited) | (unaudited) |
| **Comprehensive income data** | | | |
| **Revenues** | R 24,876 | R 603 | R 24,273 |
| Operating profit from credit and financial services | 713 | 179 | 534 |
| **Other financial data** | | | |
| Adjusted EBITDA | 3,368 | 324 | 3,044 |
| **Financial position data** | | | |
| Working capital | 7,685 | 5,404 | 2,281 |
| Total assets | 33,768 | 4,224 | 29,544 |
| Total debt at unhedged rates | 19,670 | 4,300 | 15,370 |
| Total net debt including cash and derivatives | 22,455 | 3,616 | 18,839 |
| **Cash flow data** | | | |
| Operating cash inflow before changes in working capital | 3,352 | 364 | 2,988 |
| Working capital movement | 952 | 492 | 460 |

| | 39 weeks ended 2 January 2010 | | |
|---|---|---|---|
| | (in millions) | | |
| | Including OtC | Consolidation adjustments for OtC | Excluding OtC |
| | (unaudited) | (unaudited) | (unaudited) |
| **Comprehensive income data** | | | |
| **Revenues** | R 18,996 | R 454 | R 18,542 |
| Operating profit from credit and financial services | 499 | 99 | 400 |
| **Other financial data** | | | |
| Adjusted EBITDA | 2,681 | 228 | 2,453 |
| **Financial position data** | | | |
| Working capital | 8,361 | 5,727 | 2,634 |
| Total assets | 34,424 | 4,253 | 30,171 |
| Total debt at unhedged rates | 21,212 | 4,300 | 16,912 |
| Total net debt including cash and derivatives | 22,855 | 3,929 | 18,926 |
| **Cash flow data** | | | |
| Operating cash inflow before changes in working capital | 2,667 | 228 | 2,439 |
| Working capital movement | 300 | 42 | 258 |

| | 39 weeks ended 1 January 2011 | | |
|---|---|---|---|
| | (in millions) | | |
| | Including OtC | Consolidation adjustments for OtC | Excluding OtC |
| | (unaudited) | (unaudited) | (unaudited) |
| **Comprehensive income data** | | | |
| Revenues | R 20,054 | R 522 | R 19,532 |
| Operating profit from credit and financial services | 840 | 353 | 487 |
| **Other financial data** | | | |
| Adjusted EBITDA | 3,046 | 383 | 2,663 |
| **Financial position data** | | | |
| Working capital | 8,131 | 6,064 | 2,067 |
| Total assets | 34,937 | 4,301 | 30,636 |
| Total debt at unhedged rates | 17,746 | 4,300 | 13,446 |
| Total net debt including cash and derivatives | 22,590 | 4,207 | 18,383 |
| **Cash flow data** | | | |
| Operating cash inflow before changes in working capital | 3,018 | 383 | 2,635 |
| Working capital movement | (421) | (174) | (247) |

| | 52 weeks ended 1 January 2011 | | |
|---|---|---|---|
| | (in millions) | | |
| | Including OtC | Consolidation adjustments for OtC | Excluding OtC |
| | (unaudited) | (unaudited) | (unaudited) |
| **Comprehensive income data** | | | |
| Revenues | R 25,458 | R 671 | R 24,787 |
| Operating profit from credit and financial services | 1,054 | 433 | 621 |
| **Other financial data** | | | |
| Adjusted EBITDA | 3,612 | 479 | 3,133 |
| **Financial position data** | | | |
| Working capital | 8,131 | 6,064 | 2,067 |
| Total assets | 34,937 | 4,301 | 30,636 |
| Total debt at unhedged rates | 17,746 | 4,300 | 13,446 |
| Total net debt including cash and derivatives | 22,590 | 4,207 | 18,383 |
| **Cash flow data** | | | |
| Operating cash inflow before changes in working capital | 3,582 | 519 | 3,063 |
| Working capital movement | 845 | 276 | 569 |

## RISK FACTORS

*An investment in the Senior Secured Notes involves a high degree of risk. You should carefully consider the following risks, together with other information provided to you in this Offering Memorandum, in deciding whether to invest in the Senior Secured Notes. The occurrence of any of the events discussed below could harm us. If these events occur, the trading price of the Senior Secured Notes could decline, we may not be able to pay all or part of the interest or principal on the Senior Secured Notes, and you may lose all or part of your investment. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect your investment.*

*This Offering Memorandum contains "forward-looking" statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such differences include those discussed below. See "Forward-Looking Statements".*

**Risks related to our business and industry**

***Unfavourable macroeconomic factors may decrease consumer demand for our retail goods***

Macroeconomic factors such as interest rates, consumer indebtedness and employment levels affect consumer demand for our goods. As a response to the global economic downturn in fiscal year 2010, the South African Reserve Bank has maintained a 30 year low Repurchasing Rate of 5.5% since November 2010. The ratio of total household debt to disposable income was 78.5% in the third quarter of 2010. Consumer demand has been supported in part by increasing social grants since 2002. However, the expansion of the provision of social grants is expected to stabilise, which could have an adverse impact on consumer spending. Higher interest rates, increased consumer indebtedness, a levelling off of social grants and lower consumer confidence could have a material adverse effect on our retail sales and the results of our operations.

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

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

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

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

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

The concentration of our suppliers will increase as we proceed with our strategy to reduce the number of our suppliers. Our strategy to expand our supplier base in markets such as China, Bangladesh and

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

The cost and availability of our supplies are dependent on many factors, including:

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

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

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

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

***Our business is affected by foreign currency fluctuations***

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

In addition, a substantial portion of our indebtedness, including the EUR Senior Secured Notes offered hereby, is denominated in euro, and the USD Senior Secured Notes offered hereby are denominated in U.S. dollars. In recent years, the value of the rand as measured against the euro and the U.S. dollar has fluctuated considerably. Foreign currency fluctuations in the future may affect our ability to service our foreign currency denominated indebtedness, including payments in euro on the 2007 Notes and payment in euro and in U.S. dollar on the Senior Secured Notes.

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

***We may elect to use hedges as part of our hedging strategy***

As part of the hedging strategy that we will implement for the Senior Secured Notes, we may elect to hedge some or all of our interest rate and/or currency risk from the Senior Secured Notes and the 2007 Notes with credit-based hedges. Such hedges to the extent that they hedge such risks from the Senior Secured Notes or 2007 Notes would rank *pari passu* in right of recovery and would benefit from the same security as the Senior Secured Notes. If we were to default in making payments under the Senior Secured Notes or the 2007 Notes or if certain other credit events were to occur in relation to us and a credit-linked hedge of interest rate or currency risk in respect of the Senior Secured Notes or the 2007 Notes were to terminate or be closed out as a result, then, in relation to the mark-to-market value ("MTM") which would normally be payable by one party to the other on a termination or close out of an equivalent hedge which was not credit-linked, either (a) we will be limited, where such MTM would otherwise be payable to us, in claiming against our hedge counterparty in respect of such termination or close out to an amount equal to the product of (i) such MTM and (ii) the credit recovery rate for holders of the Senior Secured Notes or the 2007 Notes, such credit recovery rate being determined within a reasonable period after such termination or close out by reference to a market auction process or market quotations for such notes, or (b) no MTM payment in respect of such termination or close out will be due from either party, depending on the particular type of credit-linked hedge we enter into.

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

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

***Our results may be adversely affected by increases in energy costs***

Energy costs have fluctuated dramatically in the past. These fluctuations may result in an increase in our transportation costs for distribution, utility costs for our retail stores and costs to purchase products from our manufacturers. For example, electricity prices in South Africa increased an average of 27.8% per year since 2008. A continual rise in energy costs could adversely affect consumer spending and demand for our products and could increase our operating costs, both of which could have a material adverse effect on our financial condition and results of operations.

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

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

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

Our brand names represent an important asset of our business. Maintaining the reputation of, and value associated with, our brand names is central to the success of our business, but there can be no assurance that our business strategy and its execution will accomplish this objective. We rely on

marketing to strengthen our brand names, and our marketing initiatives may prove to be ineffective. Significant negative publicity or widespread product recalls or other events could also cause damage to our brand names. Substantial erosion in the reputation of, or value associated with, our brand names could have a material adverse effect on our financial condition and results of operations.

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

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

***Our business can be adversely affected by unseasonal weather conditions***

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

***The sector in which our business operates is highly competitive***

The retail market is highly competitive, particularly with respect to product selection and quality, store location and design, price, customer service, credit availability and advertising. We compete at the national and local levels with a wide variety of retailers of varying sizes and covering different product lines across all geographic markets in which we operate. For example, in the department store segment we compete directly with *Woolworths*. In the discount store segment we compete with companies such as *Mr Price*, *Ackermans* and *PEP*. In addition, the South African retail sector has experienced a consolidation of market formats as retail companies diversify in other sectors of the retail market. For example, *Pick 'n Pay*, South Africa's leading food retailer, has entered into the C&F market by opening standalone value clothing stores. Our credit and financial services business faces competition from other retail companies, such as *Truworths* and *Foschini*, which offer financial services to their customers. Increased competition from our existing competitors or new entrants to the market could result in lower prices and margins or a decrease in our market share, any of which could have a material adverse effect on our financial condition and results of operations. In addition, international competitors can enter our market and create increased competition, as in the case of *Walmart*, whose bid to acquire a controlling interest in *Massmart* was approved by the shareholders of *Massmart* Holdings in January 2011. Also, *Zara* announced its intention to open its first store in South Africa in calendar year 2011.

We face a variety of competitive challenges including:

- anticipating and quickly responding to changing consumer demands;
- maintaining favourable brand recognition and effectively marketing our products to consumers in several diverse market segments;
- developing innovative fashion products in styles that appeal to consumers of varying age groups and tastes;

- sourcing merchandise efficiently;
- competitively pricing our products; and
- responding to changes in consumer behaviour as a result of economic conditions and as a result of changes in consumer spending patterns.

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

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

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

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

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

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

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

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

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

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

An increase of bad debts as a percentage of our credit card receivables could have a material adverse effect on our revenue, results of operations and liquidity. In addition, existing or future statutory usury provisions may prevent us from increasing the interest rates we charge on our credit cards beyond a specified threshold even though our cost of credit may increase. Such restrictions could have a material adverse effect on our revenue, results of operations and liquidity. However, in the last 18 months the enforcement of tight credit approval criteria contributed to improved management of credit card customers and to decreased bad debts from 12.9% as at end fiscal year 2010 to 11.6% as at 1 January 2011.

***Changes in our credit card arrangements could adversely affect our business***

We maintain *Edgars* and *Jet* private label credit card programmes through which we extend credit to our customers. We may consider various opportunities to grow our credit and financial services business, and to expand its profits and return on capital employed. However, because a large portion of our sales are transacted through our credit cards, changes in our current credit card arrangements that adversely impact our ability to facilitate the provision of consumer credit may adversely affect our performance. See "Description of the Senior Secured Notes—Certain Covenants—Restrictions Relating to the Investment of the Credit and Financial Services Business". In addition, a potential purchaser of our credit card business may have discretion over certain policies and arrangements with credit card customers and may change these policies and arrangements in ways that affect our relationship with these customers. Any such changes in our credit card arrangements may adversely affect our credit card programmes and could have a material adverse effect on our retail sales, results of operations and liquidity.

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

The financing of our operations is heavily reliant on the sale of receivables to OtC II, which finances such purchases partly through the issue of notes under an asset backed domestic medium term note programme (the "OtC Securitisation Programme"). The initial balance of receivables sold to OtC II on commencement of the OtC Securitisation Programme was R1,553 million. In LTM 2010, the average outstanding balance of receivables in OtC II was R5,642 million. There are a number of circumstances which constitute events of default under the OtC Securitisation Programme, including a deterioration in the performance of our receivables. If there is an event of default under the OtC Securitisation Programme, the notes used to finance OtC II may be subject to early amortisation, which could prevent OtC II from purchasing further receivables. If the OtC Securitisation Programme were to be discontinued, we cannot assure you that we will be able to implement another securitisation programme at satisfactory terms or at all, nor that we could find other sources of funding. This could have a material adverse impact on our liquidity and results of operating.

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

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

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

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

***We could experience labour disputes that could disrupt our business***

As of February 2011, approximately 12,700 of our employees are represented by collective bargaining and are covered by collective bargaining or similar agreements that are subject to periodic renegotiation, which is currently in process. Although in May 2009 we negotiated a two-year collective bargaining agreement with the South African Commercial, Catering and Allied Workers Union, the biggest trade union active among our employees, future collective bargaining negotiations may not prove successful and result in the disruption of our operations. Such future collective bargaining negotiations may result in an increase in our labour costs. In addition, our employees could join in national labour strikes, boycotts or other collective actions. Any work stoppages and labour disruptions or any increase in our labour costs could materially adversely affect our retail sales, results of operations and financial condition.

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

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

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

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

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

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

**Risks related to South Africa**

***An adverse change in economic, political and social conditions in South Africa or regionally may adversely affect economic conditions generally and demand for our products specifically and cause our revenue, profitability and cash flow to decline***

We generate 94% of our retail sales in South Africa. Economic, political and social conditions in South Africa have a significant direct impact on our business. South Africa has relatively high levels of unemployment, poverty and crime, and a relatively low level of education. These problems, in part, have hindered investments in South Africa, prompted the emigration of skilled workers and negatively affected economic growth. Although it is difficult to predict the effect of these problems on South African businesses or the South African government's efforts to solve them, these problems, or the policy prescriptions enacted, such as the Broad Based Black Economic Empowerment legislation, may adversely affect economic conditions generally and demand for our products specifically. Government policies aimed at alleviating and redressing the lack of services and disadvantages suffered by the majority of citizens under previous South African governments may also have an adverse effect on economic conditions and our operations. There has also been economic, political and social instability in the countries surrounding South Africa, which may negatively affect South African economic, political or social conditions. An adverse change in the economic, political or social conditions in South Africa as well as regional instability may have a material adverse effect on our operations, profitability and financial condition.

There are risks associated with an investment in emerging markets, such as South Africa, including:

- adverse changes in economic and governmental policy;
- relatively low levels of disposable consumer income;
- relatively high levels of crime, including the risk of robberies of cash in transit;
- unpredictable changes in the legal and regulatory environment;
- relatively high levels of corruption;
- inconsistent application of existing laws and regulations; and
- relatively slow or insufficient legal remedies.

An adverse change in economic, political or social conditions in South Africa or neighbouring countries or emerging markets generally may adversely affect the value of the rand, economic conditions in South Africa generally or demand for our products specifically, which may have a material adverse effect on our operations, profitability and financial condition. In addition, any such adverse change may negatively affect investor sentiment towards South Africa or emerging markets generally, which may have a material adverse effect on the market value and liquidity of the Senior Secured Notes.

Since 1999, during the years of GDP growth, SARB has focused on controlling inflation as its primary monetary policy. However, there is a risk that, as growth in the South African economy slows, SARB may adjust its focus on inflation in favour of a growth-oriented monetary policy. As a consequence, inflation could increase, which could destabilise South Africa's macroeconomic performance. Worsening macroeconomic conditions could materially adversely affect our retail sales, results of operations and financial condition.

An adverse change in economic, political or social conditions in South Africa or neighbouring countries or emerging markets generally may adversely affect the value of the rand, economic conditions in South Africa generally or demand for our products specifically, which may have a material adverse effect on our operations, profitability and financial condition. In addition, any such adverse change may negatively affect investor sentiment towards South Africa or emerging markets generally, which may have a material adverse effect on the market value and liquidity of the Senior Secured Notes.

***Disruptions or breakdowns in South African infrastructure could disrupt our business***

Our operations are reliant on the continued ability of South African infrastructure to support our business activities. Disruptions in the provision of basic services such as transport, water and electricity impact our ability to reach our customers and our customers' ability to shop in our stores. For

example, the recent strikes at Transnet in May 2010, the rail infrastructure provider, delayed transport of merchandise. The recent rapid growth of the population and economy of South Africa has placed pressure on the existing infrastructure of the country. Any failure on the part of the South African government to invest in adequate infrastructure could adversely affect our retail sales, results of operations and financial condition.

***South African exchange control restrictions could hinder our ability to procure and/or repay foreign denominated financings***

South Africa's exchange control regulations restrict business transactions between residents of the Common Monetary Area on the one hand, which consists of South Africa, the Republic of Namibia and the Kingdoms of Lesotho and Swaziland, and non-residents of the Common Monetary Area, on the other hand. In particular, South African companies:

- are generally not permitted to export capital from South Africa, hold foreign currency in excess of certain limits or incur indebtedness denominated in foreign currencies without the approval of the South African exchange control authorities;
- are prohibited from using transfer pricing and excessive interest rates on foreign loans as a means of expatriating currency; and
- are generally not permitted to acquire an interest in a foreign venture without the approval of the South African exchange control authorities and subject to compliance with the investment criteria of the South African exchange control authorities.

These restrictions could hinder our ability to procure non-rand denominated financings in the future. While the South African government has relaxed exchange controls in recent years, it is difficult to predict what action, if any, the government may take in the future with respect to exchange controls. The government may continue to relax or may abolish exchange controls in the future. However, if the government were to tighten exchange controls, these restrictions could further hinder our ability to procure foreign denominated financings in the future and could adversely impact our results of operations and liquidity.

The issuance of the Senior Secured Notes and our ability to make scheduled interest payments and to pay principal at maturity under the Senior Secured Notes require the approval of the South African exchange control authorities, which we have obtained. To repurchase or redeem Senior Secured Notes prior to their stated maturity, however, including upon a change of control, upon a tax withholding event or with the proceeds from asset sales, we would need to obtain additional approvals from the South African exchange control authorities, which may take a significant amount of time to obtain, if we can obtain them at all. If we could not obtain that consent (and, therefore, did not offer to repurchase or redeem the Senior Secured Notes following a change of control, tax event or asset sale offer, as the case may be), an event of default would occur, requiring us to repay the Senior Secured Notes at par plus accrued interest.

***The high rates of HIV infection in South Africa could cause us to lose skilled employees, incur additional costs or adversely affect economic conditions generally or demand for our products specifically, each of which could cause our retail sales, results of operations and liquidity to decline***

South Africa has one of the highest reported HIV infection rates in the world. The exact impact of increased mortality rates due to AIDS-related deaths on the cost of doing business in South Africa and the potential growth rate of the economy is unclear at this time. We may lose employees with valuable skills due to AIDS-related deaths, and our results of operations and financial condition could be materially adversely affected if we lose such employees. In addition, we may incur education and prevention costs. Our results of operations and liquidity could be materially adversely affected if our employee health-related expenses increase. Moreover, increased mortality rates due to AIDS-related deaths may slow the population growth rate, cause the South African population to decline or increase significantly the overall cost of doing business in South Africa, which may affect economic conditions generally and demand for our products specifically. The effect of HIV infection on both our employees and on the South African market may have a material adverse effect on our operations, profitability and financial condition.

***Compliance requirements related to new South African laws could impact our cost structures and growth, which could have an adverse effect on our retail sales, results of operations and liquidity***

The National Credit Act (the "NCA") provisions have been in effect since 1 June 2007. The NCA requires that credit providers undertake affordability checks in respect of a customer's ability to service his or her potential debt obligations by taking into consideration the customer's financial means, obligations and prospects as well as the customer's debt repayment history and his understanding of the risks and costs of the proposed credit. In addition, the NCA limits automatic credit limit increases to one per year. In respect of other increases to the credit limit under a credit facility, a credit provider must conduct a fresh affordability assessment each time before the increase. The restrictions imposed by the NCA could have a negative impact on our ability to attract new credit card customers or to offer higher credit limits or additional credit products to existing credit card customers. As a consequence, the NCA could have a material adverse effect on our sales, results of operations and liquidity.

The Consumer Protection Act (the "CPA") will come into effect on 1 April 2011. The CPA addresses nine fundamental consumer rights and is expected to substantially change the South African consumer landscape. The CPA seeks to advance the social and economic welfare of consumers in South Africa by providing a range of new statutory rights and safeguards. It will have a material impact on all aspects of promoting or selling goods or services to consumers. The National Consumer Commission will be responsible for enforcing the CPA by monitoring the consumer market to ensure that prohibited conduct and offences are prevented or detected and prosecuted. Non-compliance with the CPA could lead to severe sanctions, which in turn could have a significant adverse effect on our sales, results of operations and liquidity.

There has also been an increase in the anti-competitive behaviour investigations by the Competition Commission which, pursuant to the Competition Amendment Act, has led to significant fines having been imposed by the Competition Commission to a number of companies. If an investigation were to find Edcon guilty of anti-competitive behaviour, we could be subject to fines, required to dispose of assets or prevented from making further acquisitions.

**Risks related to the Senior Secured Notes**

***We must use a significant portion of our cash flow to service our indebtedness which could have important consequences for us. Any failure in our ability to generate sufficient cash in the future could force us to take certain actions which could have a material adverse effect on our retail sales, results of operations and liquidity***

As of 1 January 2011, on an adjusted basis after giving effect to this offering and the application of proceeds therefrom as described under "Use of Proceeds" we had outstanding total corporate debt of €2,110 million. See "Capitalisation". Our substantial indebtedness could have important consequences for us including:

- requiring us to dedicate a significant portion of our cash flow from operations to make payments on our indebtedness, thereby reducing the portion of our cash flow available to fund our working capital and capital expenditure needs and for other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- limiting our ability to make strategic acquisitions or engage in other corporate transactions;
- placing us at a competitive disadvantage compared to our competitors that have less indebtedness; and
- limiting our ability to borrow additional funds or raise equity capital in the future and increasing the cost of any such financings.

Our ability to make payments on and repay or refinance our indebtedness, including the Senior Secured Notes, and to fund our working capital requirements and capital expenditures, will depend on our future operating performance and ability to generate cash, which in turn will depend, to some extent, on general economic, financial, competitive, market and other factors, many of which are

beyond our control. Furthermore, we may incur additional indebtedness in the future that may contain financial or other covenants more restrictive than those contained in the Senior Secured Indenture.

Although we currently believe that our future cash flows, together with available borrowings, will be adequate to service our indebtedness and fund our working capital and capital expenditure needs, we cannot assure you that our business will generate sufficient cash or that future borrowings will be available to us for such purposes. If our future cash flows and available borrowings are insufficient to service our debt and fund our liquidity needs, we may be forced to take certain actions which could have a material adverse effect on our retail sales, results of operations and liquidity, including:

- reducing or delaying capital expenditures;
- selling assets;
- obtaining additional indebtedness;
- restructuring or refinancing all or a portion of our indebtedness, including the Notes, on or before maturity; or
- foregoing opportunities such as strategic joint ventures and acquisitions of other businesses.

In the worst case, an actual or impending inability to pay our debts as they become due and payable could result in our insolvency.

***Despite our current levels of indebtedness, we and our subsidiaries may still be able to incur substantially more debt***

The terms of the Senior Secured Indenture, the 2007 Indentures, our Amended Super Senior Revolving Credit Facility and our Super Senior Rand Loan will limit, but not prohibit, us or our subsidiaries from incurring additional indebtedness, including additional secured indebtedness. Consequently, were funding available, we and our subsidiaries may incur substantial additional indebtedness in the future. Any such incurrence of additional indebtedness could exacerbate the leverage-related risks that we now face.

***Fluctuations in the value of the rand versus the euro may have an impact on our ability to borrow under the fixed charge coverage ratio in the Senior Secured Indenture***

The Senior Secured Indenture permits us to incur indebtedness if we meet, on a pro forma basis, an agreed ratio of fixed charges (as defined in the Senior Secured Indenture) to consolidated EBITDA (as defined in the Senior Secured Indenture). Because a significant portion of our future fixed charges will be payable in euro, an increase in the value of the rand compared to the euro would make it more likely that we could meet the agreed ratio without any change in the underlying performance of our businesses or our ability to generate cash flow, to the extent that we do not economically hedge such charges. A decrease in the value of the rand versus the euro would have an inverse effect. Accordingly, the protection afforded to holders of the Senior Secured Notes by the fixed charge coverage ratio test may be weakened (or strengthened) by future currency exchange rates, to the extent not hedged.

***Restrictions in the Senior Secured Indenture and other instruments governing our indebtedness may limit our ability to operate our business***

Restrictions contained in the Senior Secured Indenture, the 2007 Indentures, our Amended Super Senior Revolving Credit Facility, our Super Senior Rand Loan and/or our other indebtedness may limit our ability to, among other things:

- incur more debt;
- create liens;
- pay dividends and make distributions or repurchase shares;
- make investments or certain other restricted payments;
- sell assets;

- enter into new businesses;
- enter into sale-leaseback transactions;
- merge or consolidate or transfer and sell substantially all of our assets; and
- engage in transactions with affiliates.

Such restrictions could affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they may arise.

***Interest payments on the Senior Secured Notes may be subject to a withholding tax in South Africa***

Under current law, no South African withholding tax will be levied on payment of interest on the Senior Secured Notes. A 10% withholding tax on interest, which will be subject to tax treaty reductions, is to be introduced in South Africa with effect from 1 January 2013. One such exemption from the withholding tax applies to debt instruments listed on a recognised exchange. The Senior Secured Notes constitute debt instruments, and the Irish Stock Exchange, with which we have filed a listing application, qualifies as a recognised exchange. Consequently, interest paid on the Senior Secured Notes should not be subject to the withholding tax. However, we cannot assure you that the Senior Secured Notes will be, or will remain, listed on the Irish Stock Exchange or any other recognised exchange. If the Senior Secured Notes are no longer listed on a recognised exchange, interest payments on the Senior Secured Notes may be subject to a withholding tax in South Africa. In addition, the legislation relating to the withholding tax may be subject to further amendments before its expected implementation on 1 January 2013 and we cannot assure you such amendment will not be detrimental to you.

***Payments on the Senior Secured Notes are subject to the EU Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income, each member state is required, from 1 July 2005 to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such person for, an individual resident or certain limited types of entities established in that other member state. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relation to information exchange with certain other countries). A number of non-EU countries and territories have adopted similar measures.

If a payment were to be made or collected through a member state which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any other person would be obliged to pay additional amounts with respect to any Senior Secured Note as a result of the imposition of such withholding tax.

***Enforcing your rights as a holder of the Senior Secured Notes or under the Senior Secured Guarantees across multiple jurisdictions may be difficult***

The Senior Secured Notes will be issued by the Issuer and guaranteed by the Senior Secured Guarantors. Each of the Issuer and the Senior Secured Guarantors is organised under the laws of South Africa. In the event of bankruptcy, insolvency or a similar event, proceedings could be initiated in South Africa or in the jurisdiction of incorporation or organisation (if other than South Africa) of a future Senior Secured Guarantor. Your rights under the Senior Secured Notes and the Senior Secured Guarantees may thus be subject to the laws of multiple jurisdictions, and there can be no assurance that you will be able to effectively enforce your rights in multiple bankruptcy, insolvency or other similar proceedings. Moreover, such multi-jurisdictional proceedings are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of your rights.

In addition, the bankruptcy, insolvency, administrative, and other laws of such jurisdictions of organisation may be materially different from, or in conflict with, one another and those in the United States or other jurisdictions, with which you may be familiar in certain areas, including creditors' rights, priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency

proceeding. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdiction's law should apply and could adversely affect your ability to enforce your rights and to collect payment in full under the Senior Secured Notes and Senior Secured Guarantees.

The laws of the jurisdiction in which the Senior Secured Guarantors are organised limit their ability to guarantee debts of a parent company. These limitations arise under various provisions and principles of corporate law, which can require sister or subsidiary guarantors to receive adequate corporate benefit from the financing and govern fraudulent transfer laws. If these limitations were not observed, the Senior Secured Guarantees of the Senior Secured Notes would be subject to legal challenge. Furthermore, although we believe that the Senior Secured Guarantees of the Senior Secured Notes are enforceable (subject to the aforementioned restrictions), there can be no assurance that a third-party creditor would not challenge the Senior Secured Guarantees and prevail in court.

***The insolvency laws of South Africa may not be as favourable to you as the insolvency laws of other jurisdictions with which you may be familiar***

*Ranking of claims*

We are incorporated in South Africa and substantially all of our assets are located in South Africa. In the event of our insolvency, the claims of holders of Senior Secured Notes would be subject to the insolvency laws of South Africa. The insolvency laws of South Africa may not be as favourable to you as the laws of other jurisdictions with which you may be familiar.

Under South African law, there are three types of creditors:

- secured creditors;
- preferred creditors; and
- concurrent creditors.

Secured creditors are creditors who hold security for their claims against the debtor in the form of a special mortgage, landlord's lien, pledge or right of retention. A secured creditor will be entitled to be paid out of the proceeds from the collateral subject to its security, after payment of costs and expenses and payment of any secured claim which ranks higher. If the proceeds from the encumbered property are insufficient to cover the secured creditor's claim against a debtor entity such as the Issuer, the secured creditor will have a concurrent claim for the balance from the free residue in the estate of the debtor entity (i.e. that portion of the debtor's estate which is not subject to a security interest or preferences), if any.

Preferred creditors are entitled to payment out of the free residue of a debtor's estate before concurrent creditors. The Insolvency Act, 1936 of South Africa ("SA Insolvency Act") stipulates preferences in ranking of certain claims of preferred creditors, including, *inter alia*, salaries or remuneration of employees, statutory obligations and income tax. Preferred creditors' claims include, among others, claims by the South African Revenue Services, costs of liquidation, salary or remuneration of employees and claims by holders of a notarial general bond which have not been perfected by way of a court order prior to the date of presentation to the court of the application for liquidation in respect of the debtor. A portion of the security for the Issuers' counter-indemnity obligations in respect of the Senior Secured Notes will be effected by way of registration of a general notarial bond ("GNB"), making the SPV Guarantor, on perfection of the GNB by way of a court order, a preferred creditor. A GNB may be perfected only by a court, and only in event of default or liquidation. In the event that the GNB is not perfected, with respect to the assets of the Issuers covered by such GNB, the SPV Guarantor will share the proceeds from realisation of such assets. Once a GNB is registered and subsequently perfected the creditor in whose favour the GNB is registered enjoys a secured preference relative to (i) the immovable assets secured by the GNB and (ii) the terms of the GNB.

Concurrent creditors do not enjoy any advantage over other creditors of a debtor. Instead, they are paid out of the free residue of the debtor's estate after any preferred creditors have been paid. Concurrent creditors all rank equally. Should the free residue be insufficient to meet their claims each receives a pro rata portion of its claim by way of cash dividend.

*Insolvency procedures and reorganisations*

The procedures available to wind-up or reorganise companies under South African law are:

- winding up;
- scheme of arrangement; and
- judicial management.

*Winding-up*

The SA Companies Act and the SA Insolvency Act govern the winding-up of companies in South Africa. Any creditor that has an unpaid claim of more than R100 or the debtor itself may present an application for winding up to the court if the debtor is "insolvent." Generally, a company will be "insolvent" if its liabilities exceed its assets or it cannot pay its debts as and when they become due or when certain technical events of insolvency occur (such as failure to pay a judgement debt).

*Appointment of the liquidator.* After the court has issued a winding-up order, a liquidator takes control of the debtor in the place of its directors, who lose all of their powers. The liquidator may only be removed if he does not act in the best interest of the general body of creditors or has misappropriated funds. The liquidator has three main functions. First, the liquidator investigates the affairs of the debtor. Second, the liquidator collects assets and claims in favour of the debtor. Finally, the liquidator realises the assets of the debtor and administers the debtor's affairs in order to wind up its affairs and pay the debtor's creditors from the debtor's estate.

*General procedure and realisation of secured assets.* In general, commencement of winding-up proceedings restricts all creditors, including secured creditors, from taking any action to recover their claims against the debtor. Provided that the liquidator has not elected to "take over" the assets forming the subject matter of a creditor's security (as more fully described below), a secured creditor is entitled, prior to the date of the second creditors' meeting, to realise its security provided that all proceeds from such realisation will have to be paid over to the liquidator and such creditor will still be obliged to prove its claim, which will be paid to the extent of the realisation and following final liquidation, in the ordinary course. Where the creditor has not realised its security prior to the second meeting of creditors, for example when the asset is part of a going concern, he must deliver the property to the liquidator who will realise the security, usually through public auction of the entire business or parts of business, taking into account the best interests of the secured creditor. There can be no assurance that a liquidator's realisation will be the same as that which a secured creditor might achieve on its own.

*"Take over" of collateral by the liquidator.* As an alternative to realisation of a secured creditor's collateral, the liquidator may, following certain notice periods, "take over" the property from the creditor at a value agreed upon between the liquidator and a secured creditor or at the full amount of the creditor's claim. In practice, the liquidator will only undertake this process if he believes he can dispose of the assets of the debtor or the business of the debtor as a going concern. If the liquidator takes over the collateral, the secured debt claims of the creditor are released.

*Ongoing operations during liquidation.* Regardless of whether the liquidator intends to take over the collateral of one or more creditors, it is possible for the liquidator to continue operating the debtor's business in order to facilitate a sale of the debtor or its assets as a going concern. A liquidator may arrange interim funding for the debtor which is paid as part of the costs of the execution process, provided that the liquidator is reasonably confident the sale process will yield sufficient proceeds at relevant times to repay such funding. Court approval is required for any secured borrowings by the debtor. Typically, a liquidator will require indemnification from the creditors during continuation of the debtor's business.

*Scheme of arrangement*

A scheme of arrangement under the SA Companies Act may also be used to reorganise a debtor's debts. It amounts to a compulsory compromise of claims between the debtor and its creditors (once approved by creditors). A creditors' compromise or scheme of arrangement may be initiated by the creditors of a company or by the company itself. To become effective, it must be approved by at least three quarters in value of the creditors affected (or each relevant class of creditors affected) present

and voting at a meeting convened for that purpose, as well as the shareholders of the company if the company has not been placed in liquidation (see above) or under judicial management (see below). If the company is in liquidation or under judicial management, then the discretion lies with the liquidator or judicial manager, as the case may be.

The scheme must be sanctioned by the court on good cause shown, primarily that the offer of compromise is fair and reasonable. The application to sanction a scheme is subject to certain notice provisions. The entire scheme of arrangement process generally takes about two months.

*Judicial management*

Judicial management is a seldom-used procedure provided for in the SA Companies Act. It is available if the debtor, because of mismanagement or any other cause, is unable to pay its debts or meet its obligations; the debtor has not become, or has been prevented from becoming, a successful concern; there is a reasonable probability that if the debtor is placed under judicial management it will be able to pay its debts or meet its obligations and become a successful concern; and it appears just and equitable to grant a judicial management order. The same parties entitled to apply for the winding-up of a company may also apply to place a company under judicial management. In an application for the winding-up of a company, the court may also order judicial management if circumstances permit. The purpose of judicial management is to get a company back into a profitable position, thus the process could last for a few years.

In addition to these court-driven procedures, debtors and their creditors are free to enter into a contractually-sanctioned reorganisation of claims against the debtor if the creditors and the debtor (and, where relevant, shareholders) agree.

*Avoidance of claims.* Under South African law, a number of pre-insolvency transactions, including granting security, can be set aside by a court. For instance, a court may set aside certain dispositions of a debtor's property made prior to commencement of winding up proceedings.

*Transactions at under value.* A court will set aside a disposition of the debtor's property if it was not made for value and, if:

- the disposition was made within two years of the date of the provisional liquidation order and the petitioning party proves that, immediately after the disposition was made, the liabilities of the debtor exceeded its assets; or
- the disposition was made two years before the date of the provisional liquidation order and the person who benefited from the disposition is unable to prove that, immediately after the disposition was made, the assets of the debtor exceeded its liabilities.

It is not necessary to establish whether or not the insolvent intended to prejudice creditors by making the disposition.

*Preferences.* South African law also makes provision for setting aside a disposition of the debtor's property if such disposition is made not more than six months before the date of the provisional liquidation order, such disposition has the effect of preferring one creditor over another and, if immediately after the making of such disposition, the liabilities of the debtor exceed the value of its assets. However, if the person in whose favour the disposition was made proves that the disposition was made in the ordinary course of business, being a disposition which would normally be entered into by solvent entities, and that the transaction was not intended to prefer one creditor above another, then such disposition may not be set aside.

South African law also provides that if a debtor makes a disposition of its property at any time when its liabilities exceed its assets, with the intention of preferring one of its creditors above another, and it is thereafter liquidated, the court may set aside the disposition.

In addition, South African law provides that any disposition by a debtor made prior to the date of a provisional liquidation order, in collusion with another person and in a manner which has the effect of prejudicing its creditors or of preferring one creditor over another, may be set aside. However, there is legal authority which states that in order for any transaction to be set aside under this provision, the transaction must have been concluded with a fraudulent intention.

Finally, under South African common law, a disposition may be set aside where the creditors of the insolvent estate can prove that:

- the disposition reduces the assets of the company;
- the company and the entity in favour of whom the disposition was made had a common intention to defraud or prejudice the creditors of the insolvent; and
- the prejudice to the insolvent's creditors was caused by the fraud referred to above.

*Dispositions without notice.* South African law provides that if a company transfers a business belonging to it or the goodwill of that business or any goods or property forming part thereof (save in the ordinary course of business or for the purpose of securing the payment of a debt) and such company has not published a notice of the intended transfer in the Government Gazette within a period of not less than thirty and not more than sixty days prior to the date of such transfer, the transfer will be void as against the creditors of the seller for a period of six months after such transfer and in addition will be void against the trustee if the estate of the seller is liquidated within that time period.

If the Issuer were to experience financial difficulties, it is impossible to predict whether claims under the Senior Secured Notes would be paid in full or at all, how long payments under the Senior Secured Notes could be delayed and whether or to what extent holders of the Senior Secured Notes would be compensated for any delay in payment under the Senior Secured Notes. The ultimate recovery (if any) by holders of Senior Secured Notes will depend on the value of the insolvent estate and numerous other factors, including those described above.

***Fraudulent conveyance statutes under South African law may limit your rights as a holder of the Senior Secured Notes to enforce the security provided by the Senior Secured Guarantors***

Our obligations under the Senior Secured Notes are guaranteed by the Senior Secured Guarantors, and the Senior Secured Guarantees may be subject to review under the "impeachable transactions" provisions of the laws of South Africa, where we conduct our operations.

In an insolvency proceeding, it is possible that creditors of the Senior Secured Guarantors may challenge the Senior Secured Guarantees and intercompany obligations as impeachable transactions. If so, such laws may permit a court, if it makes certain findings, to:

- avoid or invalidate all or a portion of such Senior Secured Guarantor's obligations under the Senior Secured Guarantees;
- direct that holders of the Senior Secured Notes return any amounts paid under the Senior Secured Guarantees to such Senior Secured Guarantor or to a fund for the benefit of its creditors; or
- take other action that is detrimental to you.

If we cannot satisfy our obligations under the Senior Secured Notes and the Senior Secured Guarantees are found to represent an impeachable transaction, we cannot assure you that we will ever be able to repay in full any amounts outstanding under the Senior Secured Notes. In addition, the liability of any Senior Secured Guarantor under its Senior Secured Guarantee of the Senior Secured Notes will be limited to the amount that will result in its Senior Secured Guarantee not constituting an impeachable transaction and there can be no assurance as to what standard a court would apply in making a determination of the maximum liability of such Senior Secured Guarantor under its Senior Secured Guarantee of the Senior Secured Notes. For a description of certain impeachable transactions, see "Risk Factors—Enforcing your rights as a holder of the Senior Secured Notes or under the Senior Secured Guarantees across multiple jurisdictions may be difficult".

***The New Companies Act in South Africa will bring significant changes to the corporate law of South Africa, including introducing a new regime of "business rescue" for financially distressed companies, which could significantly affect the rights of creditors***

The Companies Act, 2008 (the "New Companies Act") is expected to become effective on 1 April 2011. The New Companies Act will repeal the current SA Companies Act, with the exception of the provisions that deal with the winding-up and liquidation of insolvent companies (which will remain in

effect until new insolvency legislation is enacted). The New Companies Act introduces significant changes to the corporate law of South Africa and to corporate actions, and the responsibilities of directors.

*Compromise with creditors*

Under the New Companies Act, the concept of a scheme of compromise between a company and its creditors as contemplated in sections 311 and 312 of the SA Companies Act has been replaced with a "compromise with creditors" as contemplated in section 155 of the New Companies Act. A compromise with creditors under the New Companies Act may be proposed by the board of directors or, if the company is being wound-up, by the liquidator. This differs from the position under section 311 of the SA Companies Act, which enabled a creditor or a shareholder, in addition to the board of directors or the liquidator, to propose a compromise with creditors. To become effective, the proposed compromise with creditors must be supported by a majority in number, representing at least 75% in value, of the creditors (or each relevant class of creditor) present and voting in person or by proxy, at a meeting called for that purpose. A proposal or a compromise with creditors adopted in accordance with the provisions of section 155 of the New Companies Act may be submitted to court by the company for an order approving the proposal. A court may sanction the compromise as set out in such proposal if it considers it "just and equitable to do so" having consideration to the facts (including the number of creditor present and voting) set out in the New Companies Act. This differs from a scheme of compromise under section 311 of the SA Companies Act, which not only required a court order to convene a meeting of creditors to consider the proposal but also a second court order to sanction the compromise before it could become legally binding on all creditors of the company. Under both the SA Companies Act and the New Companies Act, a court sanctioned compromise is binding on all the creditors of the company or class of creditors, as the case may be. A compromise with creditors may involve the subordination of payment to certain creditors, the dilution of a creditor's claim or other situations which may adversely affect a creditor's claim. Since the New Companies Act does not place an obligation on a company to obtain court approval of the proposal, on the literal meaning of the section, it is possible that all dissenting creditors will be bound by the compromise notwithstanding the absence of a court order sanctioning the proposal. As such, as long as a majority in number representing 75% in value of the creditors approve the proposed compromise, the compromise will be binding on all dissenting minority creditors without any court scrutiny to ensure that the proposal is just and equitable.

*Business rescue*

The New Companies Act introduces the concept of "business rescue", a concept similar to chapter 11 bankruptcy proceedings in the United States. Business rescue allows a company that is "financially distressed" (defined as occurring where it seems reasonably likely that the company will not be able to pay its debts as they become due and payable during the ensuing six months or it seems reasonably likely that the company will become insolvent in the ensuing six months) and which appears to have a "reasonable prospect" of rescue to avoid liquidation by implementing a business rescue plan. Business rescue proceedings may be instituted by the board of directors of the company or by any affected person (including a shareholder or creditor, registered trade union or employee), on application to court or by the court of its own accord at any time during the course of any liquidation proceedings or proceedings to enforce any security against the company.

After initiating business rescue proceedings, the board of directors or the court, as the case may be, must appoint a business rescue practitioner, who will assume full management control of the company in substitution for its board and pre-existing management. However, directors continue to exercise their functions, subject to the authority of the practitioner. The practitioner, after consultation with the creditors, other affected persons and the management of the company must prepare a business rescue plan for consideration and possible adoption at a meeting of creditors convened in accordance with the provisions of the New Companies Act listing, among other things, all details of the plan envisaged to rescue the company. The company must publish a notice of the appointment of a practitioner to each affected person. The business rescue plan must be approved by creditors and, if the plan alters the rights of the holders of the company's securities, such holders must also approve the proposed business rescue plan. If not approved, the appointed business rescue practitioner may be required to revise the plan.

During a company's business rescue proceedings, the business rescue practitioner is empowered to suspend entirely, partially or conditionally, any provision of an agreement to which the company is a party (other than an employment contract or an agreement to which section 35A or 35B of the Insolvency Act applies) at the commencement of the business rescue period.

A provision of an agreement relating to security granted by a company would, notwithstanding suspension of same by a practitioner, continue to apply for the purposes of the disposal of the asset forming the subject matter of such security in respect of any proposed disposal of property by the company.

These powers have significant implications for claims of, and security held by, creditors. A practitioner may, for example, have the power to suspend provisions relating to creditors' rights, while maintaining provisions relating to creditors' performance obligations; however as any cancellations will be part of the business rescue plan they will be subject to creditor approval.

During business rescue proceedings, a general moratorium is placed on legal proceedings against the Company, and no legal action, including enforcement action, against the company, or in relation to property of the company, may be commenced except with *inter alia* the written approval of the practitioner or leave of court. The only recourse provided for the affected creditor in the New Companies Act whose agreement with the company, or any provision thereof, has been suspended either entirely, partially or conditionally, during the course of business rescue proceedings is to institute a claim for damages against the company.

The New Companies Act provides a degree of protection of property interests of a party that has security over, or title interest in, property held by the company. It states that if the company wishes to dispose of any property in which another person has any security over, or title interest in, the company must obtain the prior consent of that other person, unless the proceeds from the disposal would be sufficient to fully discharge the indebtedness protected by that person's security or the title interest and, following the disposal, either promptly pays to that person the sale proceeds attributable to that property up to the amount of the company's indebtedness to that other person or provide security for the amount of those proceeds, to the reasonable satisfaction of that other person.

Once under business rescue, claims against the company will rank as follows: (a) the practitioner's remuneration and expenses; (b) amounts due and payable to employees during business rescue proceedings; (c) post-commencement financing which is secured (in the order of preference in which they were incurred); (d) post-commencement financing which is unsecured (in the order of preference in which they were incurred); (e) secured financing which was incurred prior to the commencement of business rescue proceedings; (f) unsecured financing incurred prior to the commencement of business rescue proceedings; (g) all other unsecured claims against the company; and (h) shareholder claims against the company. No mention is made of secured claims prior to commencement of the business rescue proceedings in this section of the New Companies Act. However, the New Companies Act does state that to the extent that the practitioner's remuneration and expenses are not fully paid, the practitioner's claim for those amounts will rank in priority before the claims of all other secured and unsecured creditors.

The business rescue regime is an entirely new regime and significant interpretive questions remain unanswered. Many of the important concepts are untested and, as such, it is impossible to predict what the impact of the regime ultimately will be.

*Reckless trading*

Under section 22 of the New Companies Act, a company is prohibited from carrying on its business recklessly, with gross negligence, with intent to defraud any person or for any fraudulent purpose or to trade under insolvent circumstances. Directors who allow their companies to trade under such circumstances may be held personally liable for any loss or damages sustained by the company as a consequence of allowing the company to trade recklessly or under insolvent circumstances. The Companies and Intellectual Property Commission (which now replaces the old Companies Registration Office) (the "Commission") may issue a notice to a company where the Commission has reasonable grounds to believe that the company is carrying on its business in a reckless situation or under insolvent circumstances to show cause why the company should be permitted to continue carrying on

its business. If the company to whom the notice has been issued fails, within 20 business days, to satisfy the Commission that it is not engaging in reckless trading, the Commission is empowered to issue a compliance notice to the company requiring it to cease carrying on its business or trading.

***Creditors under the Amended Super Senior Revolving Credit Facility and the Super Senior Rand Loan are entitled to be repaid with the proceeds from collateral sold in any enforcement sale in priority to the holders of the Senior Secured Notes and the value of the collateral may not be sufficient to satisfy our obligations under the Senior Secured Notes***

The SPV Guarantee in favour of the Trustee and the hedging providers in respect of the hedging counterparties' obligations is supported, with respect to the same collateral, on an equal and rateable basis by the secured counter-indemnities provided by the Issuer and the Senior Secured Guarantors and on a junior basis to the secured counter-indemnities that benefit the SPV Guarantee in favour of the lenders under the Amended Super Senior Revolving Credit Facility and the Super Senior Rand Loan in respect of certain receivables and related asset security only. In the event of a foreclosure on the liens securing the counter-indemnities, any proceeds received from the sale of the collateral would be distributed first to satisfy debt and obligations incurred under the Amended Super Senior Revolving Credit Facility and the Super Senior Rand Loan and thereafter to repay the obligations of the Issuer and the Senior Secured Guarantors under the Senior Secured Notes and the Senior Secured Guarantees, respectively, as well as any other debt ranking on an equal and rateable basis in right of payment upon enforcement of collateral with the Senior Secured Notes and the Senior Secured Guarantees, including the 2007 Senior Secured Notes and the hedging counterparties' obligations to the hedging providers.

No appraisals of the collateral have been prepared by or on behalf of us in connection with the issuance of the Senior Secured Notes. The amount of proceeds realised upon the enforcement of collateral will depend upon many factors including, among others, whether or not our business is sold as a going concern, the jurisdiction in which the enforcement action or sale is completed, the ability to readily liquidate the collateral, the availability of buyers, the condition of the collateral and exchange rates. Furthermore, there may not be any buyer willing and able to purchase our business as a going concern, or willing to buy a significant portion of our assets in the event of an enforcement action. Each of these factors could reduce the proceeds realised upon enforcement of the collateral. Consequently there can be no assurance that the proceeds from the sale of the collateral securing the Senior Secured Notes and the Senior Secured Guarantees will be sufficient to satisfy the obligations of the Issuer and the Senior Secured Guarantors under the Senior Secured Notes and the Senior Secured Guarantees, respectively. In addition, there can be no assurance that the collateral could be sold in timely manner, if at all. See "Description of the Senior Secured Notes—Security".

***The collateral will not be granted directly to the holders of the Senior Secured Notes***

The security interests in the collateral will not be granted directly to holders of the Senior Secured Notes. Instead, they will be granted to the SPV Guarantor (which will issue a limited recourse guarantee of the Senior Secured Notes) as security for the Issuer's and the Guarantors' obligations under their counter-indemnities to the SPV Guarantor. The SPV Guarantor is described in "Description of the Senior Secured Notes—Security—SPV Guarantor and the SPV Guarantee".

As a result, neither the trustee nor the holders of the Senior Secured Notes will have the right to realise the collateral directly but, instead, must, acting in accordance with the Intercreditor Agreement, instruct the SPV Guarantor (which must take any such action to realise the security). This indirect claim over the collateral could delay or make more costly any realisation of the collateral. Furthermore, because the Senior Secured Indenture and the Senior Secured Notes will be governed by New York law and the SPV Guarantor guarantee and security arrangements will be governed by South African law, realisation may be further delayed by court proceedings in multiple jurisdictions or interpretation of foreign laws in a South African court proceeding. See "Risk Factors—The insolvency laws of South Africa may not be as favourable to you as the insolvency laws of other jurisdictions with which you may be familiar".

***We may not be able to obtain enough funds to repurchase the Senior Secured Notes if a change of control takes place***

A "change of control" is an event defined in the Senior Secured Indenture and includes certain changes in ownership or voting rights with respect to us. If a change of control occurs, holders of the Senior Secured Notes may require us to purchase any or all of the Senior Secured Notes at 101% of their principal amount together with accrued and unpaid interest. See "Description of the Senior Secured Notes—Purchase of Senior Secured Notes upon a Change of Control". We may not have enough money, however, to purchase the Senior Secured Notes upon a change of control and also may not be able to raise the money to do so. Furthermore, any such purchase by us will require the approval of South African exchange control authorities, which may not be obtained. Additionally, a change of control would be a prepayment event under the 2007 Notes, the Amended Super Senior Revolving Credit Facility and the Super Senior Rand Loan. In the event this results in an event of default under such facilities, the lenders under such facilities may accelerate such debt, which could also cause an event of default under the Senior Secured Indenture. Restrictions contained in the Senior Secured Indenture on a change of control may make it more difficult for others to obtain control of us. The change of control provisions may not protect you in a transaction in which we incur a large amount of debt, including a reorganisation, restructuring, merger or other similar transaction, because that kind of transaction may not involve any shift in voting power or beneficial ownership, or may not involve a shift large enough to trigger a change of control.

***Transfers of the Senior Secured Notes will be subject to certain restrictions***

We have not registered the Senior Secured Notes under the U.S. Securities Act or any other securities laws. Therefore, you may not offer or sell the Senior Secured Notes in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in compliance with all other securities laws. You should read the discussion under the heading "Notice to U.S. Investors" and "Notice to Non-U.S. Investors" for further information about the transfer restrictions that apply to the Senior Secured Notes. It is your obligation to ensure that your offers and sales of Senior Secured Notes within the United States and other countries comply with all applicable securities laws.

***The 2007 Notes bear interest at a floating rate that could rise significantly, increasing our interest cost and debt and reducing our cash flow***

The 2007 Notes bear interest at per annum rates equal to EURIBOR, adjusted periodically, plus a spread. This interest rate could rise significantly in the future and could therefore increase our interest cost and debt and reduce funds available to repay the Senior Secured Notes and other financing and funds available to finance operations and future business opportunities, to the extent that we do not hedge the floating interest rate. As a result, higher market interest rates would intensify the consequences of our leveraged capital structure, to the extent not hedged.

***Investors in the Senior Secured Notes may have difficulty bringing actions, and enforcing judgments, against us, our directors and our executive officers based on the civil liabilities provisions of the United States federal securities laws or other laws of the United States or any state thereof or the securities laws or other laws of other jurisdictions, as the case may be, in South Africa***

We are incorporated in South Africa. All of our senior managers reside in South Africa. Substantially all of our assets and assets of these persons are located in South Africa. Although we will submit to the jurisdiction of New York courts in connection with the offering of the Senior Secured Notes, it may not be possible for investors to effect service of process within the United States upon us or upon our directors and officers, or to enforce against us any judgments obtained in U.S. courts predicated upon civil liability provisions of the federal securities laws of the United States to the extent U.S. legal concepts do not have a corresponding concept under South African law (class action certification, for example). In addition, there is doubt as to the enforceability in South Africa, in original actions, of civil liabilities predicated solely upon the federal securities laws of the United States. See "Service of Process and Enforcement of Liabilities".

***The Senior Secured Notes will initially be held in book-entry form and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies***

Unless and until definitive registered Senior Secured Notes are issued in exchange for book-entry interests in the Senior Secured Notes, owners of the book-entry interests will not be considered owners or holders of the Senior Secured Notes. Instead, the registered holder, or its nominee, will be the sole holder of the Senior Secured Notes. Payments of principal, interest and other amounts owing on or in respect of the Senior Secured Notes in global form will be made to The Bank of New York Mellon (as paying agent for the Senior Secured Notes), which will make payments to the common depositary or the custodian, as applicable, which will in turn distribute payments to Euroclear and Clearstream or DTC, as applicable. Thereafter, payments will be made by Euroclear and Clearstream or DTC, as applicable to participants in these systems and then by such participants to indirect participants. After payment to the common depositary or the custodian, as applicable neither we, the Trustee nor the paying agent will have any responsibility or liability for any aspect of the records relating to, or payments of, interest, principal or other amounts to Euroclear and Clearstream or DTC, as applicable or to owners of book-entry interests.

Unlike holders of the Senior Secured Notes themselves, owners of book-entry interests will not have the direct right to act upon our solicitations or consents or requests for waivers or other actions from holders of the Senior Secured Notes that we may choose to make in the future. Rather, owners of book-entry interests will be permitted to act only to the extent that they have received appropriate proxies to do so from Euroclear and Clearstream or DTC, as applicable or, if applicable, from a participant. We cannot assure you that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any such solicitations or requests for actions on a timely basis.

Similarly, upon the occurrence of an event of default under the Senior Secured Indenture, owners of book-entry interests will be restricted to acting through Euroclear and Clearstream or DTC, as applicable. We cannot assure you that the procedures to be implemented through Euroclear and Clearstream or DTC, as applicable will be adequate to ensure the timely exercise of rights under the Senior Secured Notes. See “Description of Book-Entry System”.

***You may face foreign exchange risks or tax consequences by investing in the EUR Senior Secured Notes***

The EUR Senior Secured Notes are denominated and payable in euros. If you are a U.S. investor, an investment in the Senior Secured Notes will entail foreign exchange-related risks due to, among other factors, possible significant changes in the value of the euro relative to the U.S. dollar owing to economic, political and other factors over which we have no control. Depreciation of the euro against the U.S. dollar could cause a decrease in the effective yield of the Senior Secured Notes below their stated coupon rates and could result in a loss to you on a U.S. dollar basis. Investment in the Senior Secured Notes by U.S. investors may also have important tax consequences. See “Certain Tax Considerations—Certain U.S. federal income tax considerations—Sale and Disposition of Senior Secured Notes”.

***An active liquid trading market for the Senior Secured Notes may not develop***

The Senior Secured Notes are a new class of securities that have never been traded. We have applied for the listing of the Senior Secured Notes on the Official List of the Irish Stock Exchange to be admitted to trading on its Global Exchange Market. However, we cannot assure you that the Senior Secured Notes will be listed on any exchange at the time the Senior Secured Notes are delivered to the Initial Purchasers or at any other time. The Initial Purchasers have informed us that they intend to make a market in the Senior Secured Notes. However, they are not obliged to do so, and may discontinue such market-making at any time without notice. There can be no assurance that an active trading market for the Senior Secured Notes will develop, or if one does develop, that it will be sustained.

Historically, the market for non-investment grade debt has been highly volatile in terms of price. It is possible that the market for the Senior Secured Notes will also be volatile. This volatility in price or other factors may affect your ability to resell your Senior Secured Notes or the timing of their sale.

## THE TRANSACTIONS

### *Refinancing of Hedging Arrangements*

In June 2007, we executed a hedging strategy to mitigate the interest rate and currency risk exposure resulting from the issuance of the 2007 Notes. In June 2008, we realised a R1,793 million mark-to-market gain on a portion of our hedging arrangements, which were subsequently cancelled. Following such realisation, our hedging arrangements for the 2007 Notes ("Existing Hedging Arrangements") continue to fully hedge us against interest rate and currency risk on the interest payments under the 2007 Notes until June 2011 and against currency risk on the outstanding principal until June 2012. As of 11 February 2011, the negative MTM on our Existing Hedging Arrangements was R5,362 million, of which R4,882 million relates to the June 2012 principal hedges.

On or about the date of the issuance of the Senior Secured Notes, we will agree with the counterparties to the June 2012 principal hedges the current MTM for those hedges. We will use the net proceeds from the issuance of the Senior Secured Notes and the Super Senior Rand Loan (estimated to be R5,274 million) to pay down all or part of the agreed MTM for those hedges (the "Hedge Refinancing"). In the event that the aggregate MTM of the June 2012 principal hedges is greater than the net proceeds from the Senior Secured Notes and the Super Senior Rand Loan, we may elect to settle the balance with a current cash payment, or by agreeing with one or more counterparties to make a series of fixed cash payments over a period ending not later than December 2013, with such cash payments fixed in the form of a derivative contract, loan or note with the relevant counterparty.

We are currently negotiating with a number of financial institutions, including some of the Initial Purchasers, to execute and/or become a counterparty to our New Hedging Arrangements. We are also negotiating with GSI or one of its affiliates to provide the credit financing in the event that the MTM on the June 2012 principal hedges exceeds the net proceeds from the issuance of the Senior Secured Notes and the Super Senior Rand Loan as described above. In connection with the institution of the New Hedging Arrangements, the Existing Hedging Arrangements, with the exception of the outstanding interest rate and currency hedges on the interest payments on the 2007 Notes, will be cancelled or otherwise discontinued. See "Description of Other Indebtedness—Hedging".

Prospective investors should be aware that we may select one or more of the Initial Purchasers to execute the implementation of our New Hedging Arrangements. Any Initial Purchaser selected by us to execute the New Hedging Arrangements would have a substantial commercial interest in the outcome of the Hedge Refinancing and the execution of our New Hedging Arrangements.

### *Super Senior Rand Loan*

In connection with the issuance of the Senior Secured Notes, the Issuer expects to enter into a super senior rand term facility with Goldman Sachs Lending Partners LLC (the "Super Senior Rand Loan"), the proceeds from which will be used, together with the proceeds from the offering of the Senior Secured Notes, to fund the Hedge Refinancing. The Super Senior Rand Loan will rank *pari passu* with the Amended Super Senior Revolving Credit Facility and have a principal amount R985 million. See "Description of Certain Other Indebtedness—The Super Senior Rand Loan".

### *Amendment of Senior Revolving Credit Facility*

In connection with the issuance of the Senior Secured Notes, HoldCo will enter on or prior to the Issue Date, into an amendment of our Existing Super Senior Revolving Credit Facility with ABSA Capital, a division of ABSA Bank Limited ("ABSA"), Deutsche Bank AG, Johannesburg Branch, among others, as lenders and ABSA as facility agent to (i) reduce the aggregate commitments of the lenders from R3,500 million to R3,117 million and (ii) extend the original maturity date of up to R2,467 million of the commitments under the Existing Senior Revolving Credit Facility for up to a further two years to 31 March 2014.

Our Amended Super Senior Revolving Credit Facility provides senior secured financing of up to R3,117 million for our general corporate and working capital purposes and provides for:

- a R650 million Facility A, maturing on 15 June 2012;

- a R250 million Facility B1, maturing on 31 December 2013; and
- a R2,217 million Facility B2, maturing on 31 March 2014.

See “Description of Certain Other Indebtedness—The Amended Super Senior Revolving Credit Facility”. The effectiveness of the Amended Super Senior Revolving Credit Facility is conditional on receiving the approval from the South African Reserve Bank, which was applied for on 15 February 2011.

## USE OF PROCEEDS

We expect the net proceeds from the offering of the Senior Secured Notes to be approximately €481 million after deducting fees and expenses associated with the Transactions. We intend to use the net proceeds from the offering, together with proceeds from the Super Senior Rand Loan, for general corporate purposes, including the refinancing of certain hedging obligations and existing indebtedness. The following table sets forth our expected sources and uses of funds in connection with the Transactions:

| Sources of Funds | Euro (in millions)[1] | Uses of Funds | Euro (in millions)[1] |
|---|---|---|---|
| Super Senior Rand Loan | 100 | Hedge Refinancing[2] | 496 |
| Senior Secured Notes | 500 | Estimated transaction fees and expenses | 19 |
| | | General corporate purposes including refinancing of existing indebtedness[3] | 86 |
| Total sources | € 600 | Total uses | € 600 |

(1) We have translated euro and rand amounts relating to the proceeds from this offering and the application of such proceeds based on an exchange rate of €1 = R9.85, the Bloomberg Composite Rate on 11 February 2011.

(2) We expect to fund the remaining amount in respect of the Hedge Refinancing, if any, by agreeing with one or more counterparties to make a series of fixed cash payments over a period ending no later than December 2013, with such cash payments fixed in the form of a derivative contract, loan or note with the relevant counterparty or financed with cash generated by Edcon. We estimate that the negative market-to-market on our Existing Hedging Arrangements was approximately €525 million as of 22 February 2011.

(3) The remaining proceeds from the offering of the Senior Secured Notes and the Super Senior Rand Loan may be used to refinance existing indebtedness. Using the negative mark-to-market as of 22 February 2011 of approximately €525 million, the excess proceeds would amount to €55 million.

You should read “Capitalisation”, “Description of Certain Other Indebtedness” and “Description of the Senior Secured Notes” for a more detailed description of our capitalisation and financing arrangements, as well as “The Transactions” for a more detailed description of our proposed Hedge Refinancing.

## CAPITALISATION

The following table sets forth the cash and cash equivalents and capitalisation as of 1 January 2011, on a consolidated basis:

- on an actual basis, derived from our historical financial information, appearing elsewhere in this Offering Memorandum; and
- as adjusted to give effect to (i) the offering of the Senior Secured Notes (ii) the entering into the Super Senior Rand Loan and (iii) the Transactions.

You should read this table together with "The Transactions", "Use of Proceeds", "Management's Discussion and Analysis of Financial Condition and Results of Operation", "Description of Certain Other Indebtedness", "Selected Historical Financial and Other Data" and our audited historical financial statements on a consolidated basis, including the related notes, appearing elsewhere in this Offering Memorandum.

| | As of 1 January 2011 | | | |
|---|---|---|---|---|
| | Actual[1] | As adjusted[2] | Actual[1] | As adjusted[2] |
| | (in millions) (unaudited) | | | |
| **Corporate cash and cash equivalents**[3] | R 1,239 | R 2,085 | € 141 | € 212 |
| **Debt:** | | | | |
| Amended Super Senior Revolving Credit Facility[4] | R – | R – | € – | € – |
| 2007 Senior Secured Notes | 10,370 | 11,623 | 1,180 | 1,180 |
| 2007 Senior Notes | 3,322 | 3,723 | 378 | 378 |
| Super Senior Rand Loan | – | 985 | – | 100 |
| Senior Secured Notes offered hereby | – | 4,925 | – | 500 |
| Non-current derivative financial instrument | 6,314[5] | – | 718 | – |
| **Total corporate debt**[6] | R 20,006 | R 21,256 | € 2,276 | € 2,158 |
| **Equity and shareholder liability** | | | | |
| **Total equity and Subordinated Shareholder Loan**[7] | R 5,781 | R 5,497 | € 658 | € 779 |
| **Total capitalisation** | R 25,787 | R 26,753 | € 2,934 | € 2,937 |

(1) We have translated euro and rand amounts, in these columns based on an exchange rate of €1 = R8.79, the exchange rate used in our unaudited interim financial statements for and as of 39-week 2011.

(2) We have translated euro and rand amounts in these columns based on an exchange rate of €1 = R9.85, the Bloomberg Composite Rate on 11 February 2011.

(3) Excludes R93 million (€10.6 million) of cash and cash equivalents in OtC II, which is consolidated into our audited financial statements. See "Description of Certain Other Indebtedness—The OtC Securitisation Programme".

(4) The Amended Super Senior Revolving Credit Facility allows for borrowings of up to R3,117 million (€316 million equivalent).

(5) Non-current derivative financial instrument of R5,697 million (€648 million) gross of R617 million (€70 million) credit valuation adjustment.

(6) Excludes R4,300 million (€489 million) of indebtedness related to OtC II, which is consolidated into our audited financial statements. See "Description of Certain Other Indebtedness—The OtC II Securitisation Programme" and "Summary Historical Financial and Other Data".

(7) The Subordinated Shareholder Loan from LuxCo to HoldCo has a principal outstanding amount of R5,057 million and accrued and unpaid interest of R2,923 million. See "Related Party Transactions—Subordinated Shareholder Loan".

## SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following tables present selected historical consolidated financial information and other data for HoldCo for the periods ended and as of the dates indicated therein.

Our selected historical financial data as of and for the fiscal years 2009 and 2010 have been derived from HoldCo's audited historical consolidated financial statements as of and for the fiscal years 2009 and 2010 included elsewhere in this Offering Memorandum. Those financial statements have been audited by Ernst & Young Inc., South Africa, as stated in their reports thereon also included elsewhere in this Offering Memorandum. When used in this Offering Memorandum in relation to any year, "fiscal year" means the fiscal year ended on the Saturday of that year closest to 31 March of that year.

We present financial information for 39-week 2010 as a basis for comparing our unaudited interim condensed consolidated financial statements for 39-week 2011 in a meaningful way. Such financial information is not audited nor reviewed. We believe a comparison of our unaudited interim condensed consolidated financial statements for 39-week 2011 with our unaudited interim condensed consolidated financial statements for the 39 weeks ended 26 December 2009 (i.e., the end of the third quarter of fiscal year 2010) would not be a meaningful comparison of our results of operation because the latter do not reflect our trading during the last week of the calendar year, in which we usually record higher retail sales than average. "39-week 2010" and "39-week 2011", when used in this Offering Memorandum, mean the 39-week-periods ended 2 January 2010 and 1 January 2011, respectively.

Our selected historical financial data as of and for the 52 weeks ended 1 January 2011 (the "LTM 2010") has been derived by adding the unaudited historical financial data for 39-week 2011 to the unaudited historical financial data for the 13 weeks ended 3 April 2010. This data has been prepared for illustrative purposes only and is not prepared in the ordinary course of our financial reporting. Such compilation has not been audited or reviewed.

You should read the selected historical consolidated financial information and other data presented below in conjunction with the information contained in "Presentation of Information—Financial Data", "Risk Factors", "Capitalisation", "Selected Historical Financial Information and Other Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements, including the related notes, included elsewhere in this Offering Memorandum. Historical results are not indicative of future expected results. In addition, our results for 39-week 2011 should not be regarded as indicative of our expected results for fiscal year 2011.

**OntheCards Investments II (Proprietary) Limited and OntheCards Investments Limited**

The assets, liabilities and results of OtC I and OtC II, the entities that purchase our receivables pursuant to the OtC Securitisation Programme, are fully consolidated into our consolidated financial statements because we are deemed to control OtC I and OtC II within the meaning of IFRS. In this Offering Memorandum, we present certain financial information that excludes the impact of OtC I and OtC II on our consolidated assets, liabilities and results because we believe that such information is useful for assessing our financial position. As we sell our receivables under our OtC Securitisation Programme on a non-recourse basis, we retain no rights to such receivables. In addition, the creditors of OtC have no recourse against us or any of our other consolidated subsidiaries in excess of the amount provided. Further, OtC has no recourse against any of our consolidated subsidiaries pursuant to the terms of our OtC Securitisation Programme. See footnote 13 to "Summary Historical Consolidated Financial Information and Other Data".

| | 52 weeks ended 28 March 2009 | 53 weeks ended 3 April 2010 | 39 weeks ended 2 January 2010 | 39 weeks ended 1 January 2011 | 52 weeks ended 1 January 2011 | 52 weeks ended 1 January 2011[2] |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| | (audited) | (audited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| **Income statement data**[1] | | | | | | |
| Revenues | R 25,195 | R 24,876 | R 18,996 | R 20,054 | R 25,458 | € 2,585 |
| *Retail sales*[3] | *22,075* | *21,888* | *16,743* | *17,917* | *22,586* | 2,293 |
| Cost of sales | (13,774) | (13,848) | (10,530) | (11,251) | (14,257) | (1,447) |
| **Gross profit** | **R 8,301** | **R 8,040** | **R 6,213** | **R 6,666** | **R 8,329** | **€ 846** |
| Other income[4] | 467 | 473 | 360 | 361 | 474 | 48 |
| Store costs | (3,847) | (4,078) | (3,002) | (3,249) | (4,300) | (437) |
| Other operating costs[5] | (2,628) | (2,338) | (1,797) | (2,007) | (2,530) | (257) |
| Additional depreciation and amortisation[6] | (656) | (690) | (520) | (499) | (669) | (68) |
| **Retail trading profit** | **R 1,637** | **R 1,407** | **R 1,254** | **R 1,272** | **R 1,304** | **€ 132** |
| Income from credit | 2,271 | 2,049 | 1,567 | 1,371 | 1,853 | 188 |
| Expenses from credit | (1,772) | (1,771) | (1,377) | (880) | (1,274) | (129) |
| Equity accounted earnings of joint venture | 349 | 435 | 309 | 349 | 475 | 48 |
| **Operating profit** | **R 2,485** | **R 2,120** | **R 1,753** | **R 2,112** | **R 2,358** | **€ 239** |
| Fees incurred funding facilities | — | (33) | (28) | (10) | (15) | (2) |
| Gain on buy-back of 2007 Senior Notes | 1,350 | — | — | — | — | — |
| Net fair value movement on floating rate notes and associated derivatives | (1,050) | (459) | (70) | (1,453) | (1,842) | (187) |
| Impairment of indefinite life brands and goodwill | (697) | (137) | — | — | (137) | (14) |
| **Profit before financing costs** | **R 2,088** | **R 1,491** | **R 1,655** | **R 649** | **R 364** | **€ 37** |
| Net financing costs | (3,255) | (2,915) | (2,223) | (1,840) | (2,514) | (255) |
| Taxation | 472 | 370 | 187 | 348 | 531 | 54 |
| **Net earnings** | **R (695)** | **R (1,054)** | **R (381)** | **R (843)** | **R (1,619)** | **€ (164)** |
| **Cash flow data**[1] | | | | | | |
| Operating cash inflow before changes in working capital | R 3,715 | R 3,352 | R 2,667 | R 3,018 | R 3,582 | € 364 |
| Working capital movement | (1,553) | 952 | 300 | (421) | 845 | 86 |
| Cash generated from operating activities | 2,162 | 4,304 | 2,967 | 2,597 | 4,427 | 449 |
| Net cash invested | (568) | (353) | (345) | (355) | (363) | (37) |
| Net cash inflow from financing activities | 793 | (650) | (649) | (350) | (351) | (36) |
| Increase in cash and cash equivalents | (113) | 774 | 2 | 223 | 1,506 | 153 |

| | At 28 March 2009 | At 3 April 2010 | At 1 January 2011 | At 1 January 2011[2] |
|---|---|---|---|---|
| | (audited) | (audited) | (unaudited) | (unaudited) |
| | (in millions) | | | |
| **Financial Position**[1] | | | | |
| Cash and cash equivalents | R 379 | R 1,125 | R 1,332 | € 135 |
| Working capital | 8,721 | 7,685 | 8,131 | 825 |
| Total assets | 37,340 | 33,768 | 34,937 | 3,547 |
| Total debt at unhedged rates | 24,900 | 19,670 | 17,746 | 1,802 |
| Total net debt including cash and derivatives | 23,456 | 22,455 | 22,590 | 2,293 |
| Total equity and shareholder's loan | 6,066 | 5,752 | 5,781 | 587 |

(1) Except as otherwise indicated, all figures presented in the summary financial statements above include the impact of consolidating OntheCards Investments Limited ("OtC I") and OntheCards Investments II (Proprietary) Limited ("OtC II"). See footnote 13 to "Summary Historical Consolidated Financial Information and Other Data" for a presentation of certain key line items excluding the impact of consolidating OtC I and OtC II.

(2) For your convenience, rand amounts have been translated into euros at an exchange rate of R9.85 = €1.00, the Bloomberg Composite Rate on 11 February 2011. See "Exchange Rate Information".

(3) Retail sales reflect total revenues less administration and club fees, preference dividend, finance charges on trade receivables, equity accounted earnings of joint ventures, finance charges, interest received and manufacturing sales to third parties.

(4) Other income comprises fees from our *Edgars* and *Jet* clubs and manufacturing sales to third parties.

(5) Other operating costs includes amortisation of trademarks, auditors' remuneration, depreciation of properties, fixtures, equipment and vehicles, fees payable, lease-related expenses, cost of inventories expensed and VAT expense.

(6) Additional depreciation and amortisation relates to the amortisation of intangibles and the incremental depreciation arising from the fair value adjustments in relation to the Share Acquisition. These figures are included in "Other operating costs" in our historical consolidated financial statements included elsewhere in this Offering Memorandum.

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

*The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements and the related notes thereto included in this Offering Memorandum. When used in this Offering Memorandum in relation to any year, "fiscal year" means the fiscal year ended on the Saturday of that year closest to 31 March of that year. "39-week 2010" and "39-week 2011", when used in this Offering Memorandum, mean the 39-week periods ended 2 January 2010 and 1 January 2011, respectively. The following discussion should also be read in conjunction with "Selected Historical Financial and Other Data". The discussions in this section contain forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those discussed below. See "Forward-Looking Statements" and "Risk Factors".*

### Overview

We are the largest non-food retailer in South Africa with a 29.3% market share of the South African clothing and footwear ("C&F") market in LTM 2010, nearly twice that of our nearest competitor, and have been in operation for more than 80 years. Since opening our first *Edgars* store in 1929, we have expanded our footprint to include approximately 1,200 stores under 13 retail chains throughout southern Africa. Our leading chains include *Edgars*, *Jet*, *CNA, Boardmans* and *Red Square*, which are among the most recognisable retail brands in the region. We are the number one or number two retailer in the majority of our product lines, including clothing, footwear, mobile phones, cosmetics, stationery and books. We also have the largest base of consumer credit customers in southern Africa, with 3.8 million active credit card accounts. As of 1 January 2011, we employed approximately 18,900 permanent employees. In LTM 2010, we generated revenue of R25,458 million, including retail sales of R22,586 million and adjusted EBITDA of R3,612 million.

We generate 94% of our retail sales in South Africa. From fiscal year 2005 to LTM 2010, C&F sales, which accounted for 61% of our retail sales in fiscal year 2010 and 60% of our retail sales in 39-week 2011, grew at a CAGR of 8.1%. C&F spend as a percentage of household expenditure has also increased, in part as a result of a rapidly emerging black middle class, which has more than doubled in size since 2000. Our large retail footprint positions us to continue benefiting from this growth in the South African market. The balance of our operations are in neighbouring Namibia, Botswana, Lesotho and Swaziland.

### Financial statement presentation

We discuss below the financial statements and results of operations of Edcon on a consolidated basis in fiscal years 2009, 2010 and 39-week 2010 and 39-week 2011. The financial statements for fiscal years 2009 and 2010 have been audited and prepared in accordance with IFRS, and the financial statements for 39-week 2011 and the 39-week period ended 26 December 2009 have been reviewed in accordance with ISRE 2410. All appear in this Offering Memorandum. See "Summary Historical Consolidated Financial Information and Other Data" and "Selected Historical Financial and Other Data".

The assets, liabilities and results of OtC I and OtC II, the entities that purchase our receivables pursuant to the OtC Securitisation Programme, are fully consolidated into our consolidated financial statements because we are deemed to control OtC I and OtC II within the meaning of IFRS. In this Offering Memorandum, we present certain financial information that excludes the impact of OtC I and OtC II on our consolidated assets, liabilities and results because we believe that such information is useful for assessing our financial position. As we sell our receivables under our OtC Securitisation Programme on a non-recourse basis, we retain no rights to such receivables. In addition, the creditors of OtC have no recourse against us or any of our other consolidated subsidiaries in excess of the amount provided. Further, OtC has no recourse against any of our consolidated subsidiaries pursuant to the terms of our OtC Securitisation Programme. See footnote 13 to "Summary Historical Consolidated Financial Information and Other Data".

### Key income statement items

#### *Revenue*

We derive revenue primarily from the sale of retail products which accounted for 90% of our revenue in fiscal year 2010 and 92% of our revenues in 39-week 2011. Our retail products are available for sale in approximately 1,200 stores, 95% of which are in South Africa, with the remainder in Namibia, Botswana, Lesotho and Swaziland.

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

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

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

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

***Store costs***

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

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

- the general level of payroll and benefit increases given to our store based employees;
- rental increases agreed to as part of our store lease agreements;
- the opening of new stores, including pre-opening costs, and the modernisation of existing stores, including the associated depreciation charge; and
- costs related to the volume of products sold, including increases in transaction charges related to credit card sales.

***Other operating costs***

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

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

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

***Credit and financial services operating profit***

In addition to our retail sales, we generate profit from our credit and financial services business.

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

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

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

For a further discussion of the components which comprise net credit income, see note 26 to the fiscal year 2010 audited financial statements appearing elsewhere in this Offering Memorandum.

**Significant factors affecting our results of operations**

***Economic conditions in South Africa***

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

Although affected by the global economic downturn, South Africa has experienced overall economic growth in recent years, in part due to a rapidly emerging black middle class with increased spending power, and the government's commitment to macroeconomic growth. Real GDP increased by 5.6% and 3.6% in 2007 and 2008 respectively and decreased by 1.7% in 2009 and over the same periods, consumer price inflation has been 7.2%, 11.5% and 7.1% respectively. Real GDP increased by 2.6% in the first three quarters of calendar year 2010.

***Growth in the clothing and footwear market***

The C&F market in South Africa grew at a CAGR of 9.7% from fiscal year 2005 to LTM 2010. This growth was due to a number of factors, including the growth of the South African economy, the rapidly emerging black middle class, which historically spends a higher percentage of its disposable income on C&F goods, and the movement of market share from the informal market to more established medium- and large-sized retailers. We expect this growth to continue, and as the market share leader, we expect to benefit from the increased size of the C&F market.

***Cost of sales***

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

***Same store growth***

Our retail sales and profitability are primarily dependent on the amount of retail sales that we generate from our existing stores. From fiscal year 2005 to fiscal year 2010, we have increased our same store growth at a CAGR of 3.3%, and increased our trading density from R15,443 million to R16,645 million. The amount of retail sales we generate from our existing store sites is contingent on a number of factors, including average customer spend, customer retention and merchandise assortment and allocation.

***New store openings***

Historically, we have increased retail sales by opening new stores. We opened a net of 34, 92 and 32 new stores in fiscal year 2008, 2009 and 39-week 2011, respectively, and closed a net of five stores in fiscal year 2010. Our property development committee applies strict criteria to potential new sites, and reviews site performance annually to determine if sites are meeting their targets or can be used more efficiently. Our ability to open new stores in the future will depend on our ability to find new sites which meet our investment criteria for expansion.

***Acquisitions***

Our retail sales, as well as our store costs and other operating costs can be affected by acquisitions. Between fiscal year 2008 and LTM 2010 we spent an aggregate of R318 million of capital expenditure on acquisitions. Certain indirect costs resulting from successful acquisitions, such as integration costs and increased overhead and employment costs are not included in these figures. Our ability to find and complete acquisitions is dependent on a number of factors, including the availability of attractive targets, the availability of funding for acquisitions, and restrictions placed on us by anti-competitive legislation. We continue to monitor joint venture and acquisition opportunities, with the aim of improving our profitability and cash generation.

***Seasonality***

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

***Performance of our receivables book***

Our credit and financial services business generated R713 million (R534 million excluding OtC) of operating profit in fiscal year 2010. The size of our receivables book increased from R9.3 billion in fiscal year 2008 to R9.9 billion in fiscal year 2010, due to new credit accounts and increased credit balances from existing customers. During this period, the incidence of net bad debt in our receivables book increased from 11.8% in fiscal year 2009 to 12.9% in fiscal year 2010. Net bad debt for 39-week 2011 are down to 11.6%, due to initiatives implemented during fiscal year 2010 to limit the extension of credit to high risk customers. Credit and financial services operating profit is dependent on a number of factors. We may consider various opportunities to grow our credit and financial services business, and to expand its profits and return on capital employed. See “—Key income statement items—Credit and financial services operating profit”.

**Results of operations**

| | 52 weeks ended 28 March 2009[1] | 53 weeks ended 3 April 2010[1] | 39 weeks ended 2 January 2010[1][2] | 39 weeks ended 1 January 2011[1] |
|---|---|---|---|---|
| | | (in millions) | | |
| | (audited) | (audited) | (unaudited) | (unaudited) |
| **Income statement data** | | | | |
| Retail sales | 22,075 | 21,888 | 16,743 | 17,917 |
| Cost of sales | (13,774) | (13,848) | (10,530) | (11,251) |
| Gross profit | 8,301 | 8,040 | 6,213 | 6,666 |
| Gross profit as % of retail sales | 37.6% | 36.7% | 37.1% | 37.2% |
| Store costs | (3,847) | (4,078) | (3,002) | (3,249) |
| Other operating costs[3] | (2,817) | (2,555) | (1,957) | (2,145) |
| Retail trading profit | 1,637 | 1,407 | 1,254 | 1,272 |
| Cost of credit | 499 | 278 | 190 | 491 |
| Equity accounted earnings of joint venture | 349 | 435 | 309 | 349 |
| Credit and financial services operating profit | 848 | 713 | 499 | 840 |
| Net financing costs | (3,255) | (2,915) | (2,223) | (1,840) |
| Taxation | 472 | 370 | 187 | 348 |

(1) All figures presented in the summary financial information above consolidate OtC I and OtC II. See footnote 13 in "Summary Historical Consolidated Financial Information and Other Data" for a reconciliation of key affected items.

(2) Comprises the unaudited financial information for the 39-week period ended 26 December 2009, net of the unaudited adjustments required to reflect performance for the 39-week period ended 2 January 2010, to be comparable with the weeks in the unaudited financial information for the 39-week period ended 1 January 2011.

(3) Other operating costs include other income, other operating costs and additional depreciation and amortisation as shown in "Summary—Summary Historical Consolidated Financial Information and Other Data".

***39-week 2011 compared to 39-week 2010***

We present financial information for the 39 weeks ended 2 January 2010 as a basis for comparing our 'unaudited interim condensed consolidated' financial statements for the 39 weeks ended 1 January 2011 in a meaningful way. The financial information for the 39 weeks ended 2 January 2010 is not audited nor reviewed. We believe a comparison of our unaudited interim condensed consolidated financial statements for the 39 weeks ended 1 January 2011 with our unaudited condensed consolidated financial statements for the 39 weeks ended 26 December 2009 (i.e., the end of the third quarter of fiscal year 2010) would not be a meaningful representation of our results of operation because the latter do not reflect our trading during the last week of the calendar year, in which usually record higher retail sales than average.

*Retail sales*

Retail sales increased by R1,174 million, or 7.0%, from R16,743 million in 39-week 2010 to R17,917 million in 39-week 2011.

In our department stores division, retail sales in 39-week 2011 increased by 7.9% from 39-week 2010 due primarily to strong growth from ladieswear, menswear and mobile phones. *CNA*'s retail sales in 39-week 2011 increased 4.6% from 39-week 2010, primarily due to growth in sales of mobile phones and stationery. Retail sales in the discount division increased by 6.3% from 39-week 2010 to 39-week 2011 primarily due to growth in cosmetics, home products and mobile phones.

Same store sales (sales from stores open for the full period in the current fiscal year and in the prior fiscal year) increased by 6.0% from the prior period. Our credit sales accounted for 49% of total retail sales during the 39-week 2011, down from 51% achieved during 39-week 2010. Cash sales for 39-week 2011 increased 10.8% from 39-week 2010, primarily due to improving merchandise and customer value proposition, which has had a positive effect on cash flow generation. Credit sales increased 3.4% compared to 39-week 2010 primarily due to increased spend per account.

*Gross profit*

Gross profit increased by R453 million, or 7.3%, from R6,213 million in 39-week 2010 to R6,666 million in 39-week 2011. Gross profit as a percentage of retail sales was 37.2%, substantially similar to 37.1% in 39-week 2010, as an improvement in the winter season was offset by increased seasonal markdowns in the second and third quarters and input price inflation.

Gross profit as a percentage of retail sales for the department store division increased from 41.5% in 39-week 2010 to 41.8% in 39-week 2011, primarily due to reduced markdowns on ladieswear and home products. Gross profit as a percentage of retail sales in *CNA* decreased from 32.9% in 39-week 2010 to 32.3% in 39-week 2011 primarily due to an increase in contribution to retail sales from lower margin merchandise such as mobile phones and digital products. In the discount division, gross profit as a percentage of retail sales was substantially similar, decreasing from 32.3% in 39-week 2010 to 32.2% in 39-week 2011.

*Store costs*

Store costs increased by R247 million, or 8.2%, from R3,002 million in 39-week 2010 to R3,249 million in 39-week 2011 principally as a result of (i) increases in electricity prices imposed by the utility provider and (ii) increases in wage and rent.

*Other operating costs*

Other operating costs increased by R188 million, or 9.6%, from R1,957 million in 39-week 2010 to R2,145 million in 39-week 2011. This increase was principally the result of higher fuel costs and an increase in unit volumes in the distribution centres.

*Depreciation and amortisation*

Depreciation and amortisation remained substantially similar, increasing by R1 million from R919 million in 39-week 2010 to R920 million in 39-week 2011.

*Credit and financial services operating profit*

Credit and financial services operating profit increased by R341 million (R87 million excluding OtC), or 68.3% (21.7% excluding OtC), from R499 million (R400 million excluding OtC) in 39-week 2010 to R840 million (R487 million excluding OtC) in 39-week 2011. This increase was primarily because of a decrease in bad debts and provision for doubtful debt caused by our initiatives in fiscal year 2010 to restrict the growth of our receivables book for higher risk customers and improved collection activity offset by lower interest income associated with a reduction in the prevailing interest rate charged to customers. Consolidated annualised bad debts as a percentage of average receivables decreased to 11.6% for 39-week 2011 from 12.7% in fiscal year 2010. Equity accounted earnings of joint ventures after taxation increased by R40 million, or 12.9%, from R309 million in 39-week 2010 to R349 million in 39-week 2011 primarily due to increased insurance sales. The number of active accounts decreased from 4.0 million accounts at December 2009 to 3.8 million at December 2010 due to our tightened credit standards in fiscal year 2010.

*Net financing costs before tax*

Net financing costs decreased by R383 million (R448 million excluding OtC), from R2,223 million (R2,004 million excluding OtC) in 39-week 2010 to R1,840 million (R1,556 million excluding OtC) in 39-week 2011. This decrease is primarily a result of lower interest rates and lower average drawings under the Existing Super Senior Revolving Credit Facility in 39-week 2011.

*Taxation*

Taxation income increased by R161 million, from R187 million in 39-week 2010 to R348 million in 39-week 2011, primarily as a result of higher taxable losses in 39-week 2011.

***Fiscal year 2010 compared to fiscal year 2009***

*Overview*

As GDP growth stalled in South Africa, management took proactive steps to reduce risk, improve cash flow and prepare for future growth. They took decisions to restrict the extension of credit to higher risk customers and stopped credit sales of certain lower margin products like mobile phones and food. Expenses were reviewed and plans for store space expansion were revised down, seasonal inventory was cleared and merchandise orders were reduced in line with expected demand. In the second quarter of fiscal year 2010, the effect of the recession coincided with the cumulative impact of these key control measures.

Gross margin recovery began in the second half of fiscal year 2010, further contributing to improvements in cash flow generation. The proportion of full-price sales increased as the pressure of seasonal stock liability diminished and inventories closed below prior year levels. Margins and same store sales continued to improve, while expense controls remained tight and the pace of expansion returned to pre-recession levels in the fourth quarter. Additionally, the successful refinancing of the receivables facilities in fiscal year 2010 improved our liquidity.

*Retail sales*

Retail sales in fiscal year 2010 decreased by 0.8% from R22,075 million in fiscal year 2009 to R21,888 million in fiscal year 2010 principally due to the global economic downturn, the adverse impact of the new mobile regulatory legislation and continuing poor performance from ladieswear and home textiles. The tightening of credit sales also had an estimated negative 3.0% impact on retail sales, but this was partially offset by the additional trading week in fiscal year 2010 which had a positive 2.2% impact on retail sales in fiscal year 2010.

Same store sales (sales from stores open for the full period in the current fiscal year and in the prior fiscal year) were down 4.7% from fiscal year 2009. Credit sales accounted for 50% of total retail sales in fiscal year 2010, down from 52% in fiscal year 2009, due to our tightened credit standards. In the department store division, retail sales in fiscal year 2010 decreased by 0.3% from fiscal year 2009 primarily due to a decrease in sales in product lines such as mobile phones, ladieswear and home products. *CNA's* retail sales in fiscal year 2010 increased 0.8% from fiscal year 2009, driven by in increase in sales of adult fiction and children's books. Retail sales in the discount division decreased by 1.8% from fiscal year 2009 to fiscal year 2010 due mainly to a decrease in sales in ladieswear, cosmetics, cellular products and food.

*Gross profit*

Gross profit decreased by R261 million, or 3.1%, from R8,301 million in fiscal year 2009 to R8,040 million in fiscal year 2010. The additional trading week in fiscal year 2010 had a positive 2.3% impact on gross profit. Gross profit as a percentage of retail sales decreased from 37.6% in fiscal year 2009 to 36.7% in fiscal year 2010 due to increased markdown activity in the first half of fiscal year 2010.

In our department stores division, gross profit as a percentage of retail sales decreased from 42.2% in fiscal year 2009 to 41.2% in fiscal year 2010, primarily as a result of increased markdowns in ladieswear and homeware products in the first half of fiscal year 2010. In *CNA*, gross profit as a percentage of retail sales remained stable at 32.8% in fiscal year 2010 compared to fiscal year 2009. In the discount division, gross profit as a percentage of retail sales decreased from 32.8% in fiscal year 2009 to 31.9% in fiscal year 2010 mainly due to higher markdowns in ladieswear and menswear.

*Store costs*

Store costs increased by R231 million or 6.0%, from R3,847 million in fiscal year 2009 to R4,078 million in fiscal year 2010 principally as a result of (i) the addition of 5.2% to average retail space in fiscal year 2010 and (ii) increases in wages, rent and utilities, partially offset by productivity improvements in stores.

*Other operating costs*

Other operating costs decreased by R262 million, or 9.3%, from R2,817 million in fiscal year 2009 to R2,555 million in fiscal year 2010. This decrease was principally a result of lower fuel costs in logistics and distribution and cost saving initiatives undertaken in corporate departments such as information technology.

*Credit and financial services operating profit*

Credit and financial services operating profit decreased by R135 million (R31 million excluding OtC) from R848 million (R565 million excluding OtC) in fiscal year 2009 to R713 million (R534 million excluding OtC) in fiscal year 2010. This decrease was primarily due to lower interest income associated with a reduction in the interest rate charged to customers and increased net bad debts. Consolidated annualised bad debts as a percentage of average debtors was 12.9% for fiscal year 2010 compared with 11.8% in fiscal year 2009. Equity accounted earnings of joint ventures after taxation increased by R86 million, or 24.6%, from R349 million in fiscal year 2009 to R435 million in fiscal year 2010. The number of active accounts decreased from 4.3 million in fiscal year 2009 to 4.0 million in fiscal year 2010 due to our tightened credit standards in fiscal year 2010.

*Depreciation and amortisation*

Depreciation and amortisation increased by R126 million from R1,099 million in fiscal year 2009 to R1,225 million in fiscal year 2010, primarily due to higher capital expenditure in fiscal year 2010 and prior years.

*Net financing costs before tax*

Net financing costs decreased to R2,915 million (R2,588 million excluding OtC) in fiscal year 2010 from R3,255 million (R2,899 million excluding OtC) in fiscal year 2009. This decrease is primarily a result of lower interest rates and lower average drawings under our no longer existing receivables based facility and the Existing Super Senior Revolving Credit Facility during fiscal year 2010.

*Taxation*

Taxation income decreased by R102 million, from R472 million in fiscal year 2009 to R370 million in fiscal year 2010. The reduction was primarily due to lower taxable losses in fiscal year 2010 compared to fiscal year 2009, offset by the impact of the buy-back of the senior floating rate notes in fiscal year 2009.

**Liquidity and capital resources**

Our operations are principally financed by cash on hand, the securitisation of receivables (as and when necessary) and the Existing Super Senior Revolving Credit Facility. In addition we have long-term debt due to the issuance of the 2007 Notes.

***Historical cash flows***

The table below summarises our historical cash flows for fiscal year 2009, 2010, 39-week 2010 and 39-week 2011.

| | 52 weeks ended 28 March 2009 | 53 weeks ended 3 April 2010 | 39 weeks ended 2 January 2010[2] | 39 weeks ended 1 January 2011 |
|---|---|---|---|---|
| | (unaudited) | (in millions) (unaudited) | (unaudited) | (unaudited) |
| **Cash retained from operating activities**[1] | | | | |
| EBITDA | R 3,187 | R 2,716 | R 2,574 | R 1,569 |
| Non-cash items | 528 | 636 | 93 | 1,449 |
| Working capital movement | (1,553) | 952 | 300 | (421) |
| Cash generated from operating activities | 2,162 | 4,304 | 2,967 | 2,597 |
| Interest received | 15 | 31 | 15 | 37 |
| Financing costs paid | (2,280) | (2,190) | (1,666) | (1,634) |
| Taxation paid | (235) | (368) | (320) | (72) |
| **Net cash retained** | (338) | 1,777 | 996 | 928 |
| **Cash utilised in investment activities** | | | | |
| Net cash invested | (568) | (353) | (345) | (355) |
| **Cash effect of financing activities** | | | | |
| Net cash inflow from financing activities | 793 | (650) | (649) | (350) |
| Increase in cash and cash equivalents before currency adjustments | (113) | 774 | 2 | 223 |

(1) All figures presented in the historical cash flow information above consolidate OtC.

(2) Comprises the unaudited financial information for the 39-week period ended 26 December 2009, net of the unaudited adjustments required to reflect performance for the 39-week period ended 2 January 2010, to be comparable with the weeks in the unaudited financial information for the 39-week period ended 1 January 2011.

***39-week 2011 compared to 39-week 2010***

EBITDA decreased by R1,005 million, or 39.0% from R2,574 million in the 39-week 2010 to R1,569 million, in the 39-week 2011.

Working capital increased by R421 million in the 39-week 2011 compared with a decrease of R300 million for 39-week 2010. This was principally due to (i) an increase in receivables of R916 million in the 39-week 2011 compared with a decrease in receivables of R34 million in the 39-week 2010 following the credit tightening implemented in fiscal year 2010, (ii) an increase in inventory of R326 million in the 39-week 2011 compared to an increase of R136 million in the 39-week 2010 due to increased inventory requirements to meet the higher sales demand partially offset by (iii) an increase in payables of R821 million in the 39-week 2011 compared to an increase of R402 million in the 39-week 2010 due to higher purchases in the 39-week 2011.

Cash generated by operating activities decreased by R370 million, from R2,967 million in the 39-week 2010 to R2,597 million in the 39-week 2011 primarily because of the higher working capital investment.

Capital expenditure was R355 million in the 39-week 2011, up from R345 million in the 39-week 2010 due to an accelerated store refurbishment program in *Edgars* and *Jet* stores partially offset by lower new space growth. The store refurbishment program combined with the opening of 32 new stores resulted in an investment of R281 million. In addition, in the 39-week 2011 we invested R74 million in information technology infrastructure compared with R131 million in the 39-week 2010.

***Fiscal year 2010 compared to fiscal year 2009***

EBITDA decreased by R471 million, or 14.7% from R3,187 million in fiscal year 2009 to R2,716 million in fiscal year 2010.

Working capital decreased by R952 million in fiscal year 2010 compared to an increase of R1,553 million for fiscal year 2009. This was principally due to (i) a decrease in trade and other receivables of R695 million in fiscal year 2010 compared to an increase in trade and other receivables of R999 million in fiscal year 2009 due to the tightening of credit granting for higher risk customers as well as the suspension of sales of certain product categories on credit in fiscal year 2010, (ii) decrease in inventory of R138 million in fiscal year 2010 compared to an increase of R397 million in fiscal year 2009 as a result of improved inventory management, and (iii) an increase in payables of R119 million in fiscal year 2010 compared to a decrease of R157 million in fiscal year 2009.

Cash generated from operating activities rose by R2,142 million, or 99%, from R2,162 million in fiscal year 2009 to R4,304 million in fiscal year 2010.

Capital expenditure in fiscal year 2010 was R353 million compared with R568 million in fiscal year 2009 due to a slowdown in the opening of new stores and the sale of the last remaining store property we owned for R107 million. During fiscal year 2010, we opened 51 stores which, combined with store refurbishments, resulted in investments in store fixtures of R297 million. In addition, we invested R174 million in IT infrastructure compared to R265 million in fiscal year 2009.

***Future liquidity and capital resources***

Our primary source of short-term liquidity is cash on hand, our Existing and Amended Super Senior Revolving Credit Facility and the OtC Securitisation Programme. The amount of cash on hand and the outstanding balance of our Existing and Amended Super Senior Revolving Credit Facility are influenced by a number of factors, including retail sales, working capital levels, supplier payment terms, timing of payment for capital expenditure projects, and tax payment requirements.

Our working capital requirements fluctuate during the month, depending on when we pay our suppliers and collect receivables, and throughout the year depending on the seasonal build-up of inventory and accounts receivable. We fund peaks in the working capital cycle with cash flows from operations and drawings under our Existing and Amended Super Senior Revolving Credit Facility.

HoldCo has no operations, and it depends on the Issuer, pursuant to the Subordinated Proceeds Loan, to provide it with funds adequate to meet HoldCo's obligations under the 2007 Senior Notes and its other obligations. See "Related Party Transactions—Proceeds Loan", for a description of the Subordinated Proceeds Loan.

***Scheduled repayments of our obligations (as adjusted)***

The following table summarises as of 1 January 2011, on a pro forma basis, giving effect to the Transactions, the offering of the Senior Secured Notes and the application of the proceeds there from, (i) the contractual obligations, commercial commitments and interest payments we are committed to make under our debt obligations, leases and other agreements and (ii) their maturities. See "Description of Certain Other Indebtedness".

| | Payments due by period | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | | Less than 1 year | | 1-3 years | | 3-5 years | | More than 5 years | |
| | (in millions)[1] (unaudited) | | | | | | | | | |
| | R | € | R | € | R | € | R | € | R | € |
| Amended Super Senior Revolving Credit Facility[2] | — | — | — | — | — | — | — | — | — | — |
| 2007 Senior Secured Notes | 11,623 | 1,180 | — | — | — | — | 11,623 | 1,180 | — | — |
| 2007 Senior Notes | 3,723 | 378 | — | — | — | — | 3,723 | 378 | — | — |
| Super Senior Rand Loan | 985 | 100 | — | — | — | — | 985 | 100 | — | — |
| Senior Secured Notes | 4,925 | 500 | — | — | — | — | — | — | 4,925 | 500 |
| Leases[3, 4] | 7,502 | 762 | 1,305 | 132 | 2,351 | 239 | 1,072 | 109 | 2,774 | 282 |
| Medical aid[5] | 120 | 12 | — | — | — | — | — | — | 120 | 12 |
| Net Interest expense | 11,667 | 1,184 | 2,513 | 255 | 5,570 | 565 | 2,203 | 224 | 1,381 | 140 |
| **Total long-term debt obligations** | **40,545** | **4,116** | **3,818** | **388** | **7,921** | **804** | **19,606** | **1,990** | **9,200** | **934** |

(1) We have translated euro and rand amounts in this table based on an exchange rate of €1 = R9.85, the Bloomberg Composite Rate on 11 February 2011.
(2) Balances under the Amended Senior Revolving Credit Facility will vary depending on the level of our working capital requirements. See "Description of Certain Other Indebtedness—The Amended Super Senior Revolving Credit Facility".
(3) Our financial statements present our lease obligations in categories different from the categories we use in this table. Therefore, we have straight-lined our lease obligations to present them for the periods we use in this table.
(4) Leases includes property operating lease commitments and computer equipment operating lease commitments.
(5) We assume that there are no medical aid obligations that will become due and payable prior to five years.

Our leases have an average initial lease term of ten years for our *Edgars* chains and five years for our other chains, with lease terms typically including four options to extend the lease for periods of five years each. These leases generally give us the right to sublet the leased premises and assign our rights under the lease to our affiliate companies. Rental payments are generally made on a monthly basis and rent is increased at an agreed percentage rate (typically 7%) compounded annually. As at 1 January 2011, the future minimum property operating lease commitments due within one year amounted to R1,168 million.

**Market risk**

***Foreign currency risk***

We are exposed to the exchange rate movement of the rand, our operating currency, against other currencies in respect of merchandise we import. A substantial portion of our indebtedness is denominated in euro. Foreign exchange rate fluctuations in the future may affect our ability to service

our foreign-currency denominated indebtedness, including payments in euro on the 2007 Notes. See “Risk Factors—Risks related to our business and industry—Our business is affected by foreign currency fluctuations”. Historically, our policy has been to cover all foreign-denominated import liabilities using forward exchange contracts. We hedge our exposure to the rate movement of the rand against the euro in relation to the 2007 Notes, both the principal and interest coupons. See “Description of Certain Other Indebtedness—Hedging”.

***Interest rate risk***

As a result of the significant inter-seasonal and intra-month swings in working capital in our business, our short term net debt can fluctuate significantly. Therefore, our treasury actively monitors our interest rate exposure. We use swaps to manage our interest rate risk against any unexpected fluctuations in the interest rate. We also actively manage our fixed and floating rate interest-bearing debt, and cash and cash equivalents mix as part of this exposure management process.

In order to hedge specific interest rate exposure of existing borrowings and anticipated peak additional borrowings, we make use of interest rate derivatives, only as approved in terms of policy limits which requires approval of the chief executive officer and, in some cases, the board of directors, depending on the size of the derivative. We have fixed the interest payments on the 2007 Notes until June 2011. See our financial statements included elsewhere in this Offering Memorandum.

***Counterparty risk***

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

**Inflation**

Consumer price inflation in South Africa was 11.5%, 7.1% and 4.3% in the years 2008, 2009 and 2010 respectively. Inflation impacts, among other things, the costs we incur, in particular for labour.

**Critical accounting policies and use of estimates**

In preparing our group financial statements, our management has historically been required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Actual results in the future could differ from these estimates, and this may be material to our financial statements. Significant estimates and judgments made relate to an allowance for doubtful debts, allowances for slow-moving inventory, residual values, useful lives and depreciation methods, classification of leases, estimating of the fair value of derivatives including credit valuation adjustments to reflect non-performance risk, pension fund and employee obligations and asset impairment tests.

***Revenue recognition***

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

Revenue comprises retail sales of merchandise, manufacturing sales, club fees, financial services income, equity accounted earnings of joint ventures, dividends, and interest and finance charges accrued to Edcon. Revenue from all sales of merchandise, net of returns, is brought to account when delivery takes place to the customer. Revenue from manufacturing and other operations is recognised when the sale transactions giving rise to such revenue are concluded. Finance charges on arrear account balances are accrued on a time proportion basis, recognising the effective yield on the underlying assets. Dividends are recognised when the right to receive payment is established. Interest received is recognised using the effective interest rate method. Club fees are recognised as incurred.

***Trade and other receivables***

Trade and other receivables are initially recognised at fair value. Subsequent to initial measurement, receivables are recognised at amortised cost less an allowance for doubtful debts. A provision for impairment is made when there is objective evidence (such as default or delinquency of interest and the principal) that Edcon will not be able to collect all amounts due under the original terms of the trade receivable transactions. Bad debts incurred are recognised in profit or loss as incurred.

Delinquent accounts are impaired by applying Edcon's impairment policy recognising both contractual and ages of accounts. Age refers to the number of months since a qualifying payment was received. The process for estimating impairment considers all credit exposures, not only those of low credit quality and estimated on the basis of historical loss experience, adjusted on the basis of current observable data, to reflect the effects of current conditions. Edcon assesses whether objective evidence of impairment exists individually for receivables that are individually significant, and individually or collectively for receivables that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, the receivable is included in a group of receivables with similar credit risk characteristics and that group of receivables is collectively assessed for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

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

***Leases***

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

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

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

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

***Inventory***

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

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

All store inventories are physically verified at least twice a year through the performance of inventory counts and shortages identified are written off immediately. Stores, which have a history of high inventory losses, are subject to more frequent inventory counts. An allowance is made, based on historical trends of inventory losses, for losses incurred between the last physical count and the reporting date.

***Financial instruments***

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

Financial instruments recognised on the Statement of Financial Position include derivative instruments, held-to-maturity investments, trade and other receivables, cash and cash equivalents, trade and other payables and financial liabilities.

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

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

We incorporate credit risk valuation adjustments to appropriately reflect both our own non-performance risk and the respective counterparty's non-performance risk in the fair value measurements.

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

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

The credit risk valuation adjustments are calculated by determining the current net exposure of each derivative (excluding potential future exposure) and then discounting the estimated cash flows at a rate, adjusted with each counterparty's credit spread to the applicable exposure.

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

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

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

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

For cash flow hedges, the gains or losses that are recognised in comprehensive income are transferred to profit or loss in the same period in which the hedged item affects the profit or loss, for example when interest payments are made.

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

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

***Goodwill***

Goodwill is initially measured at cost and represents the excess of the purchase consideration over the fair value of Edcon's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. Impaired losses relating to goodwill are not reversed in future periods.

If, on acquiring an entity, Edcon's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity exceeds the purchase consideration, this excess/discount, is recognised in profit or loss immediately.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the acquisition. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of, is included in the carrying amount of the operation when determining the gain or loss on disposal of that operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

***Other intangible assets***

Where payments are made for the acquisition of intangible assets with a finite useful life, the amounts are capitalised at cost and amortised on a straight-line basis over their anticipated useful lives. Intangible assets acquired through the acquisition of an entity are recognised at fair value. The useful life of intangible assets with a finite life is estimated to be between five and fifteen years. Amortisation is charged on those assets with finite lives and the expense is taken to profit or loss and included in other operating costs. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial period-end and assessed for indicators of impairment. Annually, intangible assets with an indefinite useful life are reviewed for impairment or changes in estimated future benefits, either individually or at the cash-generating unit level. Such intangible assets are not amortised and the useful life is reviewed annually to determine whether indefinite life assessment continues to be appropriate. If not, the change from indefinite to finite will be made on a prospective basis. If such indications exist, an analysis is performed to assess whether the carrying amount of intangible assets is fully recoverable. An impairment is made if the carrying amount exceeds the recoverable amount. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

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

## MARKET OVERVIEW

We primarily operate within the large and growing C&F market, which accounted for 61% of our retail sales in fiscal year 2010. The C&F market, as measured by the South African Retailers' Liaison Committee ("RLC"), which collects and publishes sales and related data from medium- and large-sized C&F retailers, is estimated to have generated R47.4 billion in sales in year 2010.

South Africa has the largest retail market in Sub-Saharan Africa and the twentieth largest retail market globally. The Economist Intelligence Unit estimates the overall South African retail market (including food and furnishings) to have a turnover of $90 billion.

The South African C&F market principally consists of six major retailers, of which we are the largest with a 29.3% market share in LTM 2010. The C&F market is experiencing consolidation, with the larger retailers growing faster than the overall market. According to RLC, from fiscal year 2005 to LTM 2010 clothing and footwear sales in South Africa grew at a CAGR of 9.7%. SARB provides an alternative estimate of the size of the C&F market of R110 billion in sales in 2010, including a large number of smaller retailers and additional product categories. See "Presentation of Information—Market data".

There is also an "informal" C&F market, which includes even smaller shops such as street vendors and kiosks. No reliable data captures the activity of retailers in the informal C&F market and consequently it is difficult to determine its size. However, there is a recognised migration of customers from the informal market to more established medium- and large-sized retailers.

### Market growth and consolidation

In particular, the C&F market has experienced substantial growth, expanding at a CAGR of 9.7% from fiscal year 2005 to LTM 2010, including a period of economic contraction. C&F spend as a percentage of household expenditure also more than doubled in size since 2000. The C&F market growth has come on the back of GDP growth in South Africa, with real GDP recording a CAGR of 3.1% from January 2005 to September 2010 according to Statistics South Africa. In contrast, the Eurozone countries recorded a real GDP growth of 0.8% over a comparable period according to Euromonitor. We believe that the spending patterns of South African consumers have shifted in recent years due to the emergence of a black middle class, high rates of urbanisation and the increasing availability of credit for consumers. This was moderated by the introduction of the National Credit Act in June 2007, which restricted access to credit for consumers. South Africa's performance over the past several years has roughly mirrored that of the global economy, however real economic contraction lasted only from the fourth quarter of 2008 through the third quarter of 2009, with growth resuming thereafter. The South African retail market is highly concentrated compared to other emerging markets, with the top five companies controlling approximately 90% of the formal market. We believe there is scope for further market consolidation because an estimated 30% of the South African C&F market is still informal.

South Africa's long-term economic performance is a result of macroeconomic policies which have brought about a structural shift to lower inflation and interest rates, more stable exchange rates and declining fiscal deficit and government debt. South Africa's economy has also benefited from a stable political environment, a mature legal system, sophisticated financial markets and well-developed infrastructure. This environment has supported higher fixed capital expenditure, increased labour productivity and growth in real wages. Higher real wages have led to more disposable income for the rapidly emerging black middle class, who spend a higher proportion of their disposable income on C&F consumption. The South African government has committed to continued investment in the economy, as evidenced by its 2010 budget commitment to spend R846 billion on infrastructure in the three year period from 2010 through 2012.

### Market segmentation

The C&F market is primarily divided into three store formats: department stores, discount stores and specialty stores. Retailers can often be classified in more than one format, and competition exists between participants in different formats.

***Department stores***

Department stores typically target middle- to upper-income customers and offer a large range of high-quality C&F and other retail merchandise. For example, *Edgars* offers a variety of product lines including clothing, footwear, cosmetics, mobile phones and homewares. In addition to *Edgars*, the other key participants in the department store format are *Woolworths* and *Stuttafords*, which offer product lines including clothing, footwear, toiletries, cosmetics and homewares.

***Discount stores***

Discount stores typically target lower- to middle-income customers and offer a large range of value C&F and general merchandise products. For example, the product lines offered by *Jet* and *Jet Mart* include clothing, footwear, mobile phones, kitchenwares, music, DIY, household appliances, textiles and health and beauty products. Discount stores place an emphasis on volume products, which allow for low cost structures and low retail prices. Discount stores are well-positioned to capture customers transitioning from the informal market to more established medium- and large-sized retailers. In addition to *Jet* and *Jet Mart*, other large discount store chains include *PEP*, *Ackermans* and *Mr Price*.

***Specialty stores***

Specialty stores consist of chains that offer a narrower range of products than our department and discount stores, usually grouped along individual product lines such as menswear, ladieswear, cosmetics, jewellery or homewares. Specialty stores typically target a specific customer group based on income and product type criteria. For example, our *Boardmans* chain specialises in homewares for the middle- to upper-income customer, whereas our *Legit* chain offers clothes and accessories to young fashionable lower- to middle-income female consumers. Other retailers in the specialty store format include *Truworths* and *Foschini*. *Truworths* concentrates on specialty retail platforms targeted at youthful, fashionable, upper-income consumers. *Foschini* operates specialty stores targeting upper-income consumers in the clothing, cosmetics, jewellery, accessories, sporting goods and homewares retail markets.

The balance of the South African retail market is attributable to the sales of independent and small-scale retailers operating across the spectrum of store formats.

# BUSINESS

## Overview

We are the largest non-food retailer in South Africa with a 29.3% market share of the South African clothing and footwear ("C&F") market, nearly twice that of our nearest competitor, and have been in operation for more than 80 years. Since opening our first *Edgars* store in 1929, we have expanded our footprint to include approximately 1,200 stores under 13 retail brands throughout southern Africa. Our leading brands include *Edgars, Jet, CNA, Boardmans* and *Red Square,* which are among the most recognisable retail brands in the region. We are the number one or number two retailer in the majority of our product lines, including clothing, footwear, mobile phones, cosmetics, stationery and books. We also have the largest base of consumer credit customers in southern Africa, with 3.8 million active private label credit cards.

Our primary operations are in South Africa, where we generate 94% of our retail sales. According to the RLC, C&F sales in South Africa, which accounted for 61% of our retail sales in fiscal year 2010, grew at a CAGR of 9.7% from fiscal year 2005 to December 2010, despite three quarters of recession when South Africa was facing the effects of the global economic downturn. C&F spend as a percentage of household expenditure has also increased, in part as a result of a rapidly emerging black middle class, which has more than doubled in size since 2000. Our large retail footprint positions us to continue to benefit from this growth in the South African market. The balance of our operations is in neighbouring Namibia, Botswana, Lesotho and Swaziland.

Our strong operating performance generated revenue of R25,458 million (€2,585 million), including retail sales of R22,586 million (€2,293 million), and adjusted corporate EBITDA of R3,612 million (€367 million) in LTM 2010. From fiscal year 2005 to LTM 2010, we increased our retail sales by a CAGR of 9.2% and our adjusted EBITDA by a CAGR of 9.7%. As of 1 January 2011, we employed approximately 18,900 permanent employees.

## History

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

## Competitive strengths

We believe that we benefit from a number of key strengths including the following:

### *Established and market-leading brands*

Our leading C&F brands include *Jet* and *Edgars*; *Edgars* is the number one department store retail brand, and *Jet* is the number one discount store retail brand in South Africa by sales. *Jet* and *Edgars* have been voted the number one and two brands among South African C&F retailers in each of 2004, 2005, 2006 and 2008. In 2009, *Edgars* was voted the number one C&F retailer and *Jet* was voted the top South African C&F value retailer. We are also the market leader in cosmetics and mobile phones sold primarily under our *Edgars* and *Red Square* chains. Our *CNA* brand is the market leader in stationery, books, and magazines and is among the oldest and best known retail chains in southern Africa.

We believe that our leading brand position results from a combination of factors, including the range, diversity, quality of our products and the quality of our customer service. We believe our strong brand recognition and market-leading positions allow us to capitalise on the attractive C&F market, which grew at a CAGR of 9.7% from fiscal year 2005 to LTM 2010.

***Diversity of formats, customers and categories served***

Our retail business is organised into three divisions and operates through 13 chains, which have a diversified portfolio of private label and branded products including clothing, footwear, mobile phones, cosmetics, homewares, stationery and books. We also sell exclusive South African apparel brands such as *Jo Borkett* and *Marion and Lindie,* which we believe increases our appeal to customers. Our varied brands and broad range of products cover the entire South African socio-economic consumer base, including the expanding black middle class. We believe that the diversity of our business portfolio across different market segments and customer spending categories helps us to retain customers as their spending patterns evolve and reduces our exposure to adverse developments in any one product line or market segment. In addition, while we provide fresh and attractive assortments to our customers, a large proportion of the items sold in our stores are basic in nature and entail limited fashion risk. We believe this provides us with a base of predictable performance and profitability.

***Strong financial service business and loyalty programmes***

We instituted South Africa's first customer credit programme over 50 years ago and currently have 3.8 million active private label credit cards, giving us access to a customer network that we are able to target for specific marketing purposes. Our private label credit card customers have exclusive access to our *Edgars* and *Jet* clubs, of which there are a combined 2.2 million members each paying a small (R20 to R30) monthly fee. This entitles them to a range of benefits including reduced prices on travel and entertainment, as well as subscriptions to the *Edgars* and *Jet* magazines, respectively. Jet magazine is the most widely read lifestyle magazine in South Africa. Additionally, we have a customer loyalty programme for customers without one of our private label credit cards, which allows its approximately 625,000 cash loyalty members to accumulate points for purchases and redeem them for products in our stores. We believe that our private label cards, loyalty programme and membership clubs generate increased customer spending and repeat visits, and strengthen our customer relationships.

***Significant economies of scale***

As the largest non-food retailer in South Africa, we believe that our size provides us with the ability to obtain high quality products at lower prices than our competitors, as well as other scale advantages, such as those in real estate, IT development and infrastructure, and advertising. For example, we operate a portfolio of highly desirable retail locations, many of which have characteristics that would be very difficult to replicate. The strength of our brands allows us to obtain prime retail locations, as our stores are attractive tenants to landlords, and our *Edgars* and *Jet* chains usually serve as anchor tenants in malls and shopping centres. These prime retail locations help attract high foot traffic to our stores.

In addition, our scale allows us to devote more resources to the development of our IT systems than our competitors, while spending less as a percentage of retail sales. We believe that our IT systems give us an operational advantage over our competitors, as they are among the most advanced in the South African retail industry. We use the *Retek* IT system, modified with proprietary enhancements, to monitor product flow and gather detailed information such as consumer purchasing trends by store. We leverage this data, which we store in a data warehouse, to improve stock turn and product mix, facilitate merchandise selection and allocation, reduce stock imbalances and enhance customer service and supply-chain management. We use the *VisionPLUS* IT system, also modified with proprietary enhancements, to implement sophisticated credit management techniques, including credit scoring and ageing modules. The sophistication of our credit management system is evidenced by the credit management services we provide to third parties.

***Strong economic model with a focus on cash flow generation***

We believe we have a strong economic model with a focus on cash flow generation. In the past several years, we have worked to significantly improve working capital efficiency by increasing returns from new stores, more efficiently managing inventory and receivables, increasing the proportion of cash sales and improving the quality of credit sales. For example, the proportion of cash sales to total retail sales has increased from 48% in fiscal year 2009 to 50% in fiscal year 2010. Furthermore, total working capital decreased by R952 million in fiscal year 2010. This was due to a decrease in trade

receivables of R695 million, a R138 million decrease in inventory, and a R119 million increase in payables. As a result, our cash flows generated from operating activities increased to R4,304 million in fiscal year 2010 from R2,162 million in fiscal year 2009.

***Experienced management team and strong equity sponsorship***

Our senior leadership team has a combined 65 years of experience with Edcon, and is responsible for implementing our business strategy described below, which has resulted in retail sales and EBITDA growth at a 9.2% and 9.7% CAGR, respectively, from fiscal year 2005 to LTM 2010. In January 2011, we announced that our current chief executive officer, Steve Ross will step down as chief executive officer after 13 years of leadership and will be replaced by Jürgen Schreiber, effective 1 April 2011. Our experienced senior management team has deep local and international retail experience which we believe will allow them to continue to successfully implement our strategy. Mr. Schreiber was, until recently, president and chief executive officer of Canadian health and beauty retailer *Shoppers Drug Mart Corp,* a publicly traded company, with approximately 45,000 employees, sales of over C$10 billion and a network of over 1,300 stores across Canada. Under his stewardship, the company strengthened its market position and achieved record sales and profitability. Steve Ross will assist with the transition, remaining on the Board of Edcon until May 2012, at which time he intends to retire and we believe that Mr. Schreiber will be a valuable addition to the team.

Our sponsor is an affiliate of Bain Capital, a leading global private investment firm, whose affiliates manage several pools of capital, including private equity, venture capital, public equity, global macro, and leveraged debt assets. Since its inception in 1984, Bain Capital has completed over 370 transactions in a broad set of industries, including such leading retailers and consumer companies as *Toys "R" Us, Gymboree, Burger King, Staples, Burlington Coat Factory, Michaels, Brookstone, Domino's Pizza, Dollarama, Sealy Corp., Sports Authority* and *Duane Reade*. Headquartered in Boston, Bain Capital has offices in New York, London, Munich, Mumbai, Hong Kong, Shanghai and Tokyo.

**Strategy**

We intend to pursue the following key elements of our business strategy:

***Focus on highly profitable categories and customers***

In recent years, management has initiated aggressive steps to reduce risk, improve cash flow and position Edcon for future growth. As part of that effort, we stopped selling selected products on credit, notably mobile phone air time minutes and certain food items. Our *Discom* store chain no longer offers any products on credit, having converted to a cash-only format, and we have restricted credit granting to higher risk customers. Through these initiatives we have reduced our bad credit card debt from 12.9% in fiscal year 2010 to 11.6% in LTM 2010. In addition, we have taken steps to optimise our store footprint by closing a number of underperforming discount stores, many of which were acquired in 2007. We plan to open 23 of our higher margin *Edgars* and *Jet* stores respectively in fiscal year 2012.

***Further enhance brand differentiation in Edgars and Jet***

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

***Further improve supply chain efficiencies***

Edcon currently has over 1,800 suppliers for its retail business, with the average supplier providing only R8.6 million of goods in fiscal year 2010.

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

***Capitalise on market rebound***

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

***Maximise value and efficiency of credit and financial services business***

As the global economic downturn took hold in 2009, Edcon decided to tighten its credit scoring criteria and better target higher income and lower risk customer segments. This resulted in significant cash flow savings for the group and substantial improvements in loss rates as evidenced by a year-on-year reduction in bad debt handover from 2009 to 2010 of over 30%. In mid-2010, we refocused and refined our collections processes to drive productivity and effectiveness resulting in improved collection results and further improving loss rates by the end of 2010. Additionally, the establishment of the Edcon telesales unit in 2009, introduction of service to sales initiatives and the creation of an Edcon business intelligence unit has allowed Edcon to begin to more fully leverage our extensive customer database for insurance product cross selling to become a market leader in this area.

***Attract and maintain a high quality workforce***

We believe that our focus on employee training and satisfaction will allow us to continue to attract and retain a high quality workforce, reduce employee turnover, improve our customer satisfaction and increase the efficiency of our stock management. Through our extensive training programs, competitive pay packages and comprehensive employee wellness strategy, we have increased employee satisfaction and contained employee turnover. In 2010, the Company was voted the best company to work for in the retail sector by Deloitte's survey of South African employers. We maintain positive labour relations, and we have not lost any man-days from industrial action against us in more than ten years. We are committed to maintaining our positive relationship with our employees, and believe our continued ability to attract and retain quality employees will give us a key advantage over our competitors.

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

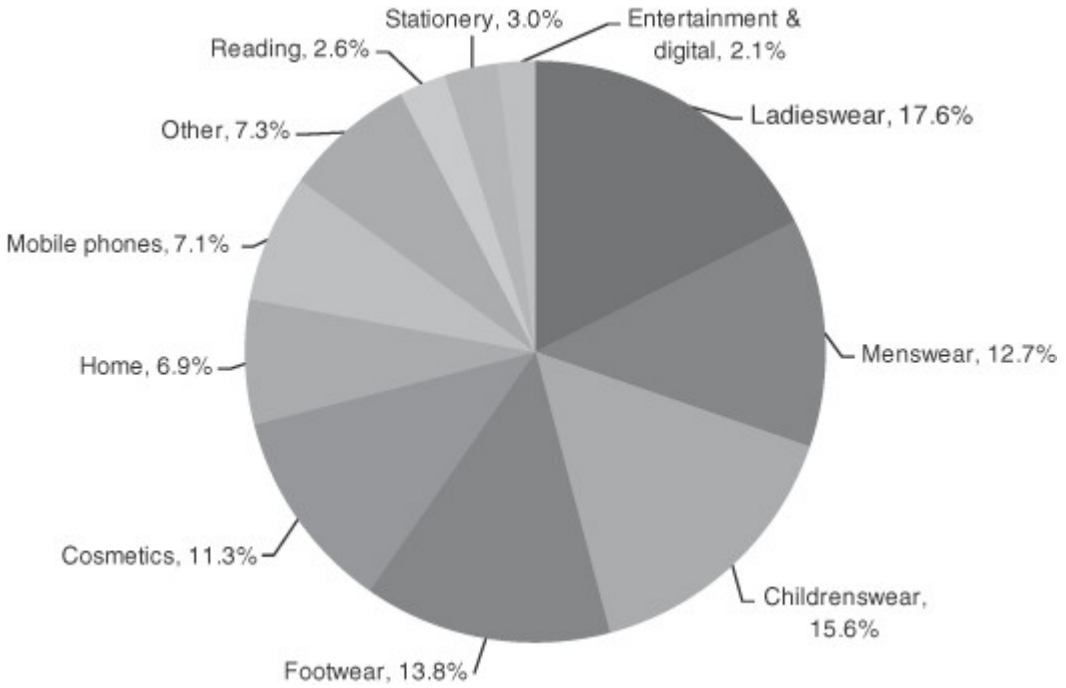
**Our operations**

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

The responsibilities of our group services include logistics, IT, property, human resources, finance and treasury management.

The split of our retail sales in fiscal year 2010 by category is shown below.

**RETAIL PRODUCT MIX**




***Retail business***

*Department store division*

The department store division is targeted at middle- to upper-income consumers and accounted for 51% of our retail sales in fiscal year 2010. In addition to *Edgars*, our largest chain by retail sales, our department store division has expanded into complementary specialty store formats, including *Boardmans*, *Red Square*, *Temptations*, *Prato* and *Edgars Active*. Our six department store division chains are centrally managed, with all marketing and merchandising decisions executed at our head offices.

- *Edgars*, which began trading in 1929, is our chain of full-line department stores carrying a range of clothing, footwear, cosmetics, mobile phones, homewares and accessories. In 2010, *Edgars* was voted best in men's and women's clothing retailers (runner-up for infants and children's clothing retailers) in the Times/Sowetan Retail Awards and *Edgars* ranked first in the retail category of the 2010 TGI Icon Brands Survey. The *Edgars* chain comprises 166 stores with an average size of approximately 3,500 sqm. In fiscal year 2010, *Edgars*, generated R10,116 million, or 46% of our retail sales.

- *Boardmans* is our chain of homewares specialty stores that we acquired in 2004 to strengthen our position in the fast-growing home-living retail segment. *Boardmans* carries homewares products such as kitchenwares, DIY, household appliances and textiles. The *Boardmans* chain comprises 38 stores with an average size of approximately 1,200 sqm. In addition, we sell homewares products under our *Boardmans* brand in our *Edgars* department stores.

- *Red Square* is our chain of cosmetics stores carrying international branded cosmetics, skin care products and fragrances. The *Red Square* brand was launched in 1996. The *Red Square* chain comprises 38 stores with an average size of approximately 150 sqm. In addition, we sell cosmetics under our *Red Square* brand in our *Edgars* department stores.

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

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

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

*CNA*

*CNA* is our chain of stores offering stationery, books, music, magazines, toys, photographic equipment, greeting cards, movies, computer accessories and communications. *CNA* commenced trading in 1896 and is one of the region's oldest and best known retail brands. We acquired *CNA* out of liquidation in October 2002 and *CNA* generated R1,851 million, or 9% of our retail sales, in fiscal year 2010. *CNA* comprises 202 stores with an average size of approximately 460 sqm.

*Discount division*

The discount division sells value merchandise targeted at lower- to middle-income consumers and accounted for 40% of our retail sales in fiscal year 2010. The largest chain in our discount division is *Jet*. In addition to *Jet* and its associated brands (*Jet Mart, Jet Shoes, Jet Home*), our discount division also operates specialty stores under the *Legit,* and *Discom* chains. Our six discount division chains are centrally managed, with all marketing and merchandising decisions executed at our head offices.

- *Jet*, which began trading in 1979, is a discount C&F retailer serving value-seeking customers. The *Jet* chain comprises 301 stores with an average size of approximately 900 sqm and in fiscal year 2010 generated R4,388 million, or 20% of our retail sales.

- *Jet Mart* is our discount general merchandise store offering a variety of product lines including clothing, footwear, kitchenwares, music, DIY, household appliances, textiles, stationery, and health and beauty products. The *Jet Mart* chain began trading in 2004 and comprises 118 stores with an average size of approximately 1,800 sqm.

- *Legit* is our youth ladieswear specialty store that caters to value-seeking fashionable women. The *Legit* brand was launched in 2001 and currently comprises 156 stores with an average size of approximately 260 sqm.

- *Discom* is a leading provider of health and beauty products and household appliances to lower-income consumers which we acquired in 2007. The *Discom* chain comprises 149 stores with an average size of approximately 380 sqm.

- *Jet Shoes* is our footwear specialty store which we launched in 2004 and which currently comprises six stores with an average size of approximately 230 sqm. In addition, we sell footwear under our *Jet Shoes* brand in our *Jet* and *Jet Mart* stores.

- *Jet Home* is our discount homewares specialty store offering product lines such as kitchenwares, DIY, household appliances and textiles. We currently have one store with a size of approximately 800 sqm.

***Credit and financial services business***

We offer consumer credit and insurance products through our credit and financial services business, which in LTM 2010 generated operating profit of R1,054 million (R621 million excluding OtC).

Through our private label credit card programme, we issue *Edgars* and *Jet* credit cards to qualifying customers, who can use our private label credit cards across all 13 of our brands. Credit card accounts are activated against sophisticated scoring mechanisms which evaluate the customer's ability to manage their credit. After generating an internal application score, we cross-metric the score with a credit bureau score and derive a profitability metric, which forms the basis for our credit decision. In fiscal year 2010, purchases completed with our private label credit cards accounted for 50% of our retail sales and we had approximately four million customer credit accounts.

We sell eligible accounts in our credit and financial services business to OtC II. Accounts that meet the eligibility criteria may be sold at a discount to their face value. Our credit management team retains responsibility for interfacing with our credit customers whose accounts have been sold to OtC II, performing all administration and all collections for those accounts. Receivable sold to OtC II are consolidated in our financial statements, but we retain no rights to such receivables.

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

- *Edgars* and *Jet* branded insurance products, pursuant to a joint venture with Hollard Insurance Group, which underwrites each policy. We offer a range of insurance products including credit life, funeral plans and mobile phone insurance. Under the provisions of the joint venture agreement, if the policy premiums exceed the claims, the net profit is distributed as a dividend to us and Hollard Insurance Group and we receive the majority of such dividends. As of 1 January 2011, there were approximately 5.1 million insurance policies generating annual gross premiums of approximately R1,060 million.
- *Edgars* and *Jet* co-branded *MasterCard*s in association with Standard Bank of South Africa offered to selected *Edgars* and *Jet* cardholders. We have approximately 315,000 active co-branded credit cards with a balance of R1.5 billion, fully underwritten by Standard Bank.

Our in-house credit management team, which operates out of three regional offices in Johannesburg, Cape Town and Durban, manages the complete credit cycle, including vetting, activation, administration and collection. As of 1 January 2011, the outstanding receivables balance of the OtC was R6,155 million, the purchase of which was financed by the issuance by OtC II of R4,300 million in notes and a subordinated loan made to OtC II by the Issuer of R2,062 million. Please see "Description of Other Indebtedness—The OtC Securitisation Programme".

**Customers**

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

**Competition**

Over 90% of the C&F market consists of five major retailers, of which we are the largest with a 29.3% market share as of LTM 2010. Our market is highly competitive, particularly with respect to product selection and quality, store location and design, price, customer service, credit availability and advertising. We compete at the national and local levels with a wide variety of retailers of varying sizes and covering different product lines across all geographic markets in which we operate.

Our department store division operates in the middle- to upper-income segment of the C&F market, and faces competition from *Truworths, Foschini, Woolworths and Mr Price. Truworths* is a public company, which concentrates on specialty retail formats targeted at youthful, fashionable upper-income customers. *Foschini* is a public company, which operates specialty stores in the clothing, cosmetics, jewellery, accessories, sporting goods and homewares retail segments and caters to upper-income customers throughout southern Africa. *Woolworths* is a public company that targets middle- to upper-income customers with a selected range of clothing, footwear, toiletries, cosmetics and homewares, and in 2010 approximately 52% of *Woolworths'* revenue was derived from its food operations. *Mr Price* is a public company targeting middle-income customers and comprising four retail chains focusing on clothing, footwear, accessories and homewares.

Our discount division operates in the lower- to middle-income segment of the C&F market, and faces competition from *Mr Price, Ackermans* and *PEP. Mr Price* has traditionally competed with our discount division, but has become increasingly competitive with our department store division. *Ackermans* is a private company targeting lower-income customers and offering clothing, footwear, accessories and homewares. *PEP*, whose product range includes clothing, footwear, textiles, homewares and mobile phone products, is a private company primarily targeting lower-income customers.

As a result of the type and variety of products it offers, our *CNA* brand competes with different retailers across its various product lines, and is the market leader in stationery, books and magazines.

**Suppliers and distribution**

We have over 1,800 suppliers for our three retail divisions, with the average supplier providing only R8.6 million worth of goods in fiscal year 2010. Our supplies consist of direct imports purchased from foreign sales agents, indirect imports purchased from South African sales agents and domestic vendors. In fiscal year 2010, our direct imports accounted for approximately 15% of purchases and 90% of these imports were from China. The purchasing operations of our department store and discount divisions have historically acted independently of each other and we often have different business lines purchasing from the same supplier. We have centralised our purchasing operations and established strategic relationships with low-cost suppliers. Additionally, we have a quality assurance department which manages quality standards for all merchandise categories across our supply pipeline.

Approximately 74% of our supplies are routed through one of our three distribution centres, two of which are located in Johannesburg, and one in Durban. All our distribution centres have electronic sorting equipment allowing us to achieve a daily combined capacity of approximately 1.5 million units for all of our distribution centres. Currently, we operate at approximately 60% of this capacity. We use seafreight for our imports and we make minimal use of airfreight, while we outsource our road transport to third-party logistics providers. We operate logistics systems that enable us to conduct automated, high-volume and high-stockturn operations. All our distribution centres have electronic sorting equipment, We will continue migrating our larger local suppliers to our business-to-business e-commerce platform in order to achieve integration of supply and distribution.

**Property**

Our real estate strategy is to rent the property on which our stores are located. Currently we have approximately 1,200 leased stores in southern Africa, including approximately 1,150 stores in South Africa, 25 in Namibia, 23 in Botswana, seven in Lesotho and eight in Swaziland.

We have a relatively high concentration of landlords and we currently let 63% of our trading space from our 12 largest landlords. Our leases have an average initial lease term of ten years for our *Edgars* stores and five years, each allow us to sublet for our other stores. Our leases typically include four options to extend the lease for further periods of five years each. The leases generally allow us to sublet the leased premises and assign our rights under the leases to our affiliate companies. Rental payments are generally made on a monthly basis and increased at a previously specified percentage rate (typically 7%) compounded annually. As of 1 January 2011, the minimum property operating lease commitments due within one year amounted to R1,168 million.

**Sales and marketing**

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

We also use a variety of membership programmes in our effort to increase the number and spending of our customer base. *Edgars* introduced one of the market's first loyalty programs, which allows loyalty card holders to accumulate points for purchases made. These points are then used in the issuance of vouchers that are redeemable in any store within the department store division. We currently have approximately 625,000 active loyalty programme members.

Other membership programmes include the *Edgars* and *Jet* clubs. *Edgars* private label credit card customers can become members of the *Edgars* club for a small (R20 to R30) monthly fee. *Edgars* club membership offers numerous benefits, including subscription to the *Edgars* magazine, emergency services cover, funeral cover, reduced travel and accommodation charges and reduced prices on cinema and theatre tickets. The *Edgars* club currently has approximately 1.1 million members.

Similar to the *Edgars* club, *Jet* private label credit card customers can become members of the *Jet* club for a small (R20-R30) monthly fee. The *Jet* club is the largest retail store club in South Africa, with more than 1.1 million members. *Jet* club membership offers benefits including subscription to the *Jet* magazine (the most widely read lifestyle magazine in South Africa), emergency services cover, funeral cover, free legal advice, an AIDS careline, free anti-retroviral treatment under certain conditions and reduced travel and accommodation charges.

**Seasonality**

Our business, like that of most retailers, is affected by seasonal fluctuations in customer demand, product offerings and working capital expenditures. Historically, our most important trading periods in terms of sales, operating results and cash flow have been the Christmas and Easter seasons, with 34% of our retail sales occurring in April, November and December combined. In addition, our results of operations can be affected by unseasonal or abnormal weather conditions, which may lead to a decrease in sales and markdowns at the end of the season. For additional information on seasonality, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant factors affecting our results of operations—Seasonality".

**Human resources**

***Employees***

As at 1 January 2011, we had a total of approximately 47,700 employees, of whom approximately 18,900 were permanent and approximately 28,800 were temporary.

Employee relations in South Africa are regulated by the South African Labour Relations Act No. 66 of 1995 (the "SA Labour Relations Act"), which codifies the rights of employees to belong to trade unions and the rights of trade unions to have access to the workplace. The SA Labour Relations Act also guarantees employees the right to strike and the right to participate in secondary strikes in certain prescribed circumstances. In addition, the SA Labour Relations Act recognises the right of employees to participate in the decision-making of companies. As such, employees must be consulted with respect to a variety of matters insofar as they affect employee terminations, including workplace restructurings, partial or total plant closures, mergers and transfers of ownership. We have not experienced any industrial action against our company in over ten years.

The majority of Edcon employees belonging to a union are members of the South African Commercial, Catering and Allied Workers Union ("SACCAWU"). In February 2011, 37.2% of employees in the bargaining unit, and 24.2% of active employees, are members of SACCAWU. We renewed our wage agreement with SACCAWU for a two-year period in 2009, fixing salary increases of approximately 7% per annum. We are currently negotiating for an additional two-year agreement.

*Training*

We have made significant investments in training in order to be able to attract and retain quality employees. We currently offer our employees approximately 375 learning programmes and spent 1.9% of payroll expenditure on learning in fiscal year 2010. In March 2005, we established the Edcon Retail Academy to improve our employees' retail management, leadership and operational skills. We currently have nine offerings at the academy, including such programmes as business leadership development and operations management development. In addition, in fiscal year 2006 we acquired the training facilities of Technikon SA to serve as a resource centre for our learning initiatives and enhance the training opportunities for our staff. Training costs are expected to increase with the number of our employees, as our business portfolio and products and service offerings expand.

***Other human resources policies***

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

In addition, we provide our employees with three retirement fund options, all of which are defined contribution plans: the Edcon Provident Fund and two union provident funds. A retirement savings plan is also made available to the flexible staff employed on a limited number of hours per month.

In order to further incentivise our employees through performance-based rewards, we structured the remuneration package of our senior management so that they can earn an additional 30% to 70% of their annual package on achievement of certain performance targets. Our other employees are also eligible for performance rewards totaling up to 30% of their basic pay. In addition, we also have merit recognition events and long service awards.

We have also formed an Employment Equity Forum, chaired by our chief executive officer, which provides a forum for representatives of labour, management and other designated groups to review the progress, and discuss the direction, of our equity employment policies.

Since 2003, through external surveys administered by Deloitte and the Corporate Research Foundation, we have consistently been ranked as one of the best South African companies to work for. Since 2002 and according to our internal annual surveys, our employees' job satisfaction has increased progressively. Staff turnover at our company has fallen from approximately 28% in fiscal year 2002 to approximately 13% as at 31 January 2011.

We have policies in place that actively promote equitable human resources practices, such as greater employment inclusion for black individuals, women and disabled people.

**Information technology**

From fiscal year 2008 to fiscal year 2010, we invested R645 million on application systems to create one of the most advanced IT systems in the South African retail market. In 2009, we implemented a new in-store system in all of our stores. This year we initiated a project to renew our merchandise planning systems which is expected to result in:

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

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

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

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

**Intellectual property**

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

**Legal proceedings**

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

We are in discussions with the South African Revenue Services ("SARS") regarding the tax treatment of our unrealised gains and losses on our unmatured hedging derivatives at each fiscal year end. Although the SA Tax Act prescribes treatment of such gains and losses on a non-discount basis, in certain circumstances SARS has the authority to allow taxpayers to use the "alternative rate" that takes certain IFRS discounts into consideration when calculating gains and losses on unmatured foreign exchange contracts. In fiscal year 2008, we requested that SARS grant us the option to use the alternative rate. Although we are still in the process of responding to further information requests from SARS, we have received notification from SARS that they have not agreed to our request and intend to issue an additional assessment. We intend to object to any such assessment and we believe that even were such assessment made, we would be able to recover such monies from increased tax allowances in the future resulting from the non-alternative treatment. Were we to fail to realise a taxable profit in the future of the 2007 Notes, we would be unable to recover such monies.

## MANAGEMENT

### Directors

HoldCo has a unitary Board structure comprising two executive directors and five non-executive directors. The executive address of our directors is Edgardale, 1 Press Avenue, Crown Mines, Johannesburg, 2092, Republic of South Africa. The members of the Board (the "Board") are as follows:

| Name | Age | Position |
|---|---|---|
| Stephen M. Ross | 58 | Executive director, group chief executive officer |
| Dr. Urin Ferndale | 46 | Executive director, chief operating officer |
| Dwight Poler | 45 | Non-executive director, chairman |
| Matthew Levin | 44 | Non-executive director |
| Marc Valentiny | 46 | Non-executive director |
| Edward Berk | 37 | Non-executive director |
| Zohra Ebrahim | 50 | Independent non-executive director |

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

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

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

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

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

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

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

It is expected that Jürgen Schreiber will be appointed to the Board in April 2011 and will replace Mr. Ross as chief executive officer. Mr. Ross will retire as a director in May 2012.

**Jürgen Schreiber**—Mr Schreiber has been president and chief executive officer of Canadian health and beauty retailer Shoppers Drug Mart Corporation. During his tenure, the company, which currently has approximately 45,000 employees and over 1,300 stores experienced a period of continued growth, achieving record sales and profitability. Prior to joining Shoppers Drug Mart, Mr. Schreiber had a successful five-year career with A.S. Watson Group, an international retailer and manufacturer that operates in 33 markets worldwide with over 9,500 retail stores running the gamut from health & beauty and cosmetics to food, electronics, and fine wine. A.S. Watson is a subsidiary of the Hutchison Whampoa Group, a Fortune 500 company and one of the largest companies listed on the Hong Kong Stock Exchange. Mr. Schreiber worked for A.S. Watson in both Asia and Europe, where he most recently held the position of CEO for Continental Europe & U.K., responsible for a number of retail chains. Before he joined A.S. Watson Group, Mr. Schreiber had a 14-year career with Reckitt Benckiser, a global consumer goods company that is the world's largest producer of household products and a major producer of consumer healthcare and personal products. Mr. Schreiber progressed through many senior management positions in the U.K., Germany, Spain, Netherlands, China and Singapore.

**Right to appoint directors**

The Founder Investor Trusts are entitled, but not obliged, to appoint three directors of HoldCo and to remove and replace those directors. LuxCo is entitled, but not obligated, to appoint, remove and replace the remaining directors of HoldCo. The chairman of the Board is appointed by LuxCo.

**Executive management**

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

| Name | Age | Position |
|---|---|---|
| Stephen M. Ross | 58 | Executive director, group chief executive officer |
| Stephen R. Binnie | 43 | Chief financial officer |
| Mark R. Bower | 55 | Deputy chief executive officer |
| Dr. Urin Ferndale | 45 | Executive director, chief operating officer |
| Hugues Witvoet | 52 | Chief executive of the department store division |
| Christo Claassen | 42 | Chief executive of the discount division |

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

**Stephen R. Binnie**—Mr. Binnie was appointed as chief financial officer of Edcon in 2002. Mr. Binnie has been a senior financial manager for over 15 years, including a group financial manager at Investec from 1998 to 2002. Mr. Binnie holds a BCom and a BAcc from University of Witwatersrand, and an M.B.A. from Heriot-Watt University. Mr. Binnie is a qualified chartered accountant.

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

**Hugues Witvoet—**Mr. Witvoet joined HoldCo in August 2008. Mr Witvoet has extensive retail experience with AS Watson, LVMH and Carrefour and in addition has worked for McKinsey & Co. Mr Witvoet is a graduate of Essec Business School.

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

**Compensation**

In fiscal year 2010, we paid our executive directors and executive managers an aggregate compensation, including bonuses, of R13 million and R29 million, respectively. In addition, new members of the executive management team are granted the opportunity to participate in the management investment scheme. See "Management—Management Investment".

**Equity sponsor**

Our sponsor is an affiliate of Bain Capital, a leading global private investment firm, whose affiliates manage several pools of capital, including private equity, venture capital, public equity, global macro, and leveraged debt assets. Since its inception in 1984, Bain Capital has completed over 370 transactions in a broad set of industries, including such leading retailers and consumer companies as *Toys "R" Us, Gymboree, Burger King, Staples, Burlington Coat Factory, Michaels, Brookstone, Domino's Pizza, Dollarama, Sealy Corp., Sports Authority* and *Duane Reade*. Headquartered in Boston, Bain Capital has offices in New York, London, Munich, Mumbai, Hong Kong, Shanghai and Tokyo.

**Corporate Governance**

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

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

The appointment of directors is conducted on the terms of our Articles of Association, with due regard to the provisions of the S.A Companies Act, and as amended from time to time.

**Roles and responsibilities of the Board**

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

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

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

**Board meetings**

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

**Conflicts of interest**

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

Our directors and executive managers are beneficiaries of equity investments in HoldCo. Our non-executive directors may be deemed beneficial owners of securities in LuxCo, which in turn is a shareholder of HoldCo. Our executive managers are beneficiaries of the Founder Investor Trusts, which in turn are shareholders of HoldCo. See "— Management investment". The interests of our directors and executive managers as shareholders may conflict with their duties as directors and executive managers.

**Insurance**

Adequate Directors' and Officers' insurance cover has been purchased by Edcon. No claims under the relevant policy were made during the 2010 financial period.

**Advice**

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

**Board committees**

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

*Audit and Risk Committee*

The members of the Committee are Mr. Edward B. Berk (Chairman) and Mr. Marc M. Valentiny. The Deputy chief executive officer, the chief financial officer, the external auditors, the internal auditors and the Company Secretary attend all meetings of the Audit and Risk Committee as invitees.

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

- the Chief Financial Officer regarding our financial performance of Edcon;
- the Risk Governance Workgroup regarding the output of our continuous risk management process;
- the internal auditors regarding the adequacy and effectiveness of financial and operational control measures; and
- the external auditors regarding the planning and results of their audit activities.

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

*Remuneration Committee*

The members of the Remuneration Committee are Mrs. Zohra B Ebrahim (Chairman) and Messrs Dwight M. Poler and Edward B. Berk.

The Remuneration Committee meets at least twice per annum in order to perform its function of approving a broad remuneration strategy for Edcon and to ensure that executive directors and senior executives are adequately remunerated. Succession planning is also considered at every meeting of the Remuneration Committee.

*Transformation Committee*

The members of the Transformation Committee are Mrs. Zohra B Ebrahim (Chairman) and Messrs Stephen M. Ross, Edward B. Berk and Marc M. Valentiny, The general manager of Human Resources, the executive director responsible for Transformation and the company secretary attend all meetings as invitees.

The Transformation Committee meets at least twice per annum to guide, monitor, review and evaluate the Group's progress on transformation, with specific reference to the seven pillars outlined in the Codes of Good Conduct of the Broad Based Black Economic Empowerment Act, 2003 (the "BBBEE Act").

**Internal control**

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

**Internal audit**

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

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

**External audit**

The external auditors provide an independent assessment of our systems of internal financial control and express an independent opinion on the Group Financial Statements. The external auditors' plan is reviewed by the Audit and Risk Committee to ensure that significant areas of concern are covered, without infringing on the external auditors' independence and right to audit. Ernst & Young Inc., South Africa are the auditors of Edcon and the Audit Partner rotates in line with current legislation.

**Management investment**

More than 40 Edcon executives are vested beneficiaries in the five Founder Investor Trusts. The five Founder Investor Trusts hold A and B preference shares of R0.00001 each in the capital of HoldCo designated as "A" and "B" preference shares, respectively (the "A Preference Shares" and the "B Preference Shares"), A ordinary shares of R0.00001 each in the capital of HoldCo designated as "A" ordinary shares (the "A Ordinary Shares"), C ordinary shares of R0.00001 each in the capital of

HoldCo designated as “C” ordinary shares (the “C Ordinary Shares”), D ordinary shares of R0.00001 each in the capital of HoldCo designated as “D” ordinary shares (the “D Ordinary Shares”), and E ordinary shares of R0.00001 each in the capital of HoldCo designated as “E” ordinary shares (the “E Ordinary Shares”, and together with the C Ordinary Shares and the D Ordinary Shares, the “Deferred Return Securities”). The Founder Investor Trusts together hold less than 5% of the total voting rights in HoldCo, 100% of the issued A Preference Shares, approximately 3% of the issued A Ordinary Shares and 100% of the issued Deferred Return Securities.

The A and the B Preference Shares are non-voting, have a yield equal to the ABSA Bank prime rate plus 1.75% less applicable tax, and rank in priority to any other class of issued share capital in HoldCo as regards dividends and return of capital. The A Ordinary Shares entitle the holders to 1,000 votes per share, and participate in all distributions of HoldCo subject to the distribution entitlements of the A Preference Shares, the B ordinary shares of R0.001 each in the capital of HoldCo designated as “B” ordinary shares (the “B Ordinary Shares”) held by the Empowerment Trust and the Deferred Return Securities. The Deferred Return Securities entitle the holders (being the relevant Founder Investor Trusts) to one vote per share but only participate in distributions (on a *pari passu* basis with the A Ordinary Shares) once LuxCo has received aggregate distributions equal to the following multiples of its investment in HoldCo: in the case of the C Ordinary Shares, one times the investment; in the case of the D Ordinary Shares, two times the investment and in the case of the E Ordinary Shares two and a half times the investment.

If an executive ceases employment with Edcon, he may be required to dispose of his trust interests. The price payable for the trust interests will depend upon whether the executive is a ‘good leaver’ or a ‘bad leaver’ and, in the case of the Founder Investor Trusts holding the Deferred Return Securities, for how long the executive has been employed by Edcon following his acquisition of those trust interests. If it is determined that the executive is a ‘good leaver’, the executive will be paid the fair market value for his trust interests, other than those trust interests in trusts holding Deferred Return Securities where the executive will be paid 10% of the market value of those trust interests for each year held, up to a maximum of 50% of the market value of the trust interests after five years. If it is determined that the executive is a ‘bad leaver’, he will only receive the lower of his original investment cost and the fair market value of his trust interests (subject to certain exceptions). A ‘good leaver’ for these purposes is anyone who is not a ‘bad leaver’ and a ‘bad leaver’ is anyone whose employment is terminated for cause or with good reason or who, having been a ‘good leaver’, subsequently breaches the terms of his post-employment restraint of trade.

## PRINCIPAL SHAREHOLDERS AND SHARE CAPITAL

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

## RELATED PARTY TRANSACTIONS

### Subordinated Shareholder Loan

In 2007, HoldCo entered into a loan agreement (the "Subordinated Shareholder Loan") with LuxCo, under which LuxCo advanced R5,057 million to HoldCo. Repayment of the Subordinated Shareholder Loan is subordinated to payments under all other debt obligations concluded by HoldCo and its subsidiaries in connection with the acquisition of ECSL and its subsidiaries in 2007 by BidCo, including the Senior Secured Notes, the Amended Super Senior Revolving Credit Facility and the Super Senior Rand Loan. Interest on advances under the Subordinated Shareholder Loan accrues on a daily basis at an annual rate equal to the rate at which ABSA Bank Limited lends rand plus 2.00% subject to certain adjustments. The term of the Subordinated Shareholder Loan ends on the 30th anniversary of the payment of the purchase price under the acquisition of ECSL and its subsidiaries in 2007 by BidCo. As at the issuance of the Senior Secured Notes, the outstanding principal balance under the Subordinated Shareholder Loan will be R5,057 million with accrued and unpaid interest of R2,923 million.

Pursuant to a subordination agreement entered into between HoldCo and LuxCo, entered in May 2009, LuxCo has agreed that the Subordinated Shareholder Loan is also subordinated to the claims of all other creditors of HoldCo to the extent required to pay their claims in full. The subordination agreement will remain in force until such time as HoldCo's assets, fairly valued, exceed its liabilities as certified by its auditors, whereupon it will automatically lapse.

### Matching Loan

HoldCo and the Issuer have entered into a loan agreement (the "Subordinated Matching Loan"), under which HoldCo advanced R5,057 million to the Issuer. Repayment of the Subordinated Matching Loan is subordinated to payments under all debt obligations concluded by the Issuer and its subsidiaries in connection with the acquisition of ECSL and its subsidiaries in 2007 by BidCo, including the 2007 Notes, and the Amended Super Senior Revolving Credit Facility, as well as the Senior Secured Notes, the Super Senior Rand Loan and the Amended Super Senior Revolving Credit Facility. Interest on advances under the Matching Loan accrues on a daily basis at an annual rate equal to the rate at which ABSA Bank Limited lends rand plus 2.25% and is subject to change as agreed from time to time by the parties, subject to certain minimum interest requirements, including that the interest rate will be at least equal to the interest rate on the Subordinated Shareholder Loan. The term of the Subordinated Matching Loan ends on the 30th anniversary of the payment of the purchase price under the Share Acquisition. As at the issuance of the Senior Secured Notes, the outstanding balance under the Matching Loan will be R7,834 million.

### Proceeds Loan

HoldCo and the Issuer have entered into a loan agreement (the "Subordinated Proceeds Loan"), under which HoldCo advanced R6,250 million to the Issuer. Interest on advances under the Subordinated Proceeds Loan accrue at a rate to be agreed from time to time between HoldCo and the Issuer subject to certain minimum interest requirements, including that the interest rate will be at least equal to the coupon payable on the 2007 Senior Notes. In addition, the Issuer undertakes to pay to HoldCo as additional interest all additional amounts necessary to enable HoldCo to make payments of principal, premium and interest in respect of the 2007 Senior Notes. As at the issuance of the Senior Secured Notes, the outstanding balance under the Proceeds Loan will be R8,166 million.

### Transaction services agreement

In May 2007, HoldCo and Edgars Holdings Limited, a Cayman Islands exempted limited company ("CaymanCo"), the parent of LuxCo, entered into a transaction services agreement (the "Transaction Services Agreement") with Bain Capital, Ltd and Bain Capital Partners, LLC (collectively, the "Advisors"), under which the Advisors undertake to provide HoldCo and CaymanCo with services such as advice on acquisitions and divestiture opportunities, financing alternatives and finance, marketing and other functions. In consideration for these services, HoldCo and CaymanCo undertake to pay to the Advisers (i) a fee equal to 1% of the transaction value of future acquisitions, divestitures and other financial transactions for which the Advisors provide services, and (ii) all reasonable out-of-pocket fees

in relation to services provided under the Transaction Services Agreement. The initial term of the Transaction Services Agreement is ten years, subject to recurring automatic one-year extensions. The Transaction Services Agreement automatically terminates on change of control of HoldCo or CaymanCo, or a public offering of the shares of HoldCo or any of its subsidiaries.

**Consulting services agreement**

In May 2007, HoldCo entered into a consulting services agreement (the "Consulting Agreement") with Portfolio Company Advisors Limited and Bain Capital Partners, LLC (collectively, the "Consultants"), under which the Consultants undertake to provide executive, advisory and consulting services to HoldCo. In consideration for these services, HoldCo undertakes to pay the Consultants a fee based on hourly rates, or, under certain conditions, an annual consulting fee of R35 million. The initial term of the Consulting Agreement is two years, subject to a two-year renewal terms. The Consulting Agreement automatically terminates on a change of control of HoldCo or a public offering of the shares of HoldCo or any of its subsidiaries.

In January 2008, the rights and obligations of the Consultants under the Consulting Agreement were novated to PCA (South Africa) Limited, acting through its South African branch. The Consultants have agreed to render services to PCA SA to enable it to fulfil its obligations under the Consulting Agreement. In April 2008, the rights and obligations of HoldCo under the Consulting Agreement were novated to the Issuer.

## DESCRIPTION OF CERTAIN OTHER INDEBTEDNESS

### The Amended Super Senior Revolving Credit Facility

*Overview*

We have received the necessary consent to enter into an amendment of our Existing Super Senior Revolving Credit Facility, to extend the original maturity date of the Existing Super Senior Revolving Credit Facility for up to two years to 31 March 2014 (the "Amended Super Senior Revolving Credit Facility").

Our Amended Super Senior Revolving Credit Facility provides senior secured financing of up to R3,117 million for our general corporate and working capital purposes and is tranched into Tranche A, Tranche B1 and Tranche B2. We may draw up to R650 million under Tranche A, which matures on 15 June 2012. We may draw up to R250 million under Tranche B1, which matures on 31 December 2013. We may draw up to R2,217 million under Tranche B2, which matures on 31 March 2014. The terms of Tranche A, Tranche B1 and B2 are the same save as described herein. We are required to make draw downs under our Amended Super Senior Revolving Credit Facility pro rata under Tranche A, Tranche B1 and Tranche B2.

Our Amended Super Senior Revolving Credit Facility can also be utilised by way of bank guarantees, letters of credit, short-term derivative transactions and borrowing under bilateral ancillary facilities.

*Interest rate and fees.* Borrowings under Tranche A will bear interest at a rate per annum equal to JIBAR plus an applicable margin. The initial applicable margin for borrowings under Tranche A is 2.50%. The applicable margin for borrowings under Tranche A will not exceed the initial applicable margin and is subject to adjustment based on the ratio of our total net indebtedness to our EBITDA. In addition to paying interest on outstanding principal under Tranche A, we are required to pay a commitment fee of 0.625% per annum in respect of the unutilised commitments thereunder.

Borrowings under Tranche B1 and Tranche B2 will bear interest at a rate per annum equal to Johannesburg Interbank Acceptance Rate plus an applicable margin. The initial applicable margin for borrowings under Tranche B1 and Tranche B2 is 4.0%. The applicable margin for borrowings under our Tranche B1 and Tranche B2 will not exceed the initial applicable margin and is subject to adjustment based on the ratio of our total net indebtedness to our EBITDA. In addition to paying interest on outstanding principal under Tranche B1 and Tranche B2, we are required to pay a commitment fee of 40% of the applicable margin for Tranche B1 and Tranche B2, as the case may be in respect of the unutilised commitments thereunder.

We must also pay customary bank guarantee fees, letter of credit fees and agency fees in relation to the Amended Super Senior Revolving Credit Facility.

*Mandatory repayment and cancellation.* To the extent that the amount of the Senior Secured Notes, 2007 Senior Secured Notes, 2007 Senior Notes and/or *pari passu* debt purchased, redeemed, repaid or acquired with the net cash proceeds from asset sales exceeds (or will exceed) €100 million (or the equivalent amount of Rand in any applicable currency), our Amended Super Senior Revolving Credit Facility must be prepaid and the commitments thereunder cancelled to the extent of net cash proceeds from asset sales, unless our general corporate requirements are such that we require the total commitments under the Amended Super Senior Revolving Credit Facility to remain unchanged. Our Amended Super Senior Revolving Credit Facility must also, in certain circumstances, be prepaid and the commitments thereunder cancelled *pro rata* with the repayment of the Senior Secured Notes, the 2007 Senior Secured Notes, or the 2007 Senior Notes from our available cash (other than the net cash proceeds from assets sales).

*Voluntary repayment and cancellation.* We may voluntarily reduce the unutilised portion of the commitment amount and prepay the outstanding balance under our Amended Super Senior Revolving Credit Facility at any time (subject to giving the relevant notice) together with accrued interest without premium or penalty other than customary "breakage" costs.

*Amortisation and final maturity.* There is no scheduled amortisation under our Amended Super Senior Revolving Credit Facility. The principal amount outstanding of the loans under Tranche A is due and payable in full on 15 June 2012. The principal amount outstanding of the loans under Tranche B1 is due and payable in full on 31 December 2013. The principal amount outstanding of the loans under Tranche B2 is due and payable in full on 31 March 2014.

*Guarantees and security.* All obligations under our Amended Super Senior Revolving Credit Facility are unconditionally guaranteed by HoldCo, BidCo, the Issuer and ECSL and will also be guaranteed by any future material subsidiaries. The guarantees are structured as both counter-indemnities given to a special purpose security vehicle for the lenders under our Amended Super Senior Revolving Credit Facility as customary in South African financing transactions and guarantees in favour of the lenders.

All obligations under our Amended Super Senior Revolving Credit Facility, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of HoldCo's assets and substantially all of the assets of its subsidiaries that have guaranteed our Amended Super Senior Revolving Credit Facility.

*Ranking.* The Amended Super Senior Revolving Credit Facility ranks *pari passu* with the Super Senior Rand Loan in right of security over the assets of the Issuer and the guarantees that secure the Amended Super Senior Revolving Credit Facility and the Super Senior Rand Loan, and senior in right of security to all other existing and future secured and unsecured indebtedness of the Issuer including the 2007 Senior Secured Notes and the Senior Secured Notes. The 2007 Senior Notes are subordinated to each of the Amended Super Senior Revolving Credit Facility, the Super Senior Rand Loan, the 2007 Senior Secured Notes and the Senior Secured Notes offered hereby.

*Certain covenants and events of default*. Our Amended Super Senior Revolving Credit Facility contains substantially the same covenants and events of default that are contained in the Senior Secured Indenture.

**The Super Senior Rand Loan**

*Overview.* We expect to enter into a credit agreement and related security and other agreements for a Super Senior Rand Loan with Goldman Sachs Lending Partners LLC.

Our Super Senior Rand Loan would provide senior secured financing of up to R985 million. At the expected completion of the Hedge Refinancing, the Super Senior Rand Loan will be fully drawn.

Although not currently agreed, we expect our Super Senior Rand Loan to reflect substantially the following terms:

*Interest rate and fees*. Borrowings under our Super Senior Rand Loan will bear interest at a rate per annum equal to JIBAR plus an applicable margin. The initial applicable margin for borrowings under our Super Senior Rand Loan is 4% and this margin steps up to 6% after three months from the first date of utilisation of the Super Senior Rand Loan and steps up to either 7.50%, 8.00% or 9.50% per annum after four months from the first date of utilisation of the Super Senior Rand Loan depending on GSI's outstanding exposure under the Super Senior Rand Loan on that date.

We must also pay customary agency fees.

*Mandatory repayment and cancellation*. To the extent that the amount of the Senior Secured Notes, 2007 Senior Secured Notes and/or 2007 Senior Notes and/or *pari passu* debt purchased, redeemed, repaid or acquired with the net cash proceeds of asset sales exceeds €100 million, our Super Senior Rand Loan will only be prepaid (at the election of the lenders under the Super Senior Rand Loan) on a pro rata basis with all other indebtedness (including the Senior Secured Notes, the 2007 Senior Secured Notes and the 2007 Senior Notes) which ranks *pari passu* with the Super Senior Rand Loan and contains provisions similar to those set forth in the Super Senior Rand Loan with respect to offers to purchase with proceeds of sales of assets, with any net cash proceeds remaining after having applied the net cash proceeds to the prepayment of the Amended Senior Revolving Credit Facility unless our general corporate requirements are such that we require the total commitments under the Amended Senior Revolving Credit Facility to remain unchanged.

Our Super Senior Rand Loan may (at the option of the lenders under the Super Senior Rand Loan) also be prepaid prior to any prepayment of the Amended Senior Revolving Credit Facility, the Senior Secured Notes, 2007 Senior Secured Notes, and the 2007 Senior Notes from our available cash (other than the net cash proceeds from assets sales).

*Voluntary repayment and cancellation.* We may voluntarily prepay the outstanding balance under our Super Senior Rand Loan at any time prior to the fifth month from the first utilisation date after the period commencing 12 months from the first utilisation date of the Super Senior Rand Loan without

premium or penalty other than customary "breakage" costs. During the period from the date falling five months after the first utilisation date and ending 12 months after the first utilisation date, we may voluntarily prepay the outstanding balance under our Super Senior Rand Loan at any time, subject to payment of a prepayment penalty to the lenders under the Super Senior Rand Loan and customary "breakage" costs.

*Amortisation and final maturity.* There is no scheduled amortisation under our Super Senior Rand Loan. The principal amount outstanding of the loans under our Super Senior Rand Loan is due and payable in full on 31 March 2014.

*Guarantees and security.* All obligations under our Super Senior Rand Loan are unconditionally guaranteed by HoldCo, BidCo, the Issuer and ECSL and will also be guaranteed by any future material subsidiaries. The guarantees are structured as both counter-indemnities given to a special purpose security vehicle for the lenders under our Super Senior Rand Loan as required by South African law and guarantees in favour of the lenders.

All obligations under our Super Senior Rand Loan, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of HoldCo's assets and substantially all of the assets of its subsidiaries that have guaranteed our Super Senior Rand Loan.

*Ranking.* The Super Senior Rand Loan ranks senior in right of security over the assets of the Issuer and the guarantors that secure the Super Senior Rand Loan to all other existing and future secured and unsecured indebtedness of the Issuer including the Senior Secured Notes and *pari passu* with our Amended Super Senior Revolving Credit Facility.

*Certain covenants and events of default*. Our Super Senior Rand Loan contains substantially the same covenants and events of default that are contained in the Senior Secured Indenture.

**2007 Senior Secured Notes**

In June 2007, the Issuer issued the 2007 Senior Secured Notes, €1,180,000,000 in aggregate principal amount of senior secured floating rate notes due 15 June 2014. The interest payable on the 2007 Senior Secured Notes is three-month EURIBOR plus 3.25% per year, reset quarterly and payable quarterly in cash. The 2007 Senior Secured Notes rank *pari passu* with the Senior Secured Notes offered hereby. The 2007 Senior Secured Notes are currently issued on the Global Exchange Market of the Official List of the Irish Stock Exchange.

The 2007 Senior Secured Notes are governed by an indenture among the Issuer, Holdco, Bidco, ECSL, the SPV Guarantor and The Bank of New York, as trustee. The 2007 Notes are general obligations of the Issuer and rank equally in right of payment with all existing and future indebtedness of the Issuer that is not subordinated in right of payment to the 2007 Senior Secured Notes and are senior in right of payment to all existing and future indebtedness of the Issuer that is subordinated in right of payment to the 2007 Senior Secured Notes. The 2007 Senior Secured Notes are also subject to certain customary covenants and events of default.

The 2007 Senior Secured Notes are guaranteed on a senior secured basis by HoldCo, BidCo and ECSL and are also guaranteed by the SPV Guarantor under the SPV Guarantor. The guarantee of the 2007 Senior Secured Notes by each guarantor ranks equally in right of payment with all existing and future indebtedness of such guarantor that is not subordinated in right of payment to such guarantee, are senior in right of payment to any and all of the existing and future indebtedness of such guarantor that is subordinated in right of payment to such guarantee, and are effectively senior to such guarantor's existing and future unsecured indebtedness to the extent of the value of the collateral securing such guarantee.

If an event treated as a change of control of the Issuer occurs, HoldCo must offer to purchase the 2007 Senior Secured Notes for a purchase price of an amount equal to 101% of the principal amount of the 2007 Senior Secured Notes, plus accrued and unpaid interest. In certain circumstances, the Issuer will be required to offer to purchase the 2007 Senior Secured Notes with the net cash proceeds from asset sales. The purchase price would be equal to 100% of the principal amount of the 2007 Senior Secured Notes, plus accrued and unpaid interest.

**2007 Senior Notes**

In June 2007, HoldCo issued the 2007 Senior Notes, €630,000,000 in aggregate principal amount of senior secured floating rate notes due 15 June 2015. The interest payable on the 2007 Senior Notes is three-month EURIBOR plus 5.5% per year, reset quarterly and payable quarterly in cash. Following a partial buyback of the 2007 Senior Notes in 2008, the current outstanding principal of the 2007 Senior Notes is €378,000,000. The 2007 Senior Notes are structurally subordinated to all existing and future indebtedness of HoldCo's subsidiaries, including the 2007 Senior Secured Notes, the Senior Secured Notes offered hereby, the Amended Super Senior Revolving Credit Facility and the Super Senior Rand Loan. The 2007 Senior Notes are currently issued on the Global Exchange Market of the Official List of the Irish Stock Exchange.

The 2007 Senior Secured Notes are governed by an indenture among the Issuer, Holdco, Bidco, ECSL, the SPV Guarantor and The Bank of New York, as trustee. The 2007 Notes are general obligations of the Issuer and rank equally in right of payment with all existing and future indebtedness of the Issuer that is not subordinated in right of payment to the 2007 Senior Secured Notes and are senior in right of payment to all existing and future indebtedness of the Issuer that is subordinated in right of payment to the 2007 Senior Secured Notes. The 2007 Senior Secured Notes are also subject to certain customary covenants and events of default.

The 2007 Senior Notes are guaranteed on a senior subordinated basis by RetailCo, BidCo and ECSL. These guarantees may be released in certain circumstances including upon the sale of one of the guarantors. The terms of the Intercreditor Agreement provide that no payments in respect of the guarantees relating to the 2007 Senior Notes may be made if a payment default has occurred and is continuing under the Amended Super Senior Revolving Credit Facility, the 2007 Senior Secured Notes, the Senior Secured Notes offered hereby, the Super Senior Rand Loan and the hedging arrangements or during the continuation of a payment blockage period. The 2007 Senior Notes are secured by a third ranking pledge of the Subordinated Proceeds Loan through the SPV Guarantor.

If an event treated as a change of control of the Issuer occurs, HoldCo must offer to purchase the 2007 Senior Notes for a purchase price of an amount equal to 101% of the principal amount of the 2007 Senior Notes, plus accrued and unpaid interest. In certain circumstances, HoldCo will be required to offer to purchase the 2007 Senior Notes with the net cash proceeds from asset sales. The purchase price would be equal to 100% of the principal amount of the 2007 Senior Notes, plus accrued and unpaid interest.

**Hedging**

Following the completion of the Hedge Refinancing, our Existing Hedging Arrangements in respect of the interest payments on the 2007 Notes will continue to hedge against fluctuations in the interest rate and the rate of exchange between the rand and euro until 15 June 2011.

It is our intention, on or about the Issue Date, to enter into hedging arrangements with respect to substantially all of the interest payments on the 2007 Notes and the Senior Secured Notes against fluctuations in the interest rate and rate of exchange between rand and euro for the period up to and including the first call date on the Senior Secured Notes. However, we may decide to hedge these amounts for a longer period of time. In addition, we intend to hedge the majority of the aggregate principal of the 2007 Notes and the Senior Secured Notes against fluctuations in the rate of exchange between rand and euro.

All our obligations under the hedging agreements entered into in connection with the 2007 Notes and the Senior Secured Notes will share ratably in the guarantees and security interests granted to the special purpose vehicle for the holders of the 2007 Notes and the Senior Secured Notes.

Our hedging agreements will be subject to early termination in the event of, amongst other things, bankruptcy or failure to make payments under the hedging agreements when due. Some or all of our New Hedging Arrangements may be credit-based hedges, See "Risk Factors—We may elect to use credit-based hedges as part of our hedging strategy".

**The OtC II Securitisation Programme**

Our credit and financial services business is partially funded by the sale of receivables generated by that business to OtC II.

In August 2009, Edcon entered into a securitization programme with a special purpose insolvency remote entity not legally or beneficially controlled by Edcon, OntheCards Investments II (Proprietary) Limited (registration number 2009/005155/07) ("OtC II"). Pursuant to the securitization programme, Edcon sells and OtC II purchases receivables arising on storecard accounts under which Edcon provides credit to its customers on revolving credit payment plans whereby customers may pay for purchases over a period of time. Prior to August 2009, Edcon sold its eligible receivables to OntheCards Investments Limited (registration number 2002/015386) ("OtC"), a special purpose insolvency remote entity not legally or beneficially owned by Edcon. In fiscal year 2010, OtC sold to OtC II eligible receivables which were previously sold by Edcon and purchased by OtC. On 25 November 2009, following the sale by OtC of all outstanding eligible receivables to OtC II, the securitization programme with OtC was terminated.

OtC II has issued from time to time notes and has borrowed under a subordinated loan facility provided by Edcon in order to fund the purchase of receivables. As of 1 January 2011, R2,062 million remain outstanding the subordinated loan facility. As of 1 January 2011, OtC II has issued a principal outstanding amount of R4,378 million notes—R2,228 million notes due in 2012, R1,395 million notes due in 2013, R505 million notes due in 2014, and R250 million notes due in 2017 ("OtC II Outstanding Notes"). Of the OtC II Outstanding Notes, R2,705 million are listed on the Interest Rate Market of the JSE Limited.

OtC II may issue further notes from time to time that may be listed on the Interest Rate Market of the JSE Limited and which will be rated by Standard & Poor's, in order to fund the payment of the purchase price for the purchase of further eligible receivables (together with the OtC II Outstanding Notes, the "OtC II Indebtedness"). The maximum aggregate nominal amount of all notes in issue at any point in time will not exceed R6,500 million. See "Risk Factor—The credit rating assigned to the notes issued under the OtC Securitisation Programme may impact our ability to sell receivables to OtC II".

OtC II will continue on a daily basis to purchase from Edcon the eligible receivables arising on designated eligible accounts. OtC II will have available to it a liquidity facility and receivables purchase facility from FirstRand Bank Limited (acting through its Rand Merchant Bank division) ("RMB") to finance shortfalls arising in OtC II from mismatches in the timing of collections and the applications of payments. The total amount available under the liquidity facility is R145 million, and the total amount available under the receivables purchase facility is R43 million. Both the liquidity and receivables purchase facilities are renewable annually. Edcon will continue to service the eligible receivables sold to OtC II through the management and collection of such receivables in the ordinary course of its credit management business.

The OtC II indebtedness will also contain performance triggers based on the performance of certain designated eligible receivables. A breach of these performance triggers that continues unremedied will result in an early amortization event under the OtC II Indebtedness pursuant to which such indebtedness will become repayable from the collections and recoveries on the designated eligible receivables and no further advances under the OtC II Indebtedness will be permitted.

*Security*. OtC II has pledged and ceded the eligible receivables that it acquires from time to time and all its other assets indirectly (via a SPV Guarantor) to, or for the benefit of, the lenders of the OtC II Indebtedness and the other transaction creditors.

*Certain representations and warranties*. The OtC II Indebtedness will contain certain representations, warranties, covenants and events of default including those relating to the performance of Edcon as originator and servicer of the receivables. MBD Accounts Receivable Management (Proprietary) Limited has been appointed as back-up servicer. Upon the occurrence of an event of default or an early amortisation event under the OtC II Indebtedness which continues to be unremedied, OtC II may also be required to transfer the management and collection of the eligible receivables to the back-up servicer. The Issuer holds preference shares in OtC II which entitle it to receive by dividend any profits generated by OtC II. The preference shares do not carry any control rights over OtC II.

**Intercreditor Agreement**

To establish the relative rights of our creditors, we have amended and restated our intercreditor deed with, among others, the lenders under our Amended Super Senior Revolving Credit Facility and the Super Senior Rand Loan, the trustee for the noteholders of the Senior Secured Notes, 2007 Senior Secured Notes and the 2007 Senior Notes, the SPV Guarantor, and the hedging counterparties as amended from time to time (the "Intercreditor Agreement"). The Intercreditor Agreement is governed by English law. By accepting a Senior Secured Note, holders of Senior Secured Notes will be deemed to have agreed to, and accepted the terms and conditions of, the Intercreditor Agreement.

The Intercreditor Agreement sets out amongst other things:

- the relative ranking of certain of our debts;
- the relevant ranking of security granted by us;
- when payments can be made in respect of our debt;
- when enforcement action can be taken in respect of our debt;
- the terms pursuant to which certain of that debt will be subordinated upon the occurrence of certain insolvency events;
- turnover provisions;
- application of recoveries from enforcement of security and the Senior Subordinated Note Guarantees; and
- when security and guarantees will be released to permit an enforcement sale.

The following is a summary of certain provisions contained in the Intercreditor Agreement. It does not restate the Intercreditor Agreement in its entirety and, as such, we urge you to read that document because it, and not the discussion that follows, defines your rights.

*Priority of debts*

The Intercreditor Agreement provides that all claims under our Amended Super Senior Revolving Credit Facility, our Super Senior Rand Loan, the Senior Secured Notes, the 2007 Senior Secured Notes, the hedging agreements, the claims against HoldCo under the 2007 Senior Notes and the claims of the trustees for the Senior Secured Notes, the 2007 Senior Secured Notes and the 2007 Senior Notes for certain fees and expenses owing to them shall rank in right and priority of payment ahead of claims under the 2007 Senior Notes (other than claims against HoldCo under the 2007 Senior Notes) and the Subordinated Proceeds Loan and all of the foregoing claims rank ahead of the claims under the Subordinated Shareholder Loans and the intercompany debt.

*Priority of security and guarantees*

The Intercreditor Agreement provides that security over our assets, save as set out below, shall rank first, to secure claims, *pari passu*, under our Amended Super Senior Revolving Credit Facility and Super Senior Rand Loan and second, to secure claims, *pari passu*, under the Senior Secured Notes, and the 2007 Senior Secured Notes and our hedging arrangements.

The security over the Subordinated Proceeds Loan shall rank first, to secure claims *pari passu*, under our Amended Super Senior Revolving Credit Facility and Super Senior Rand Loan, second to secure claims, *pari passu*, under the Senior Secured Notes, the 2007 Senior Secured Notes and the hedging arrangements, and third, to secure claims under the 2007 Senior Notes.

The guarantee of the 2007 Senior Notes given by the SPV Guarantor and directly by Guarantors shall rank after the guarantees of our Amended Super Senior Revolving Credit Facility, our Super Senior Rand Loan, the Senior Secured Notes and the 2007 Senior Secured Notes and the hedging arrangements, given by the SPV Guarantor and directly by Guarantors.

The provisions of the Intercreditor Agreement that purport to rank the claims of unsecured creditors amongst themselves are subject to applicable law and may not be enforceable by a liquidator or comparable insolvency practitioner under South African law.

*Permitted payments*

Payments of principal, interest and other amounts may be made at any time under and in accordance with our Amended Super Senior Revolving Credit Facility our Super Senior Rand Loan, Senior Secured Notes and 2007 Senior Secured Notes.

Certain payments of principal, interest and other amounts may be made under the 2007 Senior Notes and Subordinated Proceeds Loan prior to a payment blockage whereupon no further payments under the 2007 Senior Notes may be made under the Subordinated Proceeds Loan unless the payment blockage has expired. A payment blockage will arise upon the occurrence of a payment default or other default under our Amended Super Senior Revolving Credit Facility, our Super Senior Rand Loan, Senior Secured Notes or 2007 Senior Secured Notes. In respect of which a payment blockage notice has been served. A payment blockage will expire upon the date on which the default is no longer continuing or if a payment blockage notice is cancelled or within 179 days of receipt of a payment blockage notice. A payment blockage does not apply to payments by HoldCo on the 2007 Senior Notes.

*Enforcement of security*

The Intercreditor Agreement provides that enforcement with respect to the security may only be taken by the SPV Guarantor.

Our lenders under our Amended Super Senior Revolving Credit Facility and Super Senior Rand Loan may direct the Security Administrator to direct the SPV Guarantor to enforce or to take any other action relating to the security over our assets that are granted as security for our Amended Super Senior Revolving Credit Facility, our Super Senior Rand Loan, our Senior Secured Notes, 2007 Senior Secured Notes and our hedging arrangements; *provided* that the Security Administrator shall refrain from directing the SPV Guarantor to enforce the security over our assets unless instructed by the facility agent of the Amended Super Senior Revolving Credit Facility, or the facility agent of the Super Senior Rand Loan or following the expiration of the standstill period or otherwise in the circumstances referred to under "—Standstill on enforcement" below the trustees in respect of the Senior Secured Notes and the 2007 Senior Secured Notes. The facility agent of the amended Super Senior Revolving Credit Facility may direct the Security Administrator to enforce if the debt under our amended Super Senior Revolving. Credit Facility (the "RCF Debt") exceeds 50% of the aggregate amount of the RCF Debt and the debt under our Super Senior Rand Loan (the "Rand Loan Debt"). The facility agent of the Super Senior Rand Loan may direct the security administrators to enforce if the Rand Loan Debt exceeds 50% of the aggregate of the RCF Debt and the Rand Loan Debt.

The Security Administrator may refrain from directing the SPV Guarantor to enforce the security over our assets if instructed to do so (i) in certain circumstances until a period of consultation between the trustees in respect of the Senior Secured Notes and the 2007 Senior Secured Notes and the facility agent in respect of the Amended Super Senior Revolving Credit Facility and the facility agent of the Super Senior Rand Loan and the hedging counterparties has elapsed and (ii) if the instructions given to the Security Administrator by the facility agent in respect of the Amended Super Senior Revolving Credit Facility and the facility agent in respect of the Super Senior Rand Loan (in circumstances where the trustees in respect of the Senior Secured Notes and the 2007 Senior Secured Notes is not entitled to give any instructions to the Security Administrator) conflict with each other, the Security Administrator may follow the instructions it determines are consistent with achieving the Security Enforcement Objective. Security Enforcement Objective means the aim of maximising so far as is consistent with a prompt and expedious enforcement over the security over our assets, the recoveries there under of the creditors for which the revelent security over our assets is expressed to provide such security.

*Standstill on enforcement*

The Intercreditor Agreement further provides that (a) the holders of the Senior Secured Notes and 2007 Senior Secured Notes may not, prior to the repayment of our Amended Super Senior Revolving Credit Facility and Super Senior Rand Loan, without the consent of the facility agent for our Amended Super Senior Revolving Credit Facility (if the RCF Debt exceeds 50% of the aggregate amount of the RCF Debt and the Rand Loan Debt) or, the facility agent of the Super Senior Rand Loan or (if the Rand Loan Debt exceeds 50% of the aggregate amount of the RCF Debt and the Rand Loan Debt) and the

trustees for the Senior Secured Notes and 2007 Senior Secured Notes, direct the SPV Guarantor to enforce or take any other action relating to the security and (b) the holders of the 2007 Senior Notes may not, prior to the repayment of our Amended Super Senior Revolving Credit Facility, our Super Senior Rand Loan and the repayment in full of the Senior Secured Notes and 2007 Senior Secured Notes, without the consent of the facility agent (if the RCF Debt exceeds 50% of the aggregate amount of the RCF Debt and the Rand Loan Debt) or for our Amended Super Senior Revolving Credit Facility, the facility agent of our Super Senior Rand Loan and the trustees for the Senior Secured Notes and 2007 Senior Secured Notes direct the SPV Guarantor to enforce or take any other action relating to the security over the Subordinated Proceeds Loan for the 2007 Senior Notes.

The limitations on enforcement in the preceding paragraph will not apply if, in the case of enforcement by the holders of the Senior Secured Notes and 2007 Senior Secured Notes:

- an insolvency event has occurred with respect to an issuer, guarantor or counter-indemnifier in the Group in which case an enforcement action may only be taken against the relevant member of the Group; or
- in the case of enforcement over our assets, a period of not less than 179 days has passed from the date of receipt by the relevant facility agent or trustee of a written notice specifying that a standstill period has commenced or a default has occurred under the Senior Secured Notes and the 2007 Senior Secured Notes as a result of a failure to pay at maturity; or
- another creditor regulated by the Intercreditor Agreement has taken enforcement action permitted by the Intercreditor Agreement over the relevant asset in which event the same enforcement action may be taken,

and, if, in the case of enforcement by the holders of the 2007 Senior Notes or by HoldCo as lender under the Subordinated Proceeds Loan:

- an insolvency event has occurred with respect to an issuer, guarantor or counter-indemnifier in the Group in which case an enforcement action may only be taken against the relevant member of the Group;
- another creditor regulated by the Intercreditor Agreement has taken enforcement action permitted by the Intercreditor Agreement over the relevant asset in which event the same enforcement action may be taken; or
- (save in the case of enforcement of the security over the Subordinated Proceeds Loan) a default has arisen as a result of a failure to pay principal on the 2007 Senior Notes at maturity.

*Application of proceeds*

Amounts received by the SPV Guarantor, the facility agent for our Amended Super Senior Revolving Credit Facility, the facility agent for our Super Senior Rand Loan, the trustee for the Senior Secured Notes, the trustee for the 2007 Senior Secured Notes and the trustee for the 2007 Senior Notes representing the proceeds from enforcement of any security (other than security over certain collection accounts of Edcon charged to OtC II into which collections on eligible receivables are paid) or recoveries under any guarantee (or SPV Counter-Indemnity of any SPV Guarantee) of the Senior Subordinated Notes, will be applied in the following order:

- in payment of any fees and expenses owing to the facility agent for our Amended Super Senior Revolving Credit Facility, the facility agent for our Super Senior Rand Loan, the trustee for the Senior Secured Notes, the trustee for the 2007 Senior Secured Notes, the trustee for the 2007 Senior Notes, the hedging counterparties, the Security Administrator and the SPV Guarantor, on a *pari passu* and *pro rata* basis;
- in payment of all costs and expenses incurred by or on behalf of the lenders under our Amended Super Senior Revolving Credit Facility and our Super Senior Rand Loan in connection with the enforcement of security;
- in payment to the facility agent for our Amended Super Senior Revolving Credit Facility and the facility agent for our Super Senior Rand Loan to discharge the liabilities in respect of our Amended Super Senior Revolving Credit Facility and Super Senior Rand Loan on a *pro rata* basis;

- in payment to the trustee for the Senior Secured Notes on behalf of the holders of any Senior Secured Notes, trustee for the 2007 Senior Secured Notes on behalf of the holders of any 2007 Senior Secured Notes and the hedging counterparties in respect of the Senior Secured Notes, 2007 Senior Secured Notes and 2007 Senior Notes for application towards the discharge of their liabilities on a *pro rata* basis;
- in payment to the trustee for the 2007 Senior Notes towards discharge of the fees and expenses owing to it;
- in payment to the trustee for the 2007 Senior Notes towards discharge of the 2007 Senior Notes on a *pro rata* basis.
- in payment to HoldCo (to the extent it is entitled to such proceeds) in discharge of the Subordinated Proceeds Loan;
- in payment of shareholder liabilities and intra-group liabilities on a *pro rata* basis; and
- the balance in payment to any other person to which it is due or to the relevant issuer or Guarantor.

The proceeds from enforcement of the security over Edcon collection accounts shall be applied to OtC II.

The proceeds from enforcement of any guarantee or SPV Counter-Indemnity or SPV Guarantee (but only in the case of the SPV Counter-Indemnity or SPV Guarantee to the extent such proceeds are not funded from an enforcement of security will be applied as follows:

- in payment of any fees and expenses owing to the facility agent under our Amended Super Senior Revolving Credit Facility, the facility agent for our Super Senior Rand Loan, the hedging counterparties, the trustee for the Senior Secured Notes, the trustee for the 2007 Senior Secured Notes and the trustee for the 2007 Senior Notes and the SPV Guarantor, on a *pro rata* basis;
- in payment of all costs and expenses incurred by or on behalf of the lenders under our Amended Super Senior Revolving Credit Facility, the lenders under our Super Senior Rand Loan, the noteholders under the Senior Secured Notes, the noteholders under the 2007 Senior Secured Notes and the noteholders under the 2007 Senior Notes in connection with the enforcement of the guarantees;
- in payment (A) *pari passu* to the facility agent under our Amended Super Senior Revolving Credit Facility and the facility agent under our Super Senior Rand Loan for application to discharge the liabilities under our Amended Super Senior Revolving Credit Facility and our Super Senior Rand Loan, respectively, and (B) to the trustee of the Senior Secured Notes, the trustee of the 2007 Senior Secured Notes and the hedging counterparties in respect of the hedging for the Senior Secured Notes, 2007 Senior Secured Notes and 2007 Senior Notes to discharge the liabilities under the Senior Secured Notes and the related hedging liabilities on a *pro rata* basis;
- in the case of any other guarantee amounts, in payment to the trustee of the 2007 Senior Notes towards discharge of the liabilities under the 2007 Senior Notes, *pro rata*;
- in payment to HoldCo (to the extent it is entitled to such proceeds) in discharge of the Subordinated Proceeds Loan;
- in payment of shareholder liabilities and intra-group liabilities on a *pro rata* basis; and
- the balance in payment to any other person to which it is due or to the relevant issuer or Guarantor.

*Option to purchase*

The Intercreditor Agreement provides that, in the event of any enforcement action under either our Amended Super Senior Revolving Credit Facility or our Super Senior Rand Loan, the holders of the Senior Secured Notes have the right to repurchase all debt outstanding under our Amended Super Senior Revolving Credit Facility or our Super Senior Rand Loan at par.

*Release of security and guarantees upon an enforcement action*

In the case of any release of any security and any obligation or liability, including under any Guarantee, in connection with a disposal being effected pursuant to an enforcement of security in accordance with the Intercreditor Agreement (each, an "Enforcement Action") by the Amended Super Senior Revolving Credit Facility creditors, the Super Senior Rand Loan creditors or in circumstances where such creditors are entitled to take an Enforcement Action, at the request of the applicable representatives for such creditors or holders, such security and/or Guarantee will only be released if (i) representatives for the relevant creditors confirm to the Security Administrator that the release has been consented to by such creditors or (ii) the relevant asset is disposed of in accordance with certain conditions including (A) the proceeds from such disposal are all or substantially all in the form of cash, (B) such disposal is made by public auction or upon receipt of an opinion from an internationally recognised accountancy firm or internationally recognised investment bank chosen by the security administrator as to fairness from a financial point of view, (C) the relevant asset or Guarantor (and its subsidiaries) is released from all present and future obligations and liabilities in respect of any amounts owing to the lenders of the Amended Super Senior Revolving Credit Facility, the lenders under the Super Senior Rand Loan, the hedging counterparties, the holders and trustees of the Senior Secured Notes and the 2007 Senior Secured Notes, and (D) the proceeds from such disposal are applied in accordance with the Intercreditor Agreement.

**Subordination Agreement**

To establish the relative rights of our shareholders and our other creditors, the Issuer, BidCo, ECSL Luxco and HoldCo (amongst others) entered into a subordination agreement with, among others, the lenders under our Amended Super Senior Revolving Credit Facility, the trustees for the noteholders of the 2007 Senior Secured Notes and the 2007 Senior Notes, the SPV Guarantor and the hedging counterparties on 24 May 2007. The trustee for the Senior Secured Notes will accede to such agreement on or about the Issue Date.

Additionally, the Issuer, BidCo, ECSL Luxco and HoldCo (amongst others) have entered into a new subordination agreement with, among others, the lenders under the Super Senior Rand Loan, and the SPV Guarantor, as amended from time to time. This subordination agreement, along with that described in the paragraph above, are the "Subordination Agreements". The Subordination Agreements are governed by South African law.

Under the terms of the Subordination Agreements, all claims of the SPV Guarantor on behalf of the various creditors, whether secured and unsecured, will rank senior to all claims in relation to the Subordinated Shareholder Loans. We shall not be entitled to repay any portion of the Subordinated Shareholder Loans contrary to the provisions of the indentures governing the Senior Secured Notes, the 2007 Senior Secured Notes, the 2007 Senior Notes, the Intercreditor Agreement, the counter-indemnities, our hedging agreements, our Super Senior Rand Loan and our Amended Super Senior Revolving Credit Facility. Should such payment nevertheless be made by the Issuer, BidCo, ECSL, Luxco or HoldCo, they undertake to pay such amounts to the SPV Guarantor.

The Subordination Agreements will provide that all claims under the Subordinated Shareholder Loans will rank junior in right and priority of payment to the 2007 Senior Secured Notes, the 2007 Senior Notes, the Senior Secured Notes, the hedging agreements, our Super Senior Rand Loan and our Amended Super Senior Revolving Credit Facility.

The Subordination Agreements provide that the Issuer, BidCo, ECSL, Luxco and HoldCo may not, prior to the repayment in full of all debt that ranks ahead of the shareholder debt or otherwise with the consent of the lenders our Super Senior Rand Loan and our Amended Super Senior Revolving Credit Facility, the hedging counterparties and the trustees for the noteholders of the Senior Secured Notes, the 2007 Senior Secured Notes and the 2007 Senior Notes and the SPV Guarantor, take any action to enforce their claims under the shareholder debt except as permitted under the Intercreditor Agreement.

## DESCRIPTION OF THE SENIOR SECURED NOTES

In this "Description of the Senior Secured Notes," the word "Issuer" refers only to Edcon (Proprietary) Limited and not to any of its Subsidiaries. The word "HoldCo" refers to Edcon Holdings (Proprietary) Limited. The word "Guarantors" (and each a "Guarantor") refers to HoldCo, BidCo and Edgars Consolidated Stores Limited ("ECSL"), each of which (other than HoldCo) is a direct or indirect Wholly-Owned Subsidiary of HoldCo and will Guarantee the Senior Secured Notes on the Issue Date, and to any future person that Guarantees the Senior Secured Notes, including any other Subsidiary Guarantor. The definitions of certain other terms used in this description are set forth throughout the text or under the sub-heading "—Certain Definitions".

The Issuer will issue, and the Guarantors will Guarantee (the "Guarantees"), the EUR-denominated notes offered hereby (the "EUR Senior Secured Notes") and the USD-denominated notes offered hereby (the "USD Senior Secured Notes" and, together with the EUR Senior Secured Notes, the "Senior Secured Notes") under an indenture (the "Indenture") among the Issuer, HoldCo, the Guarantors, the SPV Guarantor, The Bank of New York Mellon, as Senior Secured Trustee and certain other parties thereto. The terms of the Senior Secured Notes include those set forth in the Indenture. The Indenture will not incorporate or include any of the provisions of the U.S. Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"). The Indenture is not required to be, nor will it be, qualified under the Trust Indenture Act. Consequently, the holders of Senior Secured Notes will not be entitled to the protections provided under the Trust Indenture Act to holders of debt securities issued under a qualified indenture, including those requiring the trustee to resign in the event of certain conflicts of interest and to inform the holders of certain relationships between the trustee and the issuer. The words "Senior Secured Notes", unless the context requires otherwise, also refers to "book-entry interests" in the Senior Secured Notes, as defined herein.

The obligations of the Issuer under the Indenture and the Senior Secured Notes, and of the Guarantors under the Indenture and their Guarantees, will be secured as described below under the caption "—Security".

The registered Holder of a Senior Secured Note will be treated as its owner for all purposes. Only registered Holders will have rights under the Indenture, including, without limitation, with respect to enforcement and the pursuit of other remedies. The Senior Secured Notes will not be registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), and will therefore be subject to certain transfer restrictions.

The following description is a summary of the material terms of the Indenture and the Security Documents. It does not, however, restate the Indenture or the Security Documents in their entirety and where reference is made to particular provisions of the Indenture or the Security Documents, such provisions, including the definitions of certain terms, are qualified in their entirety by reference to all of the provisions of the Senior Secured Notes, the Guarantees, the Indenture and the Security Documents. You should read the Indenture and the Security Documents because they contain additional information and because they, and not this description, define your rights as a Holder. Copies of the form of the Indenture and of the Security Documents may be obtained by requesting them from the Issuer at the address indicated under "Available Information" or, if and so long as the Senior Secured Notes are listed on the Global Exchange Market of the Irish Stock Exchange and the rules of the Irish Stock Exchange so require, from the office of the paying agent in Ireland.

Application has been made for the Senior Secured Notes to be listed on the Official List of the Irish Stock Exchange and to be admitted to trading on the Global Exchange Market thereof. The Issuer can provide no assurance that this application will be accepted. If and so long as the Senior Secured Notes are listed on the Global Exchange Market of the Irish Stock Exchange, the Issuer will maintain a paying or transfer agent in Ireland. See "—Payments on the Senior Secured Notes; Paying Agent".

For purposes of determining (i) compliance as of any date with "—Certain Covenants" and (ii) whether a Default or Event of Default has arisen under "—Events of Default", amounts set forth in euro in "—Certain Covenants" and "—Events of Default" and amounts incurred or outstanding in Rand, will be translated into euro at an exchange rate of 1 euro to 9.66 rand.

**The Senior Secured Notes**

The Senior Secured Notes will:

(a) be the Issuer's general obligations;

(b) mature on 1 March 2018;

(c) be senior in right of payment to all of the Issuer's existing and future Indebtedness that is subordinated in right of payment to the Senior Secured Notes;

(d) be effectively senior to all of the Issuer's existing and future Indebtedness that is unsecured, or secured on a basis junior to the security granted in respect of the Senior Secured Notes, in each case to the extent of the assets securing the Senior Secured Notes;

(e) be equal in right of payment to all of the Issuer's existing and future Indebtedness that is not subordinated in right of payment to the Senior Secured Notes;

(f) be effectively junior to the Issuer's Indebtedness under the Senior Revolving Credit Facility and the Super Senior Secured ZAR Loan with respect to the Collateral; and

(g) be secured as described below under the caption "—Security" (the Holders will receive proceeds from the Collateral after the lenders under the Senior Revolving Credit Facility in the event of foreclosure or in any bankruptcy, insolvency or other similar events).

The Senior Secured Notes will be structurally subordinated to all debt and liabilities of the Issuer's Subsidiaries that have not Guaranteed the Senior Secured Notes. In the event of a bankruptcy, liquidation or reorganization of any of these Subsidiaries, the holders of the debt and the trade creditors of these Subsidiaries will be paid before these Subsidiaries will be able to distribute any of their assets to the Issuer or the Guarantors.

**The Guarantees**

***General***

Under the Indenture, the Guarantors will jointly and severally agree to Guarantee the Issuer's obligations under the Indenture and the due and punctual payment of all amounts payable under the Senior Secured Notes, including principal, premium, if any, and interest payable under the Senior Secured Notes. No direct or indirect Subsidiary of the Issuer or HoldCo other than the Guarantors will provide a Guarantee on the Issue Date. HoldCo and the Issuer will cause any Restricted Subsidiary, within 60 days upon it becoming a Material Subsidiary, to execute and deliver an accession agreement providing for the Guarantee of the Senior Secured Notes by such Restricted Subsidiary on the same terms as the Guarantees granted by the other Guarantors under the Indenture. Any such additional Guarantees, however, will not be required if they would violate applicable law. The obligations of the Issuer under the Senior Secured Notes and of the Guarantors under the Guarantees will also be guaranteed by the SPV Guarantor in connection with the security being granted by the Issuer and the Guarantors. See "—Security".

Each Guarantor's Guarantee will:

(a) be the general obligation of such Guarantor;

(b) be secured as described below under the caption "—Security";

(c) be senior in right of payment to all of the existing and future Indebtedness that is subordinated in right of payment to its Guarantee;

(d) be effectively senior to all of such Guarantor's existing and future Indebtedness that is unsecured, or secured on a basis junior to the security granted in respect of its Guarantee, in each case to the extent of the assets securing its Guarantee;

(e) be equal in right of payment to all of such Guarantor's existing and future Indebtedness that is not subordinated in right of payment to its Guarantee;

(f) be effectively junior to the Guarantor's Indebtedness under the Senior Revolving Credit Facility and the Super Senior Secured ZAR Loan with respect to the Collateral; and

(g) be structurally subordinated to all existing and future Indebtedness of such Guarantor's Subsidiaries that do not Guarantee the Senior Secured Notes.

The obligations of any Guarantor under its Guarantee will be limited to the maximum amount that would not render such Guarantor's obligations subject to avoidance under applicable fraudulent conveyance provisions of the United States Bankruptcy Code or any comparable provision of foreign or state law. By virtue of this limitation, a Guarantor's obligation under its Guarantee could be significantly less than amounts payable with respect to the Senior Secured Notes, or a Guarantor may have effectively no obligation under its Guarantee. Each Guarantor that makes a payment or distribution under its Guarantee will be entitled to contribution from any other Guarantor.

Although the Indenture contains limitations on the amount of additional Indebtedness that the Issuer, the Guarantors and the Restricted Subsidiaries may incur, the amount of such additional Indebtedness, which may be secured, could be substantial. Based on HoldCo's consolidated balance sheet as at 1 January 2011, after giving *pro forma* effect to the offering of the Senior Secured Notes and the application of the proceeds thereof, on a combined basis, the Issuer, the Guarantors and the Restricted Subsidiaries would have had total Indebtedness excluding OtC of R21,256 million (€2,158 million), of which R17,533 million (€1,780 million) would have been Pari Passu Debt and R3,723 million (€378 million) would have been represented by the Senior Floating Rate Notes.

***Release of a Guarantor's Guarantee***

The Guarantee of a Guarantor will be released:

(a) when (i) any Guarantor (other than HoldCo or BidCo) ceases to be a Restricted Subsidiary of HoldCo in accordance with the applicable provisions of the Indenture or (ii) any Guarantor (other than HoldCo or BidCo) becomes an Immaterial Subsidiary; *provided that* in the case of clause (ii) after giving effect to the release of the Guarantee of any Immaterial Subsidiary, the Issuer and Guarantors have at least 85% of the Consolidated Total Assets and revenues of HoldCo and its Restricted Subsidiaries;

(b) upon defeasance or discharge of the Senior Secured Notes under the Indenture as provided below under the captions "—Legal Defeasance or Covenant Defeasance of Indenture" and "—Satisfaction and Discharge".

No Guarantor will be permitted to sell or otherwise dispose of all or substantially all of its assets to, or consolidate with or merge with or into (whether or not such Guarantor is the surviving Person) another Person, other than the Issuer or a Guarantor, unless:

(a) immediately after giving effect to that transaction on a *pro forma* basis, no payment Default, Default under "—Certain Covenants" or Event of Default exists,

(b) either (i) such Guarantor is the surviving Person or (ii) the Person formed by or surviving any such merger consolidation, amalgamation or other combination (if other than HoldCo), or to which such sale, assignment, transfer, lease, conveyance or other disposition will have been made, is a corporation organized or existing under the laws of the Republic of South Africa or any state that is a member of the European Union, Canada, the United States of America, any state thereof or the District of Columbia,

(c) the Person acquiring the property in any such sale or disposition or the Person formed by or surviving any such consolidation or merger expressly assumes all the obligations of such Guarantor under the Indenture and its Guarantee pursuant to an accession letter to the Indenture or other documents or instruments in form reasonably satisfactory to the Senior Secured Trustee,

(d) each other Guarantor and SPV Indemnifier (if not a party to the transaction), will have by accession letter to the Indenture and the Intercreditor Agreement confirmed that its Guarantee and/or SPV Counter-Indemnity (as the case may be) will apply to such Guarantor's obligations under the Indenture and the Senior Secured Notes, unless such Guarantee and/or SPV Counter-Indemnity (as the case may be) will be released in connection with the transaction and otherwise in compliance with the Indenture, and

(e) HoldCo will have delivered to the Senior Secured Trustee an Officers' Certificate and an opinion of counsel, stating that such merger, consolidation, amalgamation, other combination or transfer and such accession letter complies with the Indenture.

The Intercreditor Agreement provides that the Guarantee of a Guarantor (and the Guarantee, if any, of any Subsidiary of such Guarantor) also will be released in the event that all of the Share Capital of such Guarantor is sold or otherwise disposed of pursuant to an enforcement of security in accordance with the Intercreditor Agreement. See "Description of Certain Other Indebtedness—Intercreditor Agreement".

***Restricted and Unrestricted Subsidiaries***

As of the date of the Indenture, all of HoldCo's Subsidiaries will be "Restricted Subsidiaries." Under the circumstances described below in "—Certain Definitions—Unrestricted Subsidiary", HoldCo will be permitted to designate certain of its Subsidiaries as "Unrestricted Subsidiaries". HoldCo and its Restricted Subsidiaries also will be allowed to designate all or any portion of the credit and financial services business as an Unrestricted Subsidiary under the circumstances described below in "—Certain Covenants—Restrictions Relating to the Investment of the Credit and Financial Services Business". Any Unrestricted Subsidiaries of HoldCo will not be subject to any of the restrictive covenants in the Indenture. Any Unrestricted Subsidiaries of HoldCo will not guarantee the Senior Secured Notes.

**Acceptance of Intercreditor Agreement and Subordination Agreement**

The Indenture will also provide that each Holder, by accepting a Senior Secured Note, will be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement and Subordination Agreement and, if applicable, each additional Intercreditor Agreement and Subordination Agreement.

**Security**

***The security***

The obligations of the Issuer under the Senior Secured Notes, the Guarantors under the Guarantees, the Senior Secured Floating Rate Notes, the guarantees of the Senior Secured Floating Rate Notes and certain Hedging Obligations will be secured by security interests on an equal and rateable basis (collectively, the "Second-Ranking Security Interests") in collateral (the "Collateral") that will consist of substantially all of the assets of HoldCo and its Restricted Subsidiaries, including pledges (the "Share Pledges") of all of the Share Capital of the Issuer and the Restricted Subsidiaries, other than certain non-material assets.

The Issuer's obligations under the Senior Revolving Credit Facility and the Super Senior Secured ZAR Loan will be secured by security interests (the "First-Ranking Security Interests") in the Collateral that rank senior to the Second-Ranking Security Interests in respect of the Senior Secured Notes and the Guarantees. See "—Other secured Indebtedness".

Assets of HoldCo and its Restricted Subsidiaries that will not secure the Senior Secured Notes or the Guarantees consist of certain non-material assets, assets over which a security interest cannot be granted under South African law or under the terms of leases and other agreements to which such assets are subject and assets in respect of which the Agreed Security Principles prevent security being given.

The Collateral may also be subject to certain Permitted Collateral Liens securing certain other obligations of HoldCo or a Restricted Subsidiary. See "—Certain Covenants—Impairment of Security Interest" and "—Certain Definitions—Permitted Collateral Liens".

To the extent third parties hold Permitted Collateral Liens with respect to the Collateral such third parties may have rights and remedies with respect to the property subject to such Liens that, if exercised, could adversely affect the value of the Collateral. The ability of the Holders to realize upon the Collateral is subject to certain bankruptcy law limitations in the event of a bankruptcy. See "—Risk

Factors—Risks related to the Notes—The insolvency laws of the Republic of South Africa may not be as favourable to you as the insolvency laws of other jurisdictions with which you may be familiar".

The security interests in the Collateral will not be granted directly to the Holders or the Senior Secured Trustee for the Holders. Instead, the security interests will be granted to the SPV Guarantor which will, in turn, provide a guarantee to the Senior Secured Trustee for the Holders. The Senior Secured Trustee for the Holders will not therefore be entitled to take any enforcement action with respect to the Collateral other than through its guarantee from the SPV Guarantor. The SPV Guarantor will be instructed exclusively in this regard by the Senior Secured Trustee for the Holders acting in accordance with the Intercreditor Agreement. See "—SPV Guarantor and the SPV Guarantee".

As of 1 January 2011, the total consolidated book value of HoldCo's and its Restricted Subsidiaries' assets was R30,636 million (€3,110 million), substantially all of which is Collateral subject to the Security Interests securing the Senior Secured Notes and the Guarantees.

***Other secured Indebtedness***

The Issuer's obligations under the Senior Revolving Credit Facility are, and the Super Senior Secured ZAR Loan will be, secured by the First-Ranking Security Interests in the Collateral that rank senior to the Security Interests in respect of the Senior Secured Notes and the Guarantees. The Senior Secured Floating Rate Notes and the guarantees thereof are secured by the same Collateral that will secure the Senior Secured Notes. HoldCo and its Restricted Subsidiaries will be entitled to incur additional Indebtedness secured by the Collateral. See "—Certain Covenants—Limitations on Incurrence of Indebtedness and Issuance of Preference Shares" and "—Certain Covenants—Limitations on Liens".

***SPV Guarantor and the SPV Guarantee***

As mentioned above, the security interests securing the Senior Secured Floating Rate Notes and the First-Ranking Security Interests were, and the Second-Ranking Security Interests will be, granted to the SPV Guarantor. The SPV Guarantor is a special purpose company incorporated under the laws of the Republic of South Africa with no assets whose business will be limited under its articles of incorporation to holding the Collateral, the security interests securing the Senior Secured Floating Rate Notes, the Second-Ranking Security Interests and the First-Ranking Security Interests. This structure (the "SPV Security Structure") is commonly used to facilitate the holding and sharing of security located in South Africa in financing transactions with multiple lenders.

Under the SPV Security Structure, the SPV Guarantor will issue a guarantee (the "SPV Guarantee") to the Senior Secured Trustee for the Holders. The SPV Guarantee will guarantee the obligations of the Issuer under the Senior Secured Notes and the obligations of the Guarantors under the Guarantees. The Senior Secured Trustee for the Holders will not be entitled to take any enforcement action with respect to the Collateral other than through the SPV Guarantee. To secure the obligations of the SPV Guarantor under the SPV Guarantee, the Issuer and Guarantors providing the Security Interests (the "SPV Indemnifiers") will, pursuant to counter-indemnity agreements (the "SPV Counter-Indemnities"), indemnify the SPV Guarantor in respect of the SPV Guarantee. The Issuer's and the Guarantors' obligations under the SPV Counter-Indemnities are secured by security interests in the Collateral. See "Risk Factors—Risks related to the Notes—The Collateral will not be granted directly to the holders of the Senior Secured Notes". The SPV Guarantor issued a guarantee to the trustee for the holders of the Senior Secured Floating Rate Notes and the trustee for the holders of the Senior Floating Rate Notes.

Pursuant to the SPV Guarantee, any distribution to the holders of the SPV Guarantee of the proceeds from the sale of any Collateral will, subject to the Intercreditor Agreement, be allocated pro rata to such holders in accordance with the obligations created by such SPV Guarantee and under the Indenture, the Senior Secured Notes and the Guarantees. Lenders under the Senior Revolving Credit Facility and the Super Senior Secured ZAR Loan will receive any proceeds from the Collateral prior to the Holders. Holders of the Senior Secured Floating Rate Notes will receive any proceeds from the Collateral *pari passu* with the holders of the Senior Secured Notes. See "Risk Factors—Risks related to the Notes—Creditors under the Senior Revolving Credit Facility and the Super Senior Secured ZAR Loan are entitled to be repaid with the proceeds from Collateral sold in any enforcement sale in priority to the holders of the Senior Secured Notes and the value of the Collateral may not be sufficient to satisfy our obligations under the Senior Secured Notes".

On the Issue Date, the Senior Secured Trustee for the Holders will accede to the Intercreditor Agreement (as defined in "—Certain Definitions—Intercreditor Agreement") governing the enforcement of security interests in the Collateral. This agreement is governed by English law and provides that the Security Administrator (as defined in the Intercreditor Agreement) has the exclusive authority to direct and instruct the SPV Guarantor as to the enforcement of the security interests in the Collateral and as to the release of any security interests in the Collateral. On the Issue Date, the Senior Secured Trustee for the Holders will also accede to the Subordination Agreement (as defined in "—Certain Definitions—Subordination Agreement"), the terms of which are substantially similar to those of the Intercreditor Agreement, in respect of the subordination of intercompany debt. This agreement is governed by South African law.

Recourse against the SPV Guarantor will be limited to the proceeds from enforcement of the Collateral and the SPV Counter-Indemnities.

The SPV Guarantee and the SPV Counter-Indemnities will each be governed by South African law.

***Security Documents***

To grant the security interests in the Collateral, the SPV Indemnifiers have entered into the following documents (the "Security Documents") collectively:

(a) Covering Mortgage Bonds will hypothecate certain specified immovable property and owned by the SPV Indemnifiers identified as owning immovable property in favor of the SPV Guarantor;

(b) A deed of security will hypothecate specified incorporeal assets of SPV Indemnifiers identified as owning same in favour of the SPV Guarantor;

(c) A Pledge and Cession in Security will pledge all of the ordinary shares of the Issuer and all of the ordinary shares of the Restricted Subsidiaries owned directly or indirectly by the Issuer or HoldCo in favor of the SPV Guarantor;

(d) A Pledge and Cession in Security will pledge to the SPV Guarantor certain intangibles of the SPV Indemnifiers, including bank accounts, certain agreements, trade receivables, insurance proceeds, indebtedness owing and trademarks to the extent such assets are assignable (many of the agreements of the SPV Indemnifiers may prohibit assignment entirely or require the consent of the counterparty in order to grant a security interest); and

(e) General Notarial Bonds will hypothecate all other movable assets of the SPV Indemnifiers identified as owning movable assets in favor of the SPV Guarantor.

The Security Documents relating to the Collateral will be governed by South African law, and the creation, perfection, validity and enforceability of the security interests that are the subject of such Security Documents will be governed by South African law. For a description of certain of the risks relating to the enforceability of the security interests granted under the Security Documents, see "Risk Factors—Risks related to the Notes—Fraudulent conveyance statutes under South African law may limit your rights as a holder of the Notes to enforce the security provided by the Senior Secured Guarantors and/or the Senior Subordinated Guarantors".

***Release of security***

All of the Security Interests in respect of the Senior Secured Notes and the Guarantees will be released upon the payment in full of all amounts outstanding under the Senior Secured Notes and the Guarantees. Prior to such time, the Security Interests on the Collateral may not be released, other than (i) upon release of a Guarantee (with respect to the Security Interests securing such Guarantee granted by such Guarantor which are not securing a SPV Counter-Indemnity), (ii) in connection with any disposition of Collateral to any Person other than HoldCo or any of its Restricted Subsidiaries (but excluding any transaction subject to "—Certain Covenants—Merger, Consolidation, or Sale of All or Substantially All Assets") that is permitted by the Indenture or (iii) upon release of a SPV Counter-Indemnity (with respect to the Security Interests securing such SPV Counter-Indemnity). See "—Release of a Guarantor's Guarantee" and "Description of Certain Other Indebtedness—Intercreditor Agreement".

***Security Arrangement Agreement***

A security arrangement agreement has been entered into for the appointment of a Security Administrator to have exclusive authority to direct enforcement of the Security Interests and the SPV Guarantee through the SPV Guarantor as contemplated in "—SPV Guarantor" above, subject to direction under the Intercreditor Agreement. See "Description of Certain Other Indebtedness—Intercreditor Agreement".

***Other***

Subject to the terms of the Security Documents, the SPV Indemnifiers will have the right to remain in possession and retain exclusive control of the Collateral, to collect, invest and dispose of any income therefrom, and to vote pledged shares upon the occurrence of an enforcement action being undertaken by the SPV Guarantor.

No appraisals of any of the Collateral have been prepared by or on behalf of the Issuer or the Guarantors in connection with the issuance of the Senior Secured Notes and the Guarantees. There can be no assurance that the proceeds from the sale of the Collateral would be sufficient to satisfy the obligations owed to the Holders. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. In addition, certain of the security may be subject to waiting periods depending upon when the Security Interest is perfected. Accordingly, there can be no assurance that the Collateral will be able to be sold in a short period of time, if at all. See "Risk Factors—Risks related to the Notes—The insolvency laws of the Republic of South Africa may not be as favourable to you as the insolvency laws of other jurisdictions with which you may be familiar".

**Principal, Maturity and Interest**

The Senior Secured Notes will mature on 1 March 2018 unless redeemed prior thereto as described herein. The Issuer will issue €317,000,000 million in aggregate principal amount of EUR Senior Secured Notes and U.S. $250,000,000 in aggregate principal amount of USD Senior Secured Notes. Subject to the covenant described under "—Certain Covenants—Limitations on Incurrence of Indebtedness and Issuance of Preference Shares", the Issuer will be permitted to issue additional Senior Secured Notes ("Additional Senior Secured Notes") under the Indenture from time to time, *provided* that if any Additional Senior Secured Notes are not fungible with the relevant series of Senior Secured Notes for U.S. federal income tax purposes, such Additional Senior Secured Notes will have a separate CUSIP number or Common Code and ISIN number, as applicable, from the relevant series of Senior Secured Notes. The Senior Secured Notes and any Additional Senior Secured Notes that are issued will be treated as a single class for all purposes of the Indenture, including those with respect to waivers, amendments, redemptions and offers to purchase. Unless the context otherwise requires, references to the "Senior Secured Notes" for all purposes of the Indenture and in this "Description of the Senior Secured Notes" include references to any Additional Senior Secured Notes that are issued.

Interest on the EUR Senior Secured Notes will accrue at a rate (the "EUR Interest Rate") of 9.5% per annum. Interest on the USD Senior Secured Notes will accrue at a rate (the "USD Interest Rate") of 9.5% per annum. Interest on the Senior Secured Notes will be payable in cash, semi-annually in arrears on every 15 March and 15 September, beginning 15 September 2011 to the holders of record on the 1 March or 1 September immediately preceding the next interest payment date. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

The rights of holders of beneficial interests in the EUR Senior Secured Notes and the USD Senior Secured Notes to receive payments of interest on such Senior Secured Notes are subject to applicable procedures of Euroclear, Clearstream Banking and/or DTC, as applicable. If the due date for any payment in respect of any Senior Secured Note is not a Business Day at the place at which such payment is due to be paid, the Holder thereof will not be entitled to payment on the amount due until the next succeeding Business Day at such place, and will not be entitled to any further interest or other payment as a result of any such delay.

**Form of Senior Secured Notes**

The Senior Secured Notes will be issued on the date of the Indenture only in fully registered form without coupons and only in denominations of €100,000 and any integral multiple of €1,000 in excess thereof, in the case of any EUR Senior Secured Notes, and U.S. $150,000 and any integral multiples of U.S. $1,000 in excess thereof, in the case of any USD Senior Secured Notes.

The Senior Secured Notes will be initially in the form of one or more global notes (the "Global Senior Secured Notes"). The Global Senior Secured Notes will be deposited with, and registered in the name of, a common depositary for Euroclear and Clearstream Banking or a nominee of such common depositary, in the case of the EUR Senior Secured Notes, and the custodian for The Depository Trust Company ("DTC"), in the case of the USD Senior Secured Notes. Ownership of interests in the Global Senior Secured Notes, referred to in this description as "book-entry interests", will be limited to persons that have accounts with Euroclear, Clearstream Banking or DTC (as applicable) or their respective participants. The terms of the Indenture will provide for the issuance of definitive registered Senior Secured Notes in certain circumstances. See "Description of Book-Entry System".

**Transfer**

The Senior Secured Notes will be subject to certain restrictions on transfer and certification requirements, as described under "Notice to U.S. Investors" and "Notice to non-U.S. Investors".

All transfers of book-entry interests between participants in Euroclear, Clearstream Banking or DTC will be effected by Euroclear, Clearstream Banking or DTC pursuant to customary procedures and subject to applicable rules and procedures established by Euroclear, Clearstream Banking or DTC and their respective participants. See "Description of Book-Entry System". In addition, the Indenture will provide for the transfer of the Senior Secured Notes by the Irish Transfer Agent so long as the Senior Secured Notes are listed on the Global Exchange Market of the Irish Stock Exchange and the rules of the Irish Stock Exchange so require.

**Payments on the Senior Secured Notes; Paying Agent**

The Issuer will make all payments, including principal of, premium, if any, and interest on the Senior Secured Notes, at its office or through an agent in London, England that it will maintain for these purposes (such paying agent being the principal paying agent). Initially, that agent will be the corporate trust office of the Senior Secured Trustee. The Issuer will also maintain one or more paying agents (each, a "U.S. Paying Agent") for the USD Senior Secured Notes in the Borough of Manhattan in the City of New York. In addition, so long as the Senior Secured Notes are listed on the Global Exchange Market of the Irish Stock Exchange, the Issuer may also make such payments at the offices of the paying agent in Ireland. The Bank of New York Mellon (Ireland) Limited will act as paying agent in Ireland. The Issuer may change the paying agent without prior notice to the Holders. In addition, the Issuer or any of its Subsidiaries may act as paying agent in connection with the Senior Secured Notes other than for the purposes of effecting a redemption described under "—Optional Redemption" or an offer to purchase the Senior Secured Notes described under either of "—Purchase of Senior Secured Notes upon a Change of Control" and "—Limitations on Asset Sales". The Issuer will make all payments in same-day funds. Payments on the Global EUR Senior Secured Notes will be made to the common depositary as the registered Holder of the Global EUR Senior Secured Notes and payments on the Global USD Senior Secured Notes will be made to the custodian as the registered Holder of the USD Senior Secured Notes.

The Issuer undertakes that it will maintain a paying agent in an EU Member State that is not obliged to withhold or deduct tax pursuant to the European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive.

No service charge will be made for any registration of transfer, exchange or redemption of the Senior Secured Notes, but the Issuer may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection with any such registration of transfer or exchange.

**Additional Amounts**

All payments made by the Issuer and any Guarantor under or with respect to the Senior Secured Notes and any Guarantee will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any jurisdiction in which the Issuer or any Guarantor is organized, engaged in business, resident for tax purposes or generally subject to tax on a net income basis or from or through which payment on the Senior Secured Notes is made by the Issuer, any Guarantor, a Successor Company or any Paying Agent in its capacity as such or any political subdivision or authority thereof or therein having the power to tax (each, a "Relevant Taxing Jurisdiction") and any interest, penalties and other liabilities with respect thereto (collectively, "Taxes"), unless the Issuer or any Guarantor, as the case may be, is required to so withhold or deduct such Taxes by law or by the relevant taxing authority's interpretation or administration thereof. In the event that the Issuer or any Guarantor is required to so withhold or deduct any amount for or on account of any such Taxes from any payment made under or with respect to the Senior Secured Notes or such Guarantee, as the case may be, the Issuer or such Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") as may be necessary so that the net amount (including Additional Amounts) received by each holder or beneficial owner of the Senior Secured Notes after such withholding or deduction will equal the amount that such holder or beneficial owner would have received if such Taxes had not been required to be withheld or deducted.

Notwithstanding the foregoing, each of the Issuer and the Guarantors will pay no Additional Amounts to a holder or beneficial owner of any Senior Secured Note to the extent that the Taxes are imposed or levied:

(1) by a Relevant Taxing Jurisdiction by reason of the holder's or beneficial owner's presence in, or former connection with, such Relevant Taxing Jurisdiction other than the mere receipt or holding of any Senior Secured Note or by reason of the receipt of payments thereunder or the exercise or enforcement of rights under such Senior Secured Note or the Indenture (such as citizenship, nationality, residence, domicile, or existence of a business, a permanent establishment, a dependent agent, a place of business or a place of management present or deemed present within the Relevant Taxing Jurisdiction); or

(2) by reason of the failure of the holder or beneficial owner of any Senior Secured Note, prior to the relevant date on which a payment under and with respect to the Senior Secured Notes is due and payable (the "Relevant Payment Date") to comply with the Issuer's written request addressed to the holder or beneficial owner at least 30 calendar days prior to the Relevant Payment Date to provide accurate information with respect to any certification, identification, information or other reporting requirements concerning nationality, residence, identity or connection with the Relevant Taxing Jurisdiction which the holder or such beneficial owner is legally required to satisfy, whether imposed by statute, treaty, regulation or administrative practice, in each such case by the Relevant Taxing Jurisdiction, as a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by the Relevant Taxing Jurisdiction (including, without limitation, a certification that the holder or beneficial owner is not resident in the Relevant Taxing Jurisdiction).

The Issuer's and the Guarantors' obligation to pay Additional Amounts or to reimburse a holder for Taxes paid by such holder in respect of Taxes will not apply with respect to:

(1) any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;

(2) any Tax that is payable otherwise than by deduction or withholding from payments made under or with respect to any Senior Secured Note;

(3) Taxes imposed on or with respect to any payment by the Issuer or the Guarantors to the holder if such holder is a fiduciary or partnership or person other than the sole beneficial owner of such payment to the extent that Taxes would not have been imposed on such holder had such holder been the sole beneficial owner of any Senior Secured Note;

(4) any Tax which would not have been so imposed but for the presentation by the holder or beneficial owner of a Senior Secured Note for payment on a date more than 30 days after the date on which such payment becomes due and payable or the date on which payment thereof is duly provided for, whichever occurs later, except to the extent that the holder or beneficial

owner would have been entitled to such Additional Amounts on presenting the same for payment on any day (including the last day) within such 30-day period;

(5) any withholding or deduction in respect of any Taxes where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Council Directive 2003/48/EC or any Directive otherwise implementing the conclusions of the ECOFIN Council meetings of 26 and 27 November 2000 or any law implementing or complying with, or introduced in order to conform to, any such Directive; or

(6) any Tax that is imposed on or with respect to a payment made to a holder or beneficial owner who would have been able to avoid such withholding or deduction by requesting that a payment on the Senior Secured Note be made by, or presenting a Senior Secured Note for a payment to, another paying agent in a Member State of the European Union.

In addition, Additional Amounts will not be payable with respect to any Taxes that are imposed in respect of any combination of the above items.

The Issuer and each Guarantor, as applicable, will also make such withholding or deduction of Taxes and remit the full amount of Taxes so deducted or withheld to the relevant taxing authority in accordance with all applicable laws. The Issuer and each Guarantor, as applicable, will use their reasonable best efforts to obtain certified copies of tax receipts evidencing the payment of any Taxes so deducted or withheld from each taxing authority imposing such Taxes. The Issuer or such Guarantor, as the case may be, will, upon request, make available to the holders, within 30 days after the date on which the payment of any Taxes so deducted or withheld is due pursuant to applicable law, certified copies of tax receipts evidencing such payment by the Issuer or such Guarantor or if, notwithstanding the Issuer's or such Guarantor's efforts to obtain such receipts, the same are not obtainable, other evidence of such payment by the Issuer or such Guarantor.

At least 30 days prior to each date on which any payment under or with respect to the Senior Secured Notes is due and payable, if the Issuer or any Guarantor will be obligated to pay Additional Amounts with respect to such payment, the Issuer or such Guarantor will deliver to the Senior Secured Trustee an Officers' Certificate stating that such Additional Amounts will be payable and the amounts so payable and setting forth such other information as is necessary to enable Senior Secured Trustee, or the Paying Agent to pay such Additional Amounts to the holders on the payment date. The Senior Secured Trustee shall be entitled to rely solely on such Officers' Certificate as conclusive evidence that such payments are necessary.

In addition, the Issuer or any Guarantor, as the case may be, will pay (i) any present or future stamp, issue, registration, documentation, court, excise or property taxes or other similar taxes, charges and duties, including interest, penalties and Additional Amounts with respect thereto, imposed by any Relevant Taxing Jurisdiction in respect of the execution, issue, delivery, registration, redemption or retirement of, or receipt of payments with respect to, the Senior Secured Notes or any other document or instrument referred to thereunder and (ii) any such taxes, charges or duties imposed by any jurisdiction as a result of, or in connection with, the enforcement of the Senior Secured Notes or any other such document or instrument following the occurrence of any Event of Default with respect to the Senior Secured Notes.

The foregoing provisions will survive any termination, defeasance or discharge of the Indenture and will apply mutatis mutandis to any Surviving Entity or successor person to the Issuer or any Guarantor and to any jurisdiction in which any such Surviving Entity or successor person to the Issuer or any Guarantor, as the case may be, is organized, engaged in business, resident for tax purposes or otherwise subject to taxation on a net income basis or any political subdivisions or taxing authority or agency thereof or therein.

Whenever in the Indenture or this "Description of the Senior Secured Notes" there is mentioned, in any context, the payment of principal (and premiums, if any), redemption price, interest or any other amount payable under or with respect to any Senior Secured Note, such mention will be deemed to include mention of the payment of Additional Amounts to the extent that in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to this "Description of the Senior Secured Notes".

**Currency Indemnity**

Euro and U.S. dollar are the sole currencies of account and payment for all sums payable under the Senior Secured Notes and the Indenture. Any amount received or recovered in respect of the Senior Secured Notes in a currency other than euro, in the case of EUR Senior Secured Notes, or U.S. dollar, in the case of USD Senior Secured Notes (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding up or dissolution of the Issuer, any Subsidiary or otherwise) by the Senior Secured Trustee or a Holder in respect of any sum expressed to be due to the Senior Secured Trustee or such Holder from the Issuer will constitute a discharge of such obligation only to the extent of the euro amount or U.S. dollar amount (as applicable) which the recipient is able to purchase with the amount so received or recovered in such other currency on the date of that receipt or recovery (or, if it is not possible to purchase euro or U.S. dollar, as applicable, on that date, on the first date on which it is possible to do so). If the euro amount or the U.S. dollar amount (as applicable) that could be recovered following such a purchase is less than the euro amount or the U.S. dollar amount (as applicable) expressed to be due to the recipient under any Senior Secured Note, the Issuer will indemnify the recipient against the cost of the recipient's making a further purchase of euro or U.S. dollar (as applicable) in an amount equal to such difference. For the purposes of this paragraph, it will be sufficient for the Senior Secured Trustee or the Holder to certify that it would have suffered a loss had the actual purchase of euro or U.S. dollar (as applicable) been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of euro or U.S. dollar (as applicable) on that date had not been possible, on the first date on which it would have been possible). These indemnities, to the extent permitted by law:

(a) constitute a separate and independent obligation from the Issuer's other obligations;

(b) give rise to a separate and independent cause of action;

(c) apply irrespective of any waiver granted by any Holder; and

(d) will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Senior Secured Note or any other judgment or order.

**Repurchase at the Option of Holders for Failure to Refinance the Senior Floating Rate Notes**

In the event that on or prior to 15 March 2015, any Senior Floating Rate Notes then outstanding have not been either (i) discharged or defeased in accordance with the Senior Floating Rate Notes Indenture or irrevocably called for redemption and cash deposited with the trustee under the Senior Floating Rate Notes Indenture in an amount required to pay the redemption price for all then outstanding Senior Floating Rate Notes or (ii) amended to extend the date of maturity thereof to no earlier than the date six months after the maturity of the Senior Secured Notes in accordance with the terms of the Senior Floating Rate Notes Indenture, the Issuer will, on the next Business Day following 15 March 2015, send a notice (a "Refinancing Offer") to such effect to the Senior Secured Trustee and the Holders of the Senior Secured Notes. Each Holder will then have the option to require the Issuer to repurchase all or any part (equal to €1,000 or U.S. $1,000 or any integral multiple thereof; *provided* that in no event shall any holder hold less than €100,000 or U.S.$150,000 in principal amount of Senior Secured Notes) of its Senior Secured Notes at a price (expressed as a percentage of the principal amount on the repayment date) of 100%, plus accrued and unpaid interest to the repayment date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date occurring on or prior to the repayment date). Holders must give notice of the exercise of this option within five Business Days of the date of the Issuer's notice and the date of repayment will be the seventh Business Day after the date of the Issuer's notice.

**Optional Redemption**

*Optional Redemption prior to 1 March 2014 upon Equity Offering*. At any time prior to 1 March 2014, upon not less than 30 nor more than 60 days' notice, the Issuer may on any one or more occasions redeem up to 35% of the aggregate principal amount of the Senior Secured Notes at a redemption price equal to 109.500% of their principal amount, in each case, plus accrued and unpaid interest, if any, to the redemption date, with the net proceeds from one or more Equity Offerings. The Issuer may only do this, however, if (a) at least 65% of the aggregate principal amount of Senior Secured Notes that were initially issued would remain outstanding immediately after the proposed redemption; and (b) the redemption occurs within 90 days after the closing of such Equity Offering.

*Optional Redemption prior to 1 March, 2014*. At any time prior to 1 March, 2014, upon not less than 30 nor more than 60 days' notice, the Issuer may redeem the Senior Secured Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Senior Secured Notes redeemed plus the Applicable Redemption Premium as of, and accrued and unpaid interest, if any, to the applicable redemption date.

*Optional Redemption on or after 1 March 2014*. At any time on or after 1 March 2014 upon not less than 30 nor more than 60 days' notice, the Issuer may redeem all or part of the Senior Secured Notes. These redemptions will be in amounts of €1,000 or U.S. $1,000, as the case may be, or integral multiples in excess thereof (provided that no partial redemption will reduce the portion of the principal
amount of a Senior Secured Note not redeemed to less than €100,000 or U.S. $150,000, as applicable) at the following redemption prices (expressed as percentages of their principal amount at maturity), plus accrued and unpaid interest and Additional Amounts, if any, to the redemption date, if redeemed during the 12-month period commencing on 1 March of the years set forth below.

| Year | Redemption Price of the EUR Senior Secured Notes |
|---|---|
| 2014 | 104.750% |
| 2015 | 102.375% |
| 2016 and thereafter | 100.000% |

| Year | Redemption Price of the USD Senior Secured Notes |
|---|---|
| 2014 | 104.750% |
| 2015 | 102.375% |
| 2016 and thereafter | 100.000% |

Any redemption or notice of any redemption may, at the Issuer's discretion, be subject to one or more conditions precedent, including, but not limited to, completion of an Equity Offering, other offering or other corporate transaction or event. Notice of any redemption in respect of an Equity Offering may be given prior to the completion thereof.

**Redemption Upon Changes in Withholding Taxes**

The Issuer may, at its option, redeem the Senior Secured Notes, in whole but not in part, at any time upon giving not less than 15 nor more than 60 days' notice to the holders (which notice will be irrevocable and given in accordance with the procedures described in "—Notices"), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest thereon, if any, to the redemption date, premium, if any, and all Additional Amounts, if any, then due and which will become due on the date of redemption as a result of the redemption or otherwise, if the Issuer determines in good faith that the Issuer, any Guarantor or any Surviving Entity is or, on the next date on which any amount would be payable in respect of the Senior Secured Notes, would be obligated to pay Additional Amounts (as defined above under "—Additional Amounts") or to pay any amounts as a result of the application of the Secondary Tax on Companies, in respect of the Senior Secured Notes pursuant to the terms and conditions thereof (but, in the case of the relevant Guarantor, only if such amount cannot be paid by the Issuer or another Guarantor who can pay such amount without the obligation to pay Additional Amounts), which the Issuer, Guarantors or Surviving Entity, as the case may be, cannot avoid by the use of reasonable measures available to it (including making payment through a paying agent located in another jurisdiction), as a result of:

(a) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of any Relevant Taxing Jurisdiction (as defined above under "—Additional Amounts") affecting taxation which becomes effective on or after the date of the Indenture or, if the Relevant Taxing Jurisdiction has changed since the date of the Indenture, the date on which the then current Relevant Taxing Jurisdiction became the Relevant Taxing Jurisdiction under the Indenture (or, in the case of a successor person, after the date of assumption by the successor person of the Issuer's obligations hereunder); or

(b) any change in the official application, administration, or interpretation of the laws, regulations or rulings of any Relevant Taxing Jurisdiction (including a holding, judgment or order by a court of competent jurisdiction) or the application of the Secondary Tax on Companies to payments under the Senior Secured Notes, on or after the date of the Indenture or, if the Relevant Taxing Jurisdiction has changed since the date of the Indenture, the date on which the then current Relevant Taxing Jurisdiction became the Relevant Taxing Jurisdiction under the Indenture (or, in the case of a successor person, after the date of assumption by the successor person of the Issuer's obligations hereunder) (each of the foregoing clauses (a) and (b), a "Change in Tax Law").

Notwithstanding the foregoing, the Issuer may not redeem the Senior Secured Notes under this provision (a) if the Relevant Taxing Jurisdiction changes under the Indenture and the Issuer is obligated to pay Additional Amounts as a result of a Change in Tax Law of the then current Relevant Taxing Jurisdiction which, at the time the latter became the Relevant Taxing Jurisdiction under the Indenture, was publicly announced as being or having been formally proposed, or (b) if Additional Amounts were to become due as a result of the enactment of any legislation or the adoption of any regulation in the Republic of South Africa requiring the Issuer, any Guarantor or any Surviving Entity to make any withholding on any amount due with respect to the Senior Secured Notes, which the Issuer, such Guarantor or such Surviving Entity could avoid by having the Senior Secured Notes listed on an exchange established in any Member State of the European Union.

In the case of a Guarantor that becomes a party to the Indenture after the Issue Date or a successor person, the Change in Tax Law must become effective after the date that such entity (or another person organized or resident in the same jurisdiction) first makes a payment on the Senior Secured Notes. In the case of Additional Amounts required to be paid as a result of an Issuer conducting business in an Additional Taxing Jurisdiction (as defined above), the Change in Tax Law must become effective after the date the Issuer begins to conduct the business giving rise to the relevant withholding or deduction.

Notwithstanding the foregoing, no such notice of redemption will be given (a) earlier than 90 days prior to the earliest date on which the Issuer, Guarantors or any Surviving Entity would be obliged to make such payment of Additional Amounts or withholding if a payment in respect of the Senior Secured Notes or Guarantee, as the case may be, were then due and (b) unless at the time such notice is given, the obligation to pay Additional Amounts remains in effect.

Prior to the publication or, where relevant, mailing of any notice of redemption pursuant to the foregoing, the Issuer will deliver to the Senior Secured Trustee:

(a) an Officers' Certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to so redeem have occurred (including that such obligation to pay such Additional Amounts cannot be avoided by the Issuer, Guarantors or Surviving Entity taking reasonable measures available to it); and

(b) an opinion of independent tax counsel of recognized standing, qualified under the laws of the Relevant Taxing Jurisdiction and reasonably satisfactory to the Senior Secured Trustee to the effect that the Issuer, Guarantors or any Surviving Entity, as the case may be, is or would be obligated to pay such Additional Amounts as a result of a Change in Tax Law.

The Senior Secured Trustee will accept such Officers' Certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the holders.

The foregoing provisions will apply *mutatis mutandis* to any successor person, after such successor person becomes a party to the Indenture, with respect to a Change in Tax Law occurring after the time such successor person becomes a party to the Indenture.

***Notice of Optional Redemption***

The Issuer will publish a notice of any optional redemption of the Senior Secured Notes described above in accordance with the provisions of the Indenture described under "—Notices". If the Senior

Secured Notes are listed at such time on the Irish Stock Exchange, the Issuer will inform the Irish Stock Exchange of the principal amount of the Senior Secured Notes that have not been redeemed in connection with any optional redemption. If fewer than all the Senior Secured Notes are to be redeemed at any time, the Senior Secured Trustee will select the Senior Secured Notes by a method that complies with the requirements, as certified to the Senior Secured Trustee by the Issuer, of the principal securities exchange, if any, on which the Senior Secured Notes are listed at such time or, if the Senior Secured Notes are not listed on a securities exchange, pro rata, by lot or by such other method as the Senior Secured Trustee in its sole discretion will deem fair and appropriate; provided that no such partial redemption will reduce the portion of the principal amount of a Senior Secured Note not redeemed to less than €100,000 or U.S.$150,000, as applicable. The Senior Secured Trustee will not be liable for selections made by it in accordance with this paragraph.

**Mandatory Redemption; Offers to Purchase; Open Market Purchases**

The Issuer is not required to make any mandatory redemption or sinking fund payments with respect to the Senior Secured Notes. However, under certain circumstances, the Issuer may be required to offer to purchase the Senior Secured Notes as described under the captions "—Repurchase at the Option of Holders for Failure to Refinance the Senior Floating Rate Notes", "—Purchase of Senior Secured Notes upon a Change of Control" and "—Limitations on Asset Sales". The Issuer may at any time and from time to time purchase Senior Secured Notes in the open market or otherwise.

**Reports to Holders**

(a) So long as any Senior Secured Notes are outstanding, HoldCo will furnish to the Senior Secured Trustee (who, at HoldCo's expense, will furnish by mail to Holders):

(1) within 120 days after the end of HoldCo's fiscal year, annual reports containing the following information with a level of detail that is substantially comparable to this Offering Memorandum: (a) audited consolidated balance sheets of HoldCo or its predecessors as of the end of the two most recent fiscal years and audited consolidated income statements and statements of cash flow of HoldCo or its predecessors for the three most recent fiscal years, including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; (b) *pro forma* income statement and balance sheet information of HoldCo, together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal year, unless *pro forma* information has been provided in a previous report pursuant to paragraph (2)(b) below (*provided that* such *pro forma* financial information will be provided only to the extent available without unreasonable expense, in which case HoldCo will provide, in the case of a material acquisition, acquired company financials to the extent available); (c) an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition and liquidity and capital resources, and a discussion of material commitments and contingencies and critical accounting policies; (d) a description of the business, management and shareholders of HoldCo, all material affiliate transactions and a description of all material contractual arrangements, including material debt instruments (unless such contractual arrangements were described in a previous annual or quarterly report, in which case HoldCo need describe only any material changes); and (e) material risk factors relating to the business of HoldCo and material recent developments;

(2) within 60 days following the end of each of the first three fiscal quarters in each fiscal year of HoldCo, quarterly reports containing the following information: (a) an unaudited condensed consolidated balance sheet of HoldCo as of the end of such quarter and unaudited condensed consolidated statements of income and cash flow of HoldCo for the quarterly and year to date periods ending on the unaudited condensed consolidated balance sheet date, and the comparable prior year periods, together with condensed footnote disclosure or such lesser financial information that would be allowed in a report on Form 10-Q; (b) *pro forma* income statement and balance sheet information of HoldCo, together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed

fiscal quarter (provided that such *pro forma* financial information will be provided only to the extent available without unreasonable expense, in which case, HoldCo will provide, in the case of a material acquisition, acquired company financials to the extent available); (c) an operating and financial review of the unaudited financial statements, including a discussion of the results of operations, financial condition and liquidity and capital resources, and a discussion of changes in material commitments and contingencies and changes in critical accounting policies; and (d) material recent developments and any material changes to the risk factors disclosed in the most recent annual report; and

(3) promptly after the occurrence of any material acquisition, disposition or restructuring or any senior executive changes at HoldCo, or change in auditors of HoldCo or any other material event that HoldCo or any of its Restricted Subsidiaries announces publicly, a report containing a description of such event.

All financial statements and *pro forma* financial information will be prepared in accordance with GAAP as in effect on the date of such report or financial statement (or otherwise on the basis of GAAP as then in effect) and on a consistent basis for the periods presented; provided, however, that the reports set forth in clauses (1), (2) and (3) above may, in the event of a change in applicable GAAP, present earlier periods on a basis that applied to such periods. Except as provided for below, no report need include separate financial statements for any Subsidiaries of HoldCo.

At any time that any of HoldCo's Subsidiaries are Unrestricted Subsidiaries and any such Unrestricted Subsidiary or group of Unrestricted Subsidiaries, if taken together as one Subsidiary, constitutes a Significant Subsidiary of HoldCo, then the annual and quarterly financial information required by the first two clauses of this covenant will include either (i) a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of HoldCo and its Restricted Subsidiaries separate from the financial condition and results of operations of its Unrestricted Subsidiaries of HoldCo or (ii) stand-alone audited financial statements, as the case may be, of such Unrestricted Subsidiary or Unrestricted Subsidiaries (as a group or otherwise) together with an unaudited reconciliation to the financial information of HoldCo and its Subsidiaries, which reconciliation will include the following items: revenue, net income, cash, total assets, total debt, shareholders equity, capital expenditures and interest expense.

Substantially concurrently with the issuance to the Senior Secured Trustee of the reports specified in (1), (2) and (3) above, HoldCo will also (A) use its commercially reasonable efforts (x) to post copies of such reports on such website as may be then maintained by HoldCo and its Subsidiaries or (y) otherwise to provide substantially comparable public availability of such reports (as determined by HoldCo in good faith) or (B) to the extent HoldCo determines in good faith that it cannot make such reports available in the manner described in the preceding clause (A) owing to applicable law or after the use of its commercially reasonable efforts, furnish such reports to the Holders and, upon their request, prospective purchasers of the Senior Secured Notes.

So long as the Senior Secured Notes remain outstanding and during any period which is not subject to Section 13 or 15(d) of the Exchange Act nor exempt therefrom pursuant to Rule 12g3-2(b), HoldCo will furnish to the Holders and, upon their request, prospective purchasers of the Senior Secured Notes, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

**Limitations on Asset Sales**

(a) HoldCo will not, and will not permit the Issuer or any other Restricted Subsidiary to, consummate an Asset Sale, unless:

(1) HoldCo or such Restricted Subsidiary, as the case may be, receives consideration at the time of such Asset Sale at least equal to the fair market value of the assets sold or otherwise disposed of;

(2) in the case of Asset Sales involving consideration in excess of €10.0 million, the fair market value is determined in good faith by HoldCo's Board of Directors; and

(3) at least 75% of the consideration therefore received by HoldCo or such Restricted Subsidiary, as the case may be, is in the form of cash or Cash Equivalents;

For the purposes of clause (3) above, the amount of (A) any liabilities (as shown on HoldCo's or the applicable Restricted Subsidiary's most recent balance sheet or in the notes thereto) of HoldCo or any Restricted Subsidiary (other than liabilities that are by their terms subordinated to the Senior Secured Notes, the Guarantees and the SPV Counter-Indemnities) that are assumed by the transferee of any such assets and from which HoldCo and all Restricted Subsidiaries have been validly released by all creditors in writing; (B) any securities or other obligations received by HoldCo or such Restricted Subsidiary from such transferee that are converted by HoldCo or such Restricted Subsidiary into cash or Cash Equivalents (to the extent of the cash or Cash Equivalents received) within 180 days following the closing of such Asset Sale; (C) any Share Capital in a Similar Business that is or will become a Restricted Subsidiary received by HoldCo or such Restricted Subsidiary from such transferee; (D) any Designated Noncash Consideration received by HoldCo or any Restricted Subsidiary in such Asset Sale having an aggregate fair market value (as determined in good faith by the Board of Directors of HoldCo), taken together with all other Designated Noncash Consideration received pursuant to this paragraph) that is at that time outstanding, not to exceed the greater of (x) €50.0 million and (y) an amount equal to 1.75% of Consolidated Total Assets of HoldCo on the date on which such Designated Noncash Consideration is received (with the fair market value of each item of Designated Noncash Consideration being measured at the time received without giving effect to subsequent changes in value), and (E) any assets of the type referred to in clauses (b)(2) or (b)(3) below or used or useful in a Similar Business will be deemed to be cash for purposes of this clause and for no other purpose.

(b) Within 365 days after the receipt of any Net Proceeds from an Asset Sale, HoldCo (or, if applicable, the Restricted Subsidiary) may apply those Net Proceeds at its option:

(1) to repay any Indebtedness of HoldCo that ranks *pari passu* with the Senior Secured Notes or Indebtedness of a Guarantor that ranks senior to or *pari passu* with such Guarantor's Guarantee of the Senior Secured Notes (provided that if HoldCo will so reduce obligations under unsecured Indebtedness that ranks *pari passu* with the Senior Secured Notes or a related Guarantee, it will equally and ratably reduce obligations under the Senior Secured Notes by making an offer (in accordance with the procedures set forth below for an Asset Sale Offer (as defined below) to all Holders to purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest and Additional Amounts, if any, on the pro rata principal amount of the Senior Secured Notes) or Indebtedness of a Restricted Subsidiary that is not a Guarantor;

(2) to (A) make an investment in any one or more businesses; provided that such investment in any business is in the form of the acquisition of Share Capital (or contribution to capital) and results in HoldCo or a Restricted Subsidiary owning an amount of the Share Capital of such business such that such business constitutes a Restricted Subsidiary, (B) make capital expenditures or (C) make an investment in other assets, in each of (A), (B) and (C), used or useful in a Similar Business; and/or

(3) to make an investment in (A) any one or more businesses; provided that such investment in any business is in the form of the acquisition of Share Capital (or contribution to capital) and it results in HoldCo or a Restricted Subsidiary owning an amount of the Share Capital of such business such that such business constitutes a Restricted Subsidiary, (B) properties or (C) assets that, in each of (A), (B) and (C), replace the businesses, properties and assets that are the subject of such Asset Sale.

(c) Any Net Proceeds from an Asset Sale not applied or invested in accordance with the preceding paragraph within 365 days from the date of the receipt of such Net Proceeds will constitute "Excess Proceeds", *provided* that if during such 365-day period HoldCo or a Restricted Subsidiary enters into a definitive binding agreement committing it to apply such Net Proceeds in accordance with the requirements of clause (1), (2), or (3) of the immediately preceding paragraph after such 365th day, such 365-day period will be extended with respect to the amount of Net Proceeds so committed for a period not to exceed 180 days until such Net Proceeds are required to be applied in accordance with such agreement (or, if earlier, until termination of such agreement).

(d) When the aggregate amount of Excess Proceeds exceeds €25.0 million, HoldCo, or the applicable Restricted Subsidiary, will make an offer (an "Asset Sale Offer") to all Holders and

Indebtedness that ranks *pari passu* with such Senior Secured Notes and contains provisions similar to those set forth in the Indenture with respect to offers to purchase with the proceeds from sales of assets to purchase, on a pro rata basis, the maximum principal amount of Senior Secured Notes and such other *pari passu* Indebtedness that may be purchased out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100% of the principal amount thereof, plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase, and will be payable in cash.

(e) Pending the final application of any Net Proceeds, HoldCo, or the applicable Restricted Subsidiary, may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the Indenture.

(f) If any Excess Proceeds remain after consummation of an Asset Sale Offer, HoldCo or the applicable Restricted Subsidiary may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Senior Secured Notes tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, the Senior Secured Trustee will select the Senior Secured Notes to be purchased on a pro rata basis. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

(g) HoldCo, or the applicable Restricted Subsidiary, will comply with securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with each repurchase of Senior Secured Notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Asset Sale provisions of the Indenture, HoldCo, or the applicable Restricted Subsidiary, will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Asset Sale provisions of the Indenture by virtue of such conflict.

**Purchase of Senior Secured Notes upon a Change of Control**

If a Change of Control occurs, unless the Issuer at such time has given notice of redemption under "Optional Redemption" with respect to all outstanding Senior Secured Notes, HoldCo will offer (a "Change of Control Offer") to repurchase all or any part (equal to €1,000 or U.S. $1,000, as applicable, or an integral multiple in excess thereof) of that Holder's Senior Secured Notes on the terms set forth in the Indenture. In the Change of Control Offer, HoldCo will offer a payment (a "Change of Control Payment") in cash equal to 101% of the aggregate principal amount of Senior Secured Notes repurchased plus accrued and unpaid interest and Additional Amounts, if any, on the Senior Secured Notes repurchased, to the date of purchase (the "Change of Control Purchase Price"). Within 30 days following any Change of Control, unless HoldCo at such time has given notice of redemption under "—Optional Redemption" with respect to all outstanding Senior Secured Notes, HoldCo will mail a notice as set forth in the Indenture to each Holder offering to repurchase Senior Secured Notes on the date of such Change of Control Payment specified in the notice (the "Change of Control Payment Date"), which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the Indenture and described in such notice.

Within 30 days following any Change of Control, HoldCo will:

(1) cause a notice of the Change of Control Offer to be published for so long as the Senior Secured Notes are listed on the Global Exchange Market of the Irish Stock Exchange and the rules and regulations of the Irish Stock Exchange so require, in *The Irish Times*, or if *The Irish Times* does not then operate, any leading newspaper having a general circulation in Ireland;

(2) give notice of the Change of Control Offer to the Companies Announcement Office in Dublin for so long as the Senior Secured Notes are listed on the Global Exchange Market of the Irish Stock Exchange and the rules and regulations of the Irish Stock Exchange so require; and

(3) send notice of the Change of Control Offer by first-class mail, with a copy to the Senior Secured Trustee, to each Holder at the address of such Holder appearing in the Security Register, stating:

(A) that a Change of Control has occurred and the date it occurred;

(B) the circumstances and relevant facts regarding such Change of Control (including, but not limited to, information with respect to pro forma historical income, cash flow and capitalization after giving effect to such Change of Control);

(C) the Change of Control Purchase Price and the Change of Control Payment Date;

(D) that any Senior Secured Note accepted for payment pursuant to the Change of Control Offer will cease to accrue interest after the Change of Control Payment Date unless the Issuer fails to pay the Change of Control Purchase Price;

(E) that any Senior Secured Note (or portion thereof) not tendered will continue to accrue interest; and

(F) such other procedures that a Holder is required to follow to accept a Change of Control Offer or to withdraw such acceptance as determined by the Issuer, so long as such procedures are consistent with the terms of the Indenture.

HoldCo will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the Senior Secured Notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the Indenture, HoldCo will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the Indenture by virtue of such conflict.

On the date of such Change of Control Payment, HoldCo will, to the extent lawful:

(1) accept for payment all Senior Secured Notes or portions of Senior Secured Notes properly tendered pursuant to the Change of Control Offer;

(2) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Senior Secured Notes or portions of Senior Secured Notes properly tendered; and

(3) deliver or cause to be delivered to the Senior Secured Trustee the Senior Secured Notes properly accepted together with an Officers' Certificate stating the aggregate principal amount of Senior Secured Notes or portions of Senior Secured Notes being purchased by HoldCo.

The Paying Agent will promptly mail to each Holder of Senior Secured Notes properly tendered the Change of Control Payment for such Senior Secured Notes, and the Senior Secured Trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each Holder a new Senior Secured Note equal in principal amount to any unpurchased portion of the Senior Secured Notes surrendered, if any; provided that each new Senior Secured Note will be in a minimum principal amount of €100,000 or U.S. $150,000 (as applicable) or an integral multiple of €1,000 or U.S. $1,000 (as applicable) in excess thereof. HoldCo will publicly announce the results of the Change of Control Offer on or as soon as practicable after the date of such Change of Control Payment.

HoldCo will not be required to make a Change of Control Offer upon a Change of Control if (i) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by HoldCo and purchases all Senior Secured Notes properly tendered and not withdrawn under the Change of Control Offer or (ii) a notice of redemption has been given pursuant to "—Optional Redemption" of this Description of the Senior Secured Notes unless and until there is a default in the payment of the applicable redemption price. A Change of Control Offer may be made in advance of a Change of Control or conditional upon the occurrence of a Change of Control, if a definitive agreement is in place for the Change of Control at the time the Change of Control Offer is made.

The provisions described above that require HoldCo to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders to require that HoldCo repurchase or redeem the Senior Secured Notes in the event of a takeover, recapitalization or similar transaction.

The Issuer's future Indebtedness and that of its Subsidiaries may also contain descriptions of certain events that, if they occurred, would require such Indebtedness to be repurchased. In addition, the exercise by the Holders of their right to require a repurchase of the Senior Secured Notes upon a Change of Control could cause a default under any such future Indebtedness, even if the Change of Control itself does not, due to the possible financial effect on the Issuer of such repurchase.

The provisions of the Indenture will not give Holders the right to require the repurchase of the Senior Secured Notes in the event of certain transactions including a reorganization, restructuring, merger or similar transaction, that may adversely affect Holders, if such transaction is not a transaction defined as a Change of Control. Any such transaction, however, must comply with the applicable provisions of the Indenture, including those described under "—Certain Covenants—Limitations on Incurrence of Indebtedness and Issuance of Preference Shares". The existence, however, of a Holder's right to require the Issuer to repurchase such Holder's Senior Secured Notes upon a Change of Control may deter a third party from acquiring the Issuer or any of its Subsidiaries if such acquisition would constitute a Change of Control.

If a Change of Control Offer is made, the Issuer will not be able to provide any assurance that it will have available funds sufficient to pay the Change of Control Purchase Price for all the Senior Secured Notes that might be delivered by Holders seeking to accept the Change of Control Offer. Even if sufficient funds were available, the terms of the other Indebtedness of the Issuer and its Subsidiaries may prohibit the repurchase of the Senior Secured Notes prior to their scheduled maturity. If the Issuer were not able to prepay any Indebtedness containing any such restrictions, or obtain requisite consents, the Issuer would be unable to fulfill its repurchase obligations to Holders who accept the Change of Control Offer. If a Change of Control Offer were not made or consummated or the Change of Control Purchase Price were not paid when due, such failure would result in an Event of Default and would give the Senior Secured Trustee and the Holders the rights described under "—Events of Default".

The definition of "Change of Control" includes a disposition of all or substantially all of the assets of the Issuer and the Restricted Subsidiaries to any Person. Although there is a limited body of case law interpreting the phrase "substantially all", there is no precise established definition of such phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the assets of the Issuer and the Restricted Subsidiaries. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Holder may require the Issuer to make an offer to repurchase the Senior Secured Notes as described above.

**Certain Covenants**

The Indenture will contain, among others, the following covenants:

***Limitations on Restricted Payments***

(a) HoldCo will not, and will not permit the Issuer or any other Restricted Subsidiary to, directly or indirectly:

(1) declare or pay any dividend or make any distribution on account of HoldCo's or any Restricted Subsidiary's Equity Interests, including any dividend or distribution payable in connection with any merger, consolidation, amalgamation or other combination involving HoldCo or any Restricted Subsidiary (other than (x) dividends or distributions by HoldCo payable in Equity Interests (other than Disqualified Share Capital) of HoldCo or in options, warrants or other rights to purchase such Equity Interests (other than Disqualified Share Capital); or (y) dividends or distributions by a Restricted Subsidiary so long as, in the case of any dividend or distribution payable on or in respect of any class or series of securities issued by a Restricted Subsidiary other than a Wholly-Owned Restricted Subsidiary, HoldCo or a Restricted Subsidiary receives at least its *pro rata* share of such dividend or distribution in accordance with its Equity Interests in such class or series of securities);

(2) purchase, redeem or otherwise acquire or retire for value any Equity Interests of HoldCo or any direct or indirect parent entity of HoldCo, including in connection with any merger, consolidation, amalgamation or other combination (in any case, held by Persons other than a Restricted Subsidiary);

(3) make any principal payment on, or redeem, repurchase, defease or otherwise acquire or retire for value, in each case, prior to any scheduled repayment, sinking fund payment or maturity date, any Subordinated Indebtedness, (other than (x) any such payment,

redemption, repurchase, defeasance or other acquisition or retirement in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement and (y) any Indebtedness permitted under paragraph (b)(8) or (9) described under "Limitations on Incurrence of Indebtedness and Issuance of Preference Shares");

(4) make any Restricted Investment; or

(5) pay any interest on any Shareholder Debt (other than by capitalization to principal or through the issuance of additional Shareholder Debt) (all such payments and other actions set forth in these clauses(1) through (5) above being collectively referred to as "Restricted Payments"), unless, at the time of and after giving effect to such Restricted Payment:

(A) no payment Default, Default under "—Certain Covenants" or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment; and

(B) HoldCo would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four quarter period, have been permitted to incur at least €1.00 of additional Indebtedness pursuant to paragraph (b) of the "Limitations on Incurrence of Indebtedness and Issuance of Preference Shares" covenant; and

(C) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by HoldCo and the Restricted Subsidiaries after the FRN Issue Date (excluding Restricted Payments permitted by clauses (2) to (7), (9) and (11) to (19) described under paragraph (b) below), is less than the sum, without duplication, of

(1) 50% of the Consolidated Net Income of HoldCo for the period (taken as one accounting period) from the beginning of the first fiscal quarter in which the FRN Issue Date occurred to the end of HoldCo's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, in the case such Consolidated Net Income for such period is a deficit, minus 100% of such deficit), plus

(2) 100% of the aggregate net cash proceeds and the fair market value, as determined in good faith by the Board of Directors of HoldCo, of property and marketable securities received by HoldCo after the FRN Issue Date from the issue or sale of (x) Equity Interests of HoldCo (other than (i) Designated Preference Shares, (ii) the Cash Contribution Amount, (iii) Excluded Contributions, (iv) Refunding Capital Stock and Disqualified Share Capital and (v) cash proceeds and marketable securities received from the sale of Equity Interests of HoldCo and, to the extent actually contributed to HoldCo, Equity Interests of HoldCo's direct or indirect parent entities to members of management, directors or consultants of HoldCo, any direct or indirect parent entity of HoldCo and its Restricted Subsidiaries after the FRN Issue Date to the extent such amounts have been applied to Restricted Payments made in accordance with the provisions of paragraph (b)(4) of the "Limitations on Restricted Payments" covenant) and, to the extent actually contributed to HoldCo, Equity Interests of HoldCo's direct or indirect parent entities and (y) debt securities of HoldCo issued following the FRN Issue Date that have been converted into such Equity Interests of HoldCo (other than Refunding Capital Stock or Equity Interests or convertible debt securities of HoldCo sold to a Restricted Subsidiary and other than Disqualified Share Capital, Designated Preference Shares or debt securities that have been converted into Disqualified Share Capital or Designated Preference Shares), plus

(3) 100% of the aggregate amount of cash and the fair market value, as determined in good faith by the Board of Directors of HoldCo, of property and marketable securities contributed to the capital of HoldCo following the FRN Issue Date

(other than (i) the Cash Contribution Amount, (ii) by a Restricted Subsidiary, (iii) any Excluded Contributions, (iv) any Refunding Capital Stock, (v) Disqualified Share Capital, (vi) Designated Preference Shares and (vii) cash proceeds applied to Restricted Payments made in accordance with clause (4) of the next succeeding paragraph), plus

(4) 100% of the aggregate amount received in cash and the fair market value, as determined in good faith by the Board of Directors of HoldCo, of property and marketable securities received after the FRN Issue Date by means of (A) the sale or other disposition (other than to HoldCo or a Restricted Subsidiary) of Restricted Investments made by HoldCo or the Restricted Subsidiaries and repurchases and redemptions of such Restricted Investments from HoldCo or the Restricted Subsidiaries and repayments of loans or advances which constitute Restricted Investments by HoldCo or the Restricted Subsidiaries or (B) the sale (other than to HoldCo or a Restricted Subsidiary) of the Share Capital of an Unrestricted Subsidiary or a distribution from an Unrestricted Subsidiary (excluding in each case the amount of the Investment in such Unrestricted Subsidiary that constituted a Permitted Investment or a dividend from an Unrestricted Subsidiary), plus

(5) in the case of the redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary or the merger or consolidation of an Unrestricted Subsidiary into HoldCo or a Restricted Subsidiary or the transfer of assets of an Unrestricted Subsidiary to HoldCo or a Restricted Subsidiary, the fair market value of the Investment in such Unrestricted Subsidiary, as determined by the Board of Directors of HoldCo in good faith at the time of the redesignation of such Unrestricted Subsidiary as a Restricted Subsidiary or at the time of such merger, consolidation or transfer of assets (excluding the amount of the Investment in such Unrestricted Subsidiary that constituted a Permitted Investment).

(b) The foregoing provisions will not prohibit:

(1) the payment of any dividend or other distribution within 60 days after the date of declaration thereof if, at the date of declaration, such payment would have complied with the provisions of the Indenture or the redemption, repurchase or retirement of Indebtedness subordinated or junior in right of payment to the Senior Secured Notes, if at the date of any irrevocable redemption notice such payment would have complied with the provisions of the Indenture;

(2) the redemption, repurchase, retirement or other acquisition of (a) Equity Interests of HoldCo or any direct or indirect parent entity of HoldCo, (b) Subordinated Indebtedness (including payments on Shareholder Debt) or (c) the payment of dividends in exchange for, or out of the net cash proceeds from the substantially concurrent sale (other than to a Restricted Subsidiary) of, Equity Interests of HoldCo, Shareholder Debt or cash contributions to the equity capital of HoldCo (in each case, other than Disqualified Share Capital and the Cash Contribution Amount) ("Refunding Capital Stock");

(3) the redemption, repurchase, retirement or other acquisition of Subordinated Indebtedness made in exchange for, or out of the net cash proceeds from the substantially concurrent sale (other than to a Restricted Subsidiary) of, Indebtedness (the "Subordinated Refinancing Indebtedness") of HoldCo or a Guarantor incurred in compliance with the provisions of the "Limitations on Incurrence of Indebtedness and Issuance of Preference Shares" covenant; so long as (a) such Subordinated Refinancing Indebtedness is subordinated in right of payment to, and subject to the same remedy bars in favor of, the Holders and the SPV Guarantor, as applicable, at least to the same extent as the Indebtedness so redeemed, repurchased, retired or acquired (and the holder of such Indebtedness has acceded to the Intercreditor Agreement or entered into an agreement with HoldCo and the Senior Secured Trustee on substantially equivalent terms as those set forth in the Intercreditor Agreement to give effect to such subordination and remedy bars); (b) such Subordinated Refinancing Indebtedness has a final scheduled maturity date equal to or later than the final scheduled maturity date of the Indebtedness being so redeemed, repurchased, retired or acquired; and (c) such

Subordinated Refinancing Indebtedness has a Weighted Average Life to Maturity equal to or greater than the remaining Weighted Average Life to Maturity of the Indebtedness being so redeemed, repurchased, retired or acquired;

(4) a Restricted Payment made to pay for, or to fund the redemption, repurchase, retirement or other acquisition or retirement for value of, Equity Interests of HoldCo or any direct or indirect parent entity of HoldCo held by or for the benefit of any future, present or former employee, director or consultant of HoldCo, any of its Subsidiaries or any direct or indirect parent entity of HoldCo (or their permitted transferees, assigns, estates or heirs), pursuant to any management equity plan, stock option plan or any other management or employee benefit plan, agreement or arrangement; *provided* that the aggregate amount of Restricted Payments made pursuant to this clause (4) does not exceed in any calendar year €7.5 million (with unused amounts in any calendar year being carried over to succeeding calendar years (and any amounts available in future calendar years being available for preceding calendar years) so long as all such Restricted Payments made pursuant to this clause (4) do not exceed €25.0 million in any calendar year); and provided, further, that such amount in any calendar year may be increased by an amount not to exceed (A) the cash proceeds from the sale of Equity Interests of HoldCo and, to the extent contributed to HoldCo, Equity Interests of any of its direct or indirect parent entities, in each case to members of management, directors or consultants of HoldCo, any of its Restricted Subsidiaries or its direct or indirect parent entities, that occurred after the FRN Issue Date plus (B) the cash proceeds from key man life insurance policies received by HoldCo or its Restricted Subsidiaries, or by any direct or indirect parent entity to the extent contributed to HoldCo, after the FRN Issue Date (provided that HoldCo may elect to apply all or any portion of the aggregate increase contemplated by clauses (A) and (B) above in any calendar year) less (C) the amount of any Restricted Payments previously made pursuant to clauses (A) and (B) of this clause (4);

(5) declaration and payment of dividends to holders of any class or series of Disqualified Share Capital of HoldCo or any Restricted Subsidiary issued in accordance with the provisions of the "Limitations on Incurrence of Indebtedness and Issuance of Preference Shares" covenant to the extent such dividends are included in the definition of Fixed Charges;

(6) the declaration and payment of dividends or distributions to holders of any class or series of Designated Preference Shares (other than Disqualified Share Capital) issued after the FRN Issue Date and the declaration and payment of dividends to any direct or indirect parent entity of HoldCo, the proceeds from which will be used to fund the payment of dividends to holders of any class or series of Designated Preference Shares (other than Disqualified Share Capital) of any direct or indirect parent entity of HoldCo issued after the FRN Issue Date; provided, however, that (A) for the most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date of issuance of such Designated Preference Shares, after giving effect to such issuance on the first day of such period (and the payment of dividends or distributions) on a pro forma basis, HoldCo would have had a Fixed Charge Coverage Ratio of at least 2.00 to 1.00 and (B) the aggregate amount of dividends declared and paid pursuant to this clause (6) does not exceed the net cash proceeds actually received by HoldCo from any such sale of Designated Preference Shares issued after the FRN Issue Date;

(7) repurchases of Equity Interests deemed to occur upon exercise of options or warrants if such Equity Interests represent a portion of the exercise price of such options or warrants;

(8) the payment of dividends on HoldCo's Share Capital (or the payment of dividends to any direct or indirect parent entity to fund a payment of dividends on such entity's Share Capital) following the first public offering of HoldCo's Share Capital or the share capital of any of its direct or indirect parent entities after the FRN Issue Date, of up to 6.0% per annum of the net cash proceeds received by or contributed to HoldCo after the FRN Issue Date in any such public offering, other than public offerings with respect to Share Capital registered on Form S-4 and Form S-8 and other than any public sale constituting an Excluded Contribution;

(9) Investments that are made with Excluded Contributions;

(10) other Restricted Payments in an aggregate amount not to exceed €50.0 million;

(11) distributions or payment of Securitization Fees and purchases of Securitization Assets pursuant to a Securitization Repurchase Obligation in connection with a Qualified Securitization Financing;

(12) the repurchase, redemption or other acquisition or retirement for value of any Subordinated Indebtedness or Disqualified Share Capital pursuant to provisions similar to those described under "—Limitations on Asset Sales" and "Change of Control"; or the making of a dividend or distribution to any direct or indirect parent entity of HoldCo to fund a similar purchase, redemption or other acquisition or retirement for value; *provided* that a Change of Control Offer or Asset Sale Offer, as applicable, has been made and all Senior Secured Notes tendered by Holders of the Senior Secured Notes in connection with the related Change of Control Offer or Asset Sale Offer, as applicable, have been repurchased, redeemed or acquired for value;

(13) the declaration and payment of dividends or other distributions to, or the making of loans to, any direct or indirect parent entity of HoldCo in amounts and at times required for such Person to pay, without duplication:

(A) franchise taxes and other duties or similar fees, taxes and expenses required to maintain the corporate existence of any direct or indirect parent entity of HoldCo or which are otherwise payable by, with respect to or attributable to the ownership, business operations or profits of HoldCo or any Subsidiary;

(B) income taxes to the extent such income taxes are attributable to the income of HoldCo and its Restricted Subsidiaries and, to the extent of the amount actually received from the Unrestricted Subsidiaries, in amounts required to pay such taxes to the extent attributable to the income of the Unrestricted Subsidiaries, *provided*, *however*, that in each case the amount of such payments in any fiscal year does not exceed the amount of income taxes that HoldCo and its Restricted Subsidiaries would be required to pay for such fiscal year were HoldCo and its Restricted Subsidiaries to pay such taxes as a stand-alone taxpayer;

(C) customary salary, bonus, severance, indemnification obligations and other benefits payable to directors, officers and employees of such direct or indirect parent entity of HoldCo to the extent such salaries, bonuses, severance, indemnification obligations and other benefits are attributable to the ownership or operation of HoldCo and its Restricted Subsidiaries;

(D) general corporate overhead and operating expenses for such direct or indirect parent entity of HoldCo to the extent such expenses are attributable to the ownership or operation of HoldCo and its Restricted Subsidiaries;

(E) fees and expenses incurred in connection with the issuance of the Senior Secured Notes or the Senior Notes or any unsuccessful debt or equity offering or other financing transaction by such direct or indirect parent entity of HoldCo;

(F) obligations under the Management Agreements (as in effect on the FRN Issue Date or otherwise amended, modified or supplemented, *provided that* any amendment, modification or supplement is not materially less favorable to the Holders, taken as a whole); and

(G) taxes with respect to income derived from funding made available to HoldCo and the Restricted Subsidiaries or any successor thereof;

(14) cash payments in lieu of the issuance of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Equity Interests of HoldCo; *provided*, *however*, that any such cash payment will not be for the purpose of evading the limitation of this "Limitations on Restricted Payments" covenant (as determined in good faith by the Board of Directors of HoldCo);

(15) BBBEE Payments;

(16) the distribution, as a dividend or otherwise, of (A) Equity Interests of, or Indebtedness owed to HoldCo or a Restricted Subsidiary by, Unrestricted Subsidiaries (other than (x) Unrestricted Subsidiaries the primary assets of which are cash and/or Cash Equivalents) and (y) a CFS) and (B) any proceeds received from an Unrestricted Subsidiary on account of such Equity Interests or Indebtedness, provided, that, in the case of clause (B), such proceeds will be excluded from paragraph (a)(5)(C)(4) of the "Limitations on Restricted Payments" covenant above;

(17) Investments in joint ventures; provided that the aggregate Restricted Payments made pursuant to this clause (17) do not exceed the greater of €50.0 million and 1.75% of Consolidated Total Assets in any financial year; and *provided*, *further*, that such amount in any financial year may be increased by an amount not to exceed (A) the cash proceeds received as a dividend, distribution or otherwise from such joint ventures (provided that HoldCo may elect to apply all or any portion of the aggregate increase in any financial year) (it being understood that the forgiveness of any debt by such Person will not be a Restricted Payment hereunder) less (B) the amount of any Restricted Payments previously made pursuant to clause (A) of this clause (17); and

(18) payment of, and any dividend or other loan or distribution by HoldCo or any Restricted Subsidiary of HoldCo to fund the payment of, fees and expenses incurred in connection with the issuance of the Senior Secured Floating Rate notes and the transactions related thereto owed to or in respect of Affiliates, in each case, to the extent permitted under "Limitation on Transactions with Affiliates".

*provided*, *however*, that after giving effect to any Restricted Payment in clauses (b)(8), (10), (16) and (17), no payment Default, Default under "—Certain Covenants" or Event of Default will have occurred and be continuing or would occur as a consequence thereof.

(c) The amount of all Restricted Payments (other than cash) will be the fair market value on the date of the Restricted Payment of the assets or securities proposed to be transferred or issued by HoldCo or its Restricted Subsidiaries, as the case may be, pursuant to the Restricted Payment. The fair market value of any assets or securities that are required to be valued by this "Limitations on Restricted Payments" covenant will be determined by the Board of Directors of HoldCo if the fair market value exceeds €10.0 million.

(d) As of the Issue Date, all of HoldCo's Subsidiaries will be Restricted Subsidiaries. For purposes of designating any other Restricted Subsidiary as an Unrestricted Subsidiary, all outstanding Investments by HoldCo and its Restricted Subsidiaries (except to the extent repaid) in the Subsidiary so designated will be deemed to be Restricted Payments in an amount determined as set forth in the definition of "Investment". Such designation will be permitted only if a Restricted Payment in such amount would be permitted at such time, whether pursuant to the paragraphs (a) or (b) of this "Limitations on Restricted Payments" covenant, and if such Subsidiary otherwise meets the definition of an Unrestricted Subsidiary.

(e) HoldCo may redesignate an Unrestricted Subsidiary as a Restricted Subsidiary only pursuant to the definition of "Unrestricted Subsidiary".

***Limitations on Incurrence of Indebtedness and Issuance of Preference Shares***

(a) HoldCo will not, and will not permit the Issuer or any other Restricted Subsidiary of HoldCo to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable for, contingently or otherwise with respect to (collectively, "incur") any Indebtedness (including Acquired Indebtedness) and HoldCo will not permit any Restricted Subsidiary to issue any shares of Preference Shares; *provided*, *however*, that (i) HoldCo, the Issuer and any Subsidiary Guarantor may incur Indebtedness (including Acquired Indebtedness), (ii) the Issuer and any Subsidiary Guarantor may issue Preference Shares and (iii) any Restricted Subsidiary may incur up to €10.0 million of Indebtedness if the Fixed Charge Coverage Ratio of HoldCo for its most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Preference Shares are issued would have been at

least 2.00 to 1.00, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the Preference Shares had been issued, as the case may be, and the application of proceeds therefrom had occurred at the beginning of such four quarter period.

(b) The first paragraph of this covenant will not prohibit the incurrence of any of the following (collectively, "Permitted Indebtedness"):

(1) Indebtedness incurred by HoldCo or any Restricted Subsidiary under any Credit Facilities (with letters of credit, guarantees and bankers' acceptances being deemed to have a principal amount equal to the face amount thereof) up to an aggregate principal amount outstanding at any one time equal to the greater of (A) €400.0 million less the aggregate amount of all Net Proceeds from Asset Sales applied by HoldCo or any Restricted Subsidiary since the Issue Date to permanently repay any Indebtedness under such Credit Facilities and (B) the Borrowing Base; provided that no more than €400.0 million of such Indebtedness at any one time outstanding may be incurred for nonseasonal financing needs;

(2) Indebtedness incurred by HoldCo or any Restricted Subsidiary under any Securitization Financing up to an aggregate principal amount outstanding at any one time equal to the greater of (A) €685.0 million less the sum of (x) any Securitization Financing Amount and (y) the aggregate amount of all Net Proceeds from Asset Sales applied by HoldCo or any Restricted Subsidiary since the Issue Date to permanently repay any Indebtedness under any Securitization Financing and (B) the Securitization Borrowing Base;

(3) Indebtedness represented by the Senior Secured Notes (excluding Additional Senior Secured Notes), the Senior Notes (excluding additional Senior Notes), any Guarantees, any SPV Counter-Indemnity and the Collateral;

(4) Existing Indebtedness (other than Indebtedness described in clauses (1), (2) and (3) above), including the Senior Floating Rate Notes and the Senior Secured Floating Rate Notes;

(5) Indebtedness of HoldCo and any Restricted Subsidiary (including Capitalized Lease Obligations) (A) incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvement of property, plant or equipment used in a Similar Business or (B) otherwise incurred to finance the purchase, lease or improvement of property (real or personal) or equipment that is used or useful in a Similar Business, whether through the direct purchase of assets or the Share Capital of any Person owning such assets, in an aggregate principal amount that, when aggregated with the principal amount of all other Indebtedness then outstanding and incurred pursuant to this *clause (5)*, does not exceed the greater of €50.0 million and 1.75% of Consolidated Total Assets as of the date of such incurrence;

(6) Indebtedness incurred by HoldCo or any Restricted Subsidiary constituting (A) reimbursement obligations with respect to letters of credit issued in the ordinary course of business, including, without limitation, letters of credit in respect of workers' compensation claims, health, disability or other employee benefits or property, casualty or liability insurance or self-insurance or other Indebtedness incurred with respect to reimbursement type obligations regarding workers' compensation claims; provided, however, that, upon the drawing of such letters of credit or the incurrence of such Indebtedness, such obligations are reimbursed within 30 days following such drawing or incurrence or (B) arising from the honoring of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business, *provided* that such Indebtedness is extinguished within five business days of its incurrence;

(7) Indebtedness arising from agreements of HoldCo or a Restricted Subsidiary providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business, assets or a Subsidiary, other than guarantees of Indebtedness incurred or assumed by any Person acquiring all or any portion of such business, assets or a Subsidiary for the purpose of financing such acquisition; provided, however, that (A) such Indebtedness is not reflected on the balance sheet of HoldCo or any Restricted Subsidiary (contingent

obligations referred to in a footnote to financial statements and not otherwise reflected on the balance sheet will not be deemed to be reflected on such balance sheet for purposes of this clause (7)(A)) and (B) the maximum liability of HoldCo and its Restricted Subsidiaries in respect of all such Indebtedness in respect of any such disposition will at no time exceed the gross proceeds including non-cash proceeds (the fair market value of such non-cash proceeds being measured at the time received and without giving effect to any subsequent changes in value) actually received by HoldCo and any Restricted Subsidiary in connection with such disposition;

(8) Indebtedness of HoldCo or any Restricted Subsidiary owed to HoldCo or any Restricted Subsidiary; provided, however, that, (A) if HoldCo or an SPV Indemnifier or a Guarantor is the obligor of such Indebtedness, such Indebtedness must be expressly subordinated in right of payment to all Obligations with respect to the Senior Secured Notes or any SPV Counter-Indemnity or Guarantee, as applicable and (B) any subsequent issuance or transfer of any Share Capital or any other event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any other subsequent transfer of any such Indebtedness (except to HoldCo or another Restricted Subsidiary) will be deemed, in each case, to be an incurrence of such Indebtedness by the issuer thereof that was not permitted by this clause (8);

(9) shares of Preference Shares of a Restricted Subsidiary issued to HoldCo or another Restricted Subsidiary; *provided* that any subsequent issuance or transfer of any Share Capital or any other event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of any such shares of Preference Shares (except to HoldCo or any Restricted Subsidiary) will be deemed, in each case, to be an issuance of Preference Shares not permitted by this clause (9);

(10) Hedging Obligations of HoldCo or any Restricted Subsidiary (excluding Hedging Obligations entered into for speculative purposes) incurred for the purpose of limiting, hedging or managing (A) interest rates with respect to any Indebtedness that is permitted by the terms of the Indenture to be outstanding, (B) currency exchange rates or (C) commodity prices and including any such Hedging Obligations incurred in connection with the Senior Secured Notes;

(11) obligations in respect of performance and surety bonds, appeal bonds and other similar bonds and completion or performance guarantees provided by HoldCo or any Restricted Subsidiary or obligations in respect of letters of credit related thereto, in each case in the ordinary course of business or consistent with past practice;

(12) Indebtedness of HoldCo or any Restricted Subsidiary or Preference Shares of any Restricted Subsidiary not otherwise permitted hereunder in an aggregate principal amount or liquidation preference which, when aggregated with the principal amount and liquidation preference of all other Indebtedness and Preference Shares then outstanding and incurred pursuant to this clause (12), does not at any one time outstanding exceed €40.0 million;

(13) (A) any guarantee by HoldCo of Indebtedness of any Restricted Subsidiary so long as the incurrence of such Indebtedness by such Restricted Subsidiary is permitted under the terms of the Indenture; *provided* that if such Indebtedness is by its express terms subordinated in right of payment to the Senior Secured Notes, the Guarantee or the SPV Counter-Indemnity of such Restricted Subsidiary, as applicable, any such guarantee by HoldCo with respect to such Indebtedness will be subordinated in right of payment with respect to HoldCo's Guarantee of the Senior Secured Notes substantially to the same extent as such Indebtedness is subordinated to the Senior Secured Notes, the Guarantee or the SPV Counter-Indemnity of such Restricted Subsidiary, as applicable, (B) any guarantee by a Restricted Subsidiary that is not the Issuer, a Guarantor or an SPV Indemnifier of Indebtedness of another Restricted Subsidiary that is not the Issuer, a Guarantor or an SPV Indemnifier incurred in accordance with the terms of the Indenture and (C) any guarantee by a Guarantor or an SPV Indemnifier of Indebtedness of HoldCo incurred in accordance with the terms of the Indenture;

(14) the incurrence by HoldCo or any Restricted Subsidiary of Indebtedness or Preference Shares that serves to refund or refinance any Indebtedness incurred under paragraphs

(a) and (b)(3) and (4) above and this paragraph (b)(14) and paragraphs (b)(16) and (b)(19) below or any Indebtedness issued to so refund or refinance such Indebtedness, including additional Indebtedness incurred to pay premiums and fees in connection therewith (the "Refinancing Indebtedness") prior to its respective maturity; *provided* that (A) such Refinancing Indebtedness has a Weighted Average Life to Maturity at the time such Refinancing Indebtedness is incurred which is not less than the earlier of (x) the Weighted Average Life to Maturity of the Indebtedness being refunded or refinanced and (y) the Weighted Average Life to Maturity of any outstanding Senior Secured Notes; (B) to the extent such Refinancing Indebtedness refinances (1) Subordinated Indebtedness or Indebtedness which ranks *pari passu* with the Senior Secured Notes or any Guarantee or SPV Counter-Indemnity, as the case may be, such Refinancing Indebtedness must be subordinated in right of payment to, or *pari passu* with, the Senior Secured Notes or such Guarantee or SPV Counter-Indemnity, as the case may be, at least to the same extent as the Indebtedness being refinanced or refunded; (C) such Refinancing Indebtedness will not include (x) Indebtedness or Preference Shares of a Restricted Subsidiary that is a Guarantor that refinances Indebtedness or Preference Shares of HoldCo or a Guarantor and an SPV Indemnifier, or (y) Indebtedness or Preference Shares of HoldCo or a Restricted Subsidiary that refinances Indebtedness or Preference Shares of an Unrestricted Subsidiary; (D) will not be in a principal amount in excess of the principal amount of, premium, if any, accrued interest on and related fees and expenses of the Indebtedness being refunded or refinanced; and (E) such Refinancing Indebtedness will not have a stated maturity date that is earlier than the earlier of (x) the Stated Maturity of the Indebtedness being refunded or refinanced and (y) the Stated Maturity of any Senior Secured Notes then outstanding;

(15) the issuance by HoldCo of Shareholder Debt;

(16) Indebtedness or Preference Shares of a Person incurred and outstanding on or prior to the date on which such Person is acquired by HoldCo or any Restricted Subsidiary or merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) HoldCo or a Restricted Subsidiary; provided that after giving effect to such acquisition, merger, amalgamation or combination, either (A) HoldCo or such Restricted Subsidiary would be permitted to incur at least €1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in paragraph (a) of the "Limitations on Incurrence of Indebtedness and Issuance of Preference Shares" covenant or (B) the Fixed Charge Coverage Ratio for HoldCo would be greater than immediately prior to such acquisition;

(17) Indebtedness incurred by a Receivables Purchaser in a Qualified Securitization Financing that is not recourse to HoldCo or any Restricted Subsidiary other than a Receivables Purchaser (except for Standard Securitization Undertakings);

(18) Indebtedness consisting of promissory notes issued by HoldCo or any Guarantor to current or former officers, directors and employees, their respective estates, spouses or formers spouses to finance the purchase or redemption of Equity Interests of HoldCo or any of its direct or indirect parent corporations permitted by "Limitations on Restricted Payments";

(19) Contribution Indebtedness; and

(20) Indebtedness of HoldCo or any Restricted Subsidiary consisting of the financing of insurance premiums in the ordinary course of business.

(c) For purposes of determining compliance with this covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness described in clauses (b)(1) through (20) above, HoldCo will be permitted to classify and later reclassify such item of Indebtedness in any manner that complies with this covenant and such item of Indebtedness will be treated as having been incurred pursuant to only one of such clauses. Additionally, all or any portion of any item of Indebtedness may later be reclassified as having been incurred pursuant to any category of Permitted Indebtedness described in clauses (b)(1) through (20) above so long as such Indebtedness is permitted to be incurred pursuant to such provision at the time of reclassification.

(d) The accrual of interest, the accretion of accreted value or original issue discount, and the payment of interest or dividends in the form of additional Indebtedness with substantially equivalent terms will not be deemed to be an incurrence of Indebtedness for purposes of this "Limitations on Incurrence of Indebtedness and Issuance of Preference Shares" covenant.

(e) HoldCo and its Restricted Subsidiaries will not grant any Liens with respect to any Collateral to secure any Indebtedness unless: (1) the lenders with respect to such Indebtedness will have acceded to the Intercreditor Agreement or entered into an intercreditor agreement with HoldCo, the relevant Restricted Subsidiary and the Senior Secured Trustee on terms substantially similar to the Intercreditor Agreement, as determined in good faith by the Board of Directors, (which will, among other things, provide for, (i) in the case where the Liens on the Collateral granted to such other Indebtedness rank *pari passu* with the Liens securing the Senior Secured Notes, (A) pro rata sharing of the proceeds from enforcement and (B) pro rata voting in connection with the disposition or enforcement with respect to the Collateral and (ii) in the case where the Liens on the Collateral granted to such other Indebtedness rank junior to the Liens securing the Senior Secured Notes, a standstill on enforcement actions by such junior Lien holders of not less than 179 days); (2) the collateral agent in respect of such Indebtedness will be the collateral agent in respect of the Senior Secured Notes; and (3) all assets and properties (including the Collateral) that secure such Indebtedness also secure the Senior Secured Notes.

(f) For purposes of determining compliance with this covenant, the euro-equivalent principal amount of Indebtedness denominated in any currency other than euro or Rand will be calculated based on the relevant currency exchange rate in effect on the date such non-euro or non-Rand denominated Indebtedness was incurred, in the case of term debt, or first committed, in the case of revolving debt; *provided* that, if Indebtedness is incurred to refinance other Indebtedness denominated in a different currency, and such refinancing would cause a euro-denominated restriction specified in this covenant to be exceeded if calculated at the otherwise applicable currency exchange rate, such restriction will be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced; and *provided*, *further*, that if any amount under a revolving credit facility may be reallocated into a different currency, and Indebtedness is incurred pursuant to such a revolving credit facility, a euro-denominated restriction specified in this covenant that would have been exceeded if the amount of such Indebtedness were calculated at the otherwise applicable currency exchange rate will be deemed not to have been exceeded if such restriction would not have been exceeded were the principal amount of such Indebtedness to have been calculated at the currency exchange rate applicable on the date of such reallocation. Subject to the preceding proviso, the principal amount of any Indebtedness incurred to refinance other Indebtedness, if incurred in a different currency from the Indebtedness being refinanced, will be calculated based on the currency exchange rate applicable to the currencies in which such refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

***Limitations on Liens***

(a) HoldCo will not, and will not permit the Issuer or any other Restricted Subsidiary to, directly or indirectly create, incur, assume or suffer to exist any Lien (other than Permitted Liens), in each case, to secure obligations under any Indebtedness, or any income or profits therefrom, or assign or convey any right to receive income therefrom (the "Initial Lien"), in each case, unless upon or prior thereto, the Senior Secured Notes are equally and ratably secured with (or senior to, in the event the Lien relates to Subordinated Indebtedness) the obligations so secured. Notwithstanding the foregoing, HoldCo will not, and will not permit the Issuer or any other Restricted Subsidiary to, directly or indirectly, create, incur, assume or suffer to exist any Lien on the Collateral other than Permitted Collateral Liens; *provided that* no Permitted Collateral Lien will be granted on assets or property unless such assets or property also secure the Senior Secured Notes directly or through a special purpose entity.

(b) Any such Lien will be automatically and unconditionally released and discharged concurrently with (i) (in respect of any Lien granted pursuant to clause (a) above) the unconditional release of the Initial Lien (*provided* that if the release is in connection with the sale of the pledged

assets the proceeds are applied to the secured parties to the extent required by the relevant security documents), (ii) if the assets subject to such Lien, or all of the Share Capital of the owner of such assets or any Holding Company of such owner owned by HoldCo and its Subsidiaries or any Holding Company of such owner, are sold or otherwise disposed of in each case, to any Person other than HoldCo or a Restricted Subsidiary and the proceeds therefrom are applied in accordance with the provisions of "Limitation on Sale and Leaseback Transactions", and (iii) upon the full and final payment of all amounts payable under the Indenture.

***Dividend and Other Payment Restrictions Affecting Subsidiaries***

(a) HoldCo will not, and will not permit any Restricted Subsidiary, to directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to (i) (A) pay dividends or make any other distributions to HoldCo or any Restricted Subsidiary (1) on its Share Capital or (2) with respect to any other interest or participation in, or measured by, its profits, or (B) pay any Indebtedness owed to HoldCo or any Restricted Subsidiary; (ii) make loans or advances to HoldCo or any Restricted Subsidiary; or (iii) sell, lease or transfer any of its properties or assets to HoldCo or any Restricted Subsidiary.

(b) The preceding paragraph will not prohibit any such encumbrances or restrictions existing under or by reason of:

(1) any agreement or instrument in effect at or entered into on the Issue Date (including the Indenture);

(2) purchase money obligations for property that impose restrictions of the nature discussed in paragraph (a)(iii) above on the property so acquired;

(3) applicable law or any applicable rule, regulation or order of any governmental or regulatory authority;

(4) pursuant to any agreement or other instrument of a Person acquired by or merged, amalgamated, consolidated or otherwise combined with or into HoldCo or any Restricted Subsidiary as in effect at the time of such acquisition, merger, amalgamation, consolidation or combination (but not created in connection therewith or in contemplation thereof or to provide all or a portion of the funds or credit support utilized to consummate such acquisition, merger, amalgamation, consolidation or combination), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired;

(5) pursuant to an agreement or instrument (a "Refinancing Agreement") effecting a refinancing of Indebtedness or Preference Shares incurred pursuant to, or that otherwise extends, renews, refunds, refinances or replaces, an agreement or instrument or obligation referred to in clauses (1) through (14) of this paragraph (b) (an "Initial Agreement") or contained in any amendment, supplement or other modifications to an Initial Agreement (an "Amendment"); *provided*, *however*, that the encumbrances and restrictions contained in any such Refinancing Agreement or Amendment are not materially less favorable to the Holders, taken as a whole, than the encumbrances and restrictions contained in the Initial Agreement to which such Refinancing Agreement or Amendment relates (as determined in good faith by the Board of Directors of HoldCo);

(6) contracts for the sale of assets relating only to the assets subject to such contract, including customary restrictions with respect to a Subsidiary pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Share Capital or assets of such Subsidiary;

(7) secured Indebtedness otherwise permitted to be incurred pursuant to the "Limitations on Incurrence of Indebtedness and Issuance of Preference Shares" and "Limitations on Liens" covenants that limits the right of the debtor to dispose of the assets securing such Indebtedness;

(8) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business;

(9) any agreement or instrument (A) relating to any Indebtedness or Preferred Stock of a Restricted Subsidiary permitted to be Incurred subsequent to the Issue Date pursuant to the "Limitations on Incurrence of Indebtedness and Issuance of Preference Shares" covenant (i) if the encumbrances and restrictions contained in any such agreement or instrument taken as a whole are not materially less favorable to the Holders than the encumbrances and restrictions contained in the Senior Revolving Credit Facility (as determined in good faith by HoldCo) or (ii) if the encumbrances and restrictions are not materially more disadvantageous to the Holders than is customary in comparable financings (as determined in good faith by HoldCo) and either (x) HoldCo determines that such encumbrance or restriction will not adversely affect HoldCo's ability to make principal and interest payments on the Senior Secured Notes as and when they come due or (y) such encumbrances and restrictions apply only during the continuance of a default in respect of a payment or financial maintenance covenant relating to such Indebtedness, (B) constituting an intercreditor agreement on terms substantially equivalent to the Intercreditor Agreement or (C) relating to any loan or advance by HoldCo to a Restricted Subsidiary subsequent to the Issue Date; *provided* that with respect to clause (C) the encumbrances and restrictions contained in any such agreement or instrument taken as a whole are not materially less favorable to the Holders than the encumbrances and restrictions contained in the Senior Revolving Credit Facility Agreement, the Security Documents and the Intercreditor Agreement (in each case, as in effect on the Issue Date);

(10) Indebtedness of Restricted Subsidiaries that are Guarantors which Indebtedness is permitted to be incurred pursuant to an agreement entered into subsequent to the Issue Date in accordance with the "Limitations on Incurrence of Indebtedness and Issuance of Preference Shares" covenant;

(11) customary provisions in joint venture agreements and other similar agreements entered into in the ordinary course of business;

(12) customary restrictions on fiduciary cash held by HoldCo's Restricted Subsidiaries;

(13) customary provisions contained in leases and other agreements entered into in the ordinary course of business or any Permitted Lien; and

(14) restrictions effected in connection with a Qualified Securitization Financing that, in the good faith determination of the Board of Directors of HoldCo, are necessary or advisable to effect such Qualified Securitization Financing.

***Merger, Consolidation, or Sale of All or Substantially All Assets***

(a) The Issuer will not, directly or indirectly, merge, consolidate, amalgamate or otherwise combine with or into or wind up into any Person (whether or not the Issuer is the surviving Person), or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets (through a sale of its shares or assets or otherwise) in one or more related transactions, to any Person unless:

(1) either (A) the Issuer is the surviving corporation; or (B) the Person formed by or surviving any such merger, consolidation, amalgamation or other combination (if other than the Issuer), or to which such sale, assignment, transfer, lease, conveyance or other disposition will have been made, is a corporation organized or existing under the laws of the Republic of South Africa or any state that is a member of the European Union, Canada, the United States of America, any state thereof or the District of Columbia (such Person, as the case may be, being herein called the "Successor Company");

(2) the Successor Company, if other than the Issuer, expressly assumes all the obligations of the Issuer under the Indenture, the Senior Secured Notes and the Intercreditor Agreement (except with respect to any transaction of a kind set forth below in paragraph (c)(i)) pursuant to an accession letter or other documents or instruments in form reasonably satisfactory to the Senior Secured Trustee;

(3) immediately after giving effect to such transaction or related transactions on a *pro forma* basis, no payment Default or Default under "—Certain Covenants" of the Indenture or Event of Default exists;

(4) immediately after giving *pro forma* effect to such transaction and any related financing transactions, as if such transaction had occurred at the beginning of the applicable four-quarter period, either (A) the Successor Company would be permitted to incur at least €1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in "Limitations on Incurrence of Indebtedness and Issuance of Preference Shares" or (B) the Fixed Charge Coverage Ratio for HoldCo or any Successor Company, as applicable, would be greater than the Fixed Charge Coverage Ratio for HoldCo on an historical basis for such four-quarter period;

(5) each Guarantor and SPV Indemnifier (if not a party to the transaction) will have by accession letter hereto and the Intercreditor Agreement confirmed that its Guarantee and/or SPV Counter-Indemnity (as the case may be) will apply to such Person's obligations under the Indenture and the Senior Secured Notes, unless such Guarantee and/or SPV Counter-Indemnity (as the case may be) will be released in connection with the transaction and otherwise in compliance with the Indenture; and

(6) HoldCo will have delivered to the Senior Secured Trustee an Officers' Certificate and an opinion of counsel, stating that such merger, consolidation, amalgamation, other combination or transfer and such accession letter complies with the Indenture.

The foregoing paragraph (a) will also apply to any Guarantor, with the exception of clause (4).

For purposes of this "Merger, Consolidation, or Sale of All or Substantially All Assets" covenant, the sale, lease, conveyance, assignment, transfer or other disposition of all or substantially all of the properties and assets of one or more Restricted Subsidiaries, which properties and assets, if held by the Issuer instead of such Restricted Subsidiaries, would constitute all or substantially all of the properties and assets of the Issuer on a consolidated basis, will be deemed to be the sale, lease, conveyance, assignment, transfer or other disposition of all or substantially all of the properties and assets of the Issuer.

(b) (i) The Successor Company will succeed to, and be substituted for, the Issuer and (ii) in the case of a sale of all assets by the Issuer, the Issuer will be fully released from its obligations under the Senior Secured Notes, the Indenture and the Intercreditor Agreement; *provided* in each case that following any lease or conveyance of substantially all (but less than all) of the properties or assets of the Issuer and its Restricted Subsidiaries in one or more related transactions, each of the lessor and the lessee, or the transferor and transferee, as the case may be, will remain liable for the obligations of the Issuer under the Indenture, the Intercreditor Agreement and the Senior Secured Notes.

(c) Notwithstanding paragraph (a) above, (i) HoldCo and BidCo may merge, amalgamate or otherwise combine into BidCo or HoldCo, as the case may be; (ii) a Restricted Subsidiary may merge, consolidate, amalgamate or otherwise combine into HoldCo or any other Restricted Subsidiary or transfer all or part of its properties and assets to HoldCo or any other Restricted Subsidiary; (iii) the Issuer may merge with an Affiliate solely for purposes of reincorporation of the Issuer and (iv) a Guarantor may merge, consolidate, amalgamate or otherwise combine into the Issuer or any other Guarantor or transfer all or part of its properties and assets to the Issuer or any other Guarantor or a wholly owned Restricted Subsidiary of the Issuer or a Guarantor.

***Future Guarantors***

(a) At any time HoldCo or any Restricted Subsidiary of HoldCo acquires or creates a Restricted Subsidiary (other than an Immaterial Subsidiary), HoldCo will cause such acquired or created Restricted Subsidiary within 10 days (or such longer period as the Senior Secured Trustee may agree in writing) after becoming a Restricted Subsidiary, to execute and deliver in a form reasonably satisfactory to (A) the Senior Secured Trustee, a Guarantee of payment of the Senior Secured Notes by such Restricted Subsidiary on the same terms as the Guarantees of the Senior Secured Notes provided for in the Indenture, (B) the SPV Administrator, an SPV Counter-Indemnity, and (C) an Officers' Certificate and an opinion of counsel (reasonably acceptable to the Senior Secured Trustee and the SPV Administrator), each to the effect that such Guarantee or SPV Counter-Indemnity is a legal, valid and binding obligation of the Restricted Subsidiary enforceable (subject to customary exceptions and exclusions) in accordance with its terms.

(b) The obligations of each Guarantor under the Guarantees will be limited to the maximum amount that would not render the Guarantor's obligations subject to avoidance under applicable fraudulent conveyance provisions of the United States Bankruptcy Code or any comparable provision of foreign or state law. The provision of any such additional Guarantee, however, will not be required if it would violate applicable law.

(c) The obligations of a Guarantor under the Guarantees will terminate:

(1) when (i) any Guarantor (other than HoldCo or BidCo) ceases to be a Restricted Subsidiary of HoldCo in accordance with the applicable provisions of the Indenture or (ii) becomes an Immaterial Subsidiary; *provided that* in the case of clause (ii) after giving effect to the release of the Guarantee of any Immaterial Subsidiary, the Issuer and Guarantors have at least 85% of the Consolidated Total Assets and revenues of HoldCo and its Restricted Subsidiaries; or

(2) upon (A) repayment and performance in full of all amounts due and payable under the Indenture and the Senior Secured Notes; (B) Legal Defeasance; (C) Covenant Defeasance or (D) satisfaction and discharge of the Indenture.

***Additional Security***

(a) At any time within 60 days (or such longer period as the Senior Secured Trustee may agree in writing) after (1) any Restricted Subsidiary executes and delivers to the Senior Secured Trustee a supplement to the Indenture and an SPV Counter-Indemnity or (2) HoldCo or any of its Restricted Subsidiaries acquires any material property that is not automatically subject to a perfected security interest under the Security Documents, HoldCo will (i) cause the shares of such Restricted Subsidiary to be pledged, (ii) cause such Restricted Subsidiary (or HoldCo, as applicable) to grant a security interest over its present and future material assets (or such material property) in favor of the Security Agent on behalf of the Senior Secured Trustee and the Holders, consistent with the security interests granted by the Guarantors on the date of issue of the Senior Secured Notes and (iii) take (or will cause such Restricted Subsidiary to take) such additional actions (including the giving of notices, the filing of statements and the provision of all instruments and documents reasonably requested by the Senior Secured Trustee) to perfect and protect the security interests of the Senior Secured Trustee and the Holders under the Security Documents.

(b) The obligations of HoldCo or any of its Restricted Subsidiaries under the Security Documents will terminate upon:

(1) any sale, exchange, transfer or other disposition to any Person (other than HoldCo or any Restricted Subsidiary) of all of the Share Capital owned by HoldCo and its Restricted Subsidiaries in (or any sale, exchange, transfer or other disposition of Share Capital following which the applicable Guarantor is no longer a Restricted Subsidiary), or all or substantially all the assets of, such Restricted Subsidiary (which sale, exchange, transfer or other disposition is not prohibited by the Indenture);

(2) HoldCo or such Restricted Subsidiary ceasing to be a Guarantor in accordance with the Indenture;

(3) except in the case of HoldCo, the designation in accordance with the Indenture of the Guarantor as an Unrestricted Subsidiary;

(4) (A) repayment of all amounts due and payable and performance in full of all obligations under the Indenture and the Senior Secured Notes; (B) Legal Defeasance; (C) Covenant Defeasance or (D) satisfaction and discharge of the Indenture.

(c) The assets or property of HoldCo or any of its Restricted Subsidiaries forming part of the Collateral will be released from the Lien created under any Security Document to which HoldCo or such Restricted Subsidiary is a party upon the sale or disposition of such assets or property (other than to HoldCo or a Restricted Subsidiary) in a transaction permitted by the Indenture (other than a sale or disposition subject to the "Merger, Consolidation or Sale of All or Substantially all Assets" covenant).

***Limitations on Transactions with Affiliates***

(a) HoldCo will not, and will not permit the Issuer or any other Restricted Subsidiary to, make any payment to, or sell, lease, assign, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate of HoldCo (each of the foregoing, an "Affiliate Transaction") involving aggregate payments or consideration in excess of €5.0 million, unless:

(1) such Affiliate Transaction is on terms that are no less favorable to HoldCo or the relevant Restricted Subsidiary than those that would have been obtained in a comparable arm's-length transaction by HoldCo or such Restricted Subsidiary with an unrelated Person; and

(2) (x) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of €15.0 million, HoldCo delivers to the Senior Secured Trustee a resolution adopted by a majority of the disinterested members of the Board of Directors of HoldCo, if any, approving such Affiliate Transaction and an Officers' Certificate certifying that such Affiliate Transaction complies with clause (1) above; and (y) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of €25.0 million, the Board of Directors of HoldCo also will have received a written opinion as to the fairness to HoldCo and its Restricted Subsidiaries of such Affiliate Transaction or series of related Affiliate Transactions from a financial point of view issued by an Independent Financial Advisor.

(b) The foregoing provisions will not apply to the following;

(1) transactions between or among HoldCo and/or any Restricted Subsidiary or joint venture or similar entity which would constitute an Affiliate Transaction solely because HoldCo or a Restricted Subsidiary owns an equity interest or otherwise control such Restricted Subsidiary, joint venture or similar entity;

(2) Permitted Investments, or Restricted Payments permitted by "Limitations on Restricted Payments";

(3) the payment to the Sponsors or any Sponsor Group Affiliate of management, consulting, monitoring, advisory and transaction fees, termination payments and related reasonable expenses pursuant to (A) the Management Agreements or any amendment thereto (so long as any such amendment is not less advantageous to the Holders in any material respect than the Management Agreements) or (B) other agreements as in effect on the Issue Date and described in this Offering Memorandum or any amendment thereto (so long as any such amendment is not less advantageous to the Holders in any material respect than the original agreement as in effect on the Issue Date);

(4) payment of reasonable compensation and fees to, and indemnities provided on behalf of (and entering into related agreements with) officers, directors, employees or consultants of HoldCo, any of its direct or indirect parent entities or any Restricted Subsidiary, which payments are approved by a majority of the members of the Board of Directors of HoldCo in good faith;

(5) payments by HoldCo or any Restricted Subsidiary to the Sponsors made for any customary financial advisory, financing, underwriting or placement services or in respect of other investment banking activities, including, without limitation, in connection with acquisitions or divestitures, which payments are approved by a majority of the members of the Board of Directors of HoldCo in good faith;

(6) transactions in which the Issuer or any Restricted Subsidiary delivers to the Senior Secured Trustee a letter from an Independent Financial Advisor stating that such transaction is fair to the Issuer or such Restricted Subsidiary from a financial point of view;

(7) payments or loans (or cancellations of loans) to employees or consultants of HoldCo, any Restricted Subsidiary or any of HoldCo's direct or indirect parent entities, which are approved by the Board of Directors of HoldCo in good faith and which are otherwise permitted under the Indenture;

(8) payments made or performance under any agreement of HoldCo and/or its Restricted Subsidiaries as in effect as of the Issue Date or any amendment thereto after the Issue Date (so long as any such amendment is not less advantageous to the Holders in any material respect than the original agreement as in effect on the Issue Date) or any transaction contemplated thereby;

(9) the existence of, or the performance by HoldCo or any of its Restricted Subsidiaries of its obligations under the terms of, a shareholders' agreement (including any registration right agreement or purchase agreements related thereto to which it is party as of the Issue Date and any similar agreement that it may enter into thereafter; *provided*, *however*, that the existence of, or the performance by HoldCo or any of its Restricted Subsidiaries of its obligations under any future amendment to the shareholders' agreement or under any similar agreement entered into after the Issue Date will only be permitted under this clause (9) to the extent that the terms of any such amendment or new agreement are not otherwise disadvantageous to the Holders in any material respects;

(10) [reserved];

(11) transactions with customers, clients, suppliers, purchasers or sellers of goods or services, in each case, in the ordinary course of business and otherwise in compliance with the terms of the Indenture which are fair to HoldCo and the Restricted Subsidiaries, in the good faith determination of a majority of the disinterested members of the Board of Directors of HoldCo or of the senior management thereof, or are on terms at least as favorable to HoldCo or the relevant Restricted Subsidiary as might reasonably have been obtained at such time from an unaffiliated party;

(12) the issuance of (A) Equity Interests (other than Disqualified Share Capital) of HoldCo to any Permitted Holder, direct or indirect parent entity of HoldCo or other Affiliate of HoldCo or any member of management, employee or consultant of HoldCo, any Restricted Subsidiary of HoldCo and any direct or indirect parent entity of HoldCo and (B) Shareholder Debt; *provided* that the interest rate and other financial terms of such Shareholder Debt are approved by a majority of the members of the Board of Directors of HoldCo;

(13) any transaction with a Receivables Purchaser effected as part of a Qualified Securitization Financing;

(14) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, stock options and stock ownership plans approved by the Board of Directors of HoldCo; and

(15) any customary employment agreements entered into by HoldCo or any of the Restricted Subsidiaries in the ordinary course of business.

***Payments for Consent***

HoldCo will not, and will not permit the Issuer or any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of Notes for or as an inducement to any consent, waiver or amendment of any of the terms of the provisions of the Indenture or the Senior Secured Notes unless such consideration is offered to be paid and is paid to all holders of the Senior Secured Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement. Notwithstanding the foregoing, HoldCo, the Issuer and its Restricted Subsidiaries shall be permitted, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture, to exclude holders of Senior Secured Notes in any jurisdiction where (i) the solicitation of such consent, waiver or amendment, including in connection with an offer to purchase for cash, or (ii) the payment of the consideration therefor would require HoldCo, the Issuer or any of its Restricted Subsidiaries to file a registration statement, prospectus or similar document under any applicable securities laws (including, but not limited to, the United States federal securities laws and the laws of the European Union or its member states), which the HoldCo in its sole discretion determines (acting in good faith) (A) would be materially burdensome (it being understood that it would not be materially burdensome to file the consent document(s) used in other jurisdictions, any

substantially similar documents or any summary thereof with the securities or financial services authorities in such jurisdiction); or (B) such solicitation would otherwise not be permitted under applicable law in such jurisdiction.

***Business of HoldCo and the Restricted Subsidiaries***

HoldCo will not, and will not permit the Issuer or any other Restricted Subsidiary to, engage in any business other than Similar Businesses, except to such extent as would not be material to HoldCo and its Subsidiaries taken as a whole.

***Limitation on Sale and Leaseback Transactions***

HoldCo will not, and will not permit the Issuer or any other Restricted Subsidiary to, enter into any sale and leaseback transaction with respect to any property or assets, whether now owned or hereafter acquired, (other than (i) between HoldCo and a Guarantor and an SPV Indemnifier, (ii) between Restricted Subsidiaries which are Guarantors and SPV Indemnifiers, (iii) from a Restricted Subsidiary that is not a Guarantor or an SPV Indemnifier to HoldCo or a Guarantor and an SPV Indemnifier or (iv) between or among Restricted Subsidiaries that are not Guarantors or SPV Indemnifiers) unless:

(a) the sale or transfer of such property or assets to be leased is treated as an Asset Sale and the provisions of the "—Limitations on Asset Sales" covenant are complied with;

(b) HoldCo or such Restricted Subsidiary, as applicable, would be permitted to incur Indebtedness under "—Limitations on Incurrence of Indebtedness and Issuance of Preference Shares" in the amount of the Attributable Debt incurred in respect of such sale and leaseback transaction; and

(c) HoldCo or such Restricted Subsidiary, as applicable, would be permitted to grant a Lien to secure Indebtedness under "—Limitations on Liens" in the amount of the Attributable Debt in respect of such sale and leaseback transaction.

***Impairment of Security Interest***

HoldCo will not, and will not cause or permit the Issuer or any of its Restricted Subsidiaries to, take or knowingly or negligently omit to take, any action that would have the result of materially impairing the security interests with respect to the Collateral (it being understood that the incurrence of Liens on the Collateral permitted by the definition of Permitted Collateral Liens shall under no circumstances be deemed to materially impair the security interests with respect to the Collateral) for the benefit of the Trustee and the holders of the Senior Secured Notes; *provided*, *however*, that no Security Document may be amended, extended, renewed, restated, supplemented or otherwise modified, replaced, or released unless contemporaneously with such amendment, extension, replacement, restatement, supplement, modification, renewal or release, HoldCo delivers to the Senior Secured Trustee either (1) a solvency opinion from an internationally recognized investment bank or accounting firm, in form and substance reasonably satisfactory to the Senior Secured Trustee confirming the solvency of the HoldCo and its Subsidiaries, taken as a whole, after giving effect to any transactions related to such amendment, extension, renewal, supplement, modification, replacement or release, (2) a certificate from the board of directors or chief financial officer of the relevant Person (acting in good faith) that confirms the solvency of the Person granting such Lien after giving effect to any transactions related to such amendment, extension, renewal, supplement, modification, replacement or release or (3) an opinion of counsel, in form and substance reasonably satisfactory to the Senior Secured Trustee (subject to customary exceptions and qualifications), confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification, replacement or release, the Lien or Liens securing the Senior Secured Notes created under the Security Documents so amended, extended, renewed, restated, supplemented, modified or replaced are valid and perfected Liens not otherwise subject to any limitation, imperfection or new hardening period, in equity or at law, that such Lien or Liens were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, modification, replacement or release and retaking.

At the direction of the HoldCo and without the consent of the holders of Senior Secured Notes, the collateral agent for the Senior Secured Notes may from time to time enter into one or more

amendments to the Security Documents to: (i) cure any ambiguity, omission, mistake, defect or inconsistency therein, (ii) provide for Permitted Collateral Liens, (iii) add to the Collateral or (iv) make any other change thereto that does not adversely affect the rights of the holders of the Senior Secured Notes in any material respect.

In the event that the Issuer complies with this covenant, the Senior Secured Trustee and the collateral agent for the Senior Secured Notes shall (subject to customary protections and indemnifications) consent to such amendment, extension, renewal, restatement, supplement, modification, replacement or release with no need for instructions from holders of the Senior Secured Notes.

***Suspension of Covenants***

If on any date following the date of the Indenture:

(1) the Senior Secured Notes are rated Investment Grade by both Rating Agencies; and

(2) no payment Default, Default under "—Certain Covenants" or Event of Default will have occurred and be continuing (the foregoing conditions being referred to collectively as the "Suspension Condition").

then, beginning on that day and subject to the provisions of the following paragraph, the following sections of the Indenture will be suspended as to the Senior Secured Notes:

(1) "—Limitations on Asset Sales";

(2) "—Limitations on Restricted Payments";

(3) "—Limitations on Incurrence of Indebtedness and Issuance of Preference Shares" and the Senior Secured Leverage Ratio;

(4) "—Dividend and Other Payment Restrictions Affecting Subsidiaries";

(5) "—Restrictions Relating to the Investment of the Credit and Financial Services Business";

(6) "—Limitations on Transactions with Affiliates"; and

(7) clause (4) of "—Merger, Consolidation, or Sale of All or Substantially All Assets" (collectively, the "Suspended Covenants").

During any period that the foregoing sections have been suspended, HoldCo's Board of Directors may not designate any of its Subsidiaries as Unrestricted Subsidiaries pursuant to the second sentence of the definition of "Unrestricted Subsidiary" unless the designation would comply with the covenant described under "—Certain Covenants—Limitations on Restricted Payments".

Notwithstanding the foregoing, if HoldCo and its Restricted Subsidiaries are not subject to the Suspended Covenants with respect to the Senior Secured Notes for any period of time as a result of the foregoing and, subsequently, one or both Rating Agencies withdraw their Investment Grade rating or downgrade the Investment Grade rating assigned to the Senior Secured Notes such that the Senior Secured Notes are no longer rated Investment Grade by both Rating Agencies, then HoldCo and each of its Restricted Subsidiaries will thereafter again be subject to the Suspended Covenants. Compliance with the Suspended Covenants with respect to Restricted Payments made after the time of such withdrawal or downgrade (i) will be calculated in accordance with the terms of the reinstated "—Limitations on Restricted Payments" covenant as if the provisions in the "—Limitations on Restricted Payments" covenant had been in effect since the FRN Issue Date and (ii) will be calculated in accordance with the terms of the reinstated "—Limitations on Incurrence of Indebtedness and Issuance of Preference Shares" covenant as if any Indebtedness incurred on or after the occurrence of the Suspension Condition will be deemed to have been incurred pursuant to the first paragraph of the covenant described under "—Certain Covenants—Limitations on Incurrence of Indebtedness and Issuance of Preference Shares"; *provided*, *further*, that no Default, Event of Default or breach of any kind will be deemed to exist under the Indenture with respect to the Suspended Covenants based on, and none of HoldCo or any of its Subsidiaries will bear any liability for, any actions taken or events occurring after such Senior Secured Notes attain the required ratings and before any reinstatement of the Suspended Covenants as provided above, or any actions, taken at any time pursuant to any

contractual obligations arising prior to the reinstatement of the Suspended Covenants, regardless of whether those actions or events would have been permitted if the applicable sections had remained in effect during such period.

***Restrictions Relating to the Investment of the Credit and Financial Services Business***

Notwithstanding anything to the contrary contained in this "Description of the Senior Secured Notes", HoldCo and its Restricted Subsidiaries may designate a CFS as an Unrestricted Subsidiary or HoldCo and its Restricted Subsidiaries may make an Investment of some or all of the Share Capital of a CFS (whether through direct investment or the issuance of Share Capital of a CFS to another Person) and each will be considered a "Permitted Investment"; provided that:

(a) the operating agreements relating to a CFS ("Operating Agreements") are no less favorable to HoldCo and its Restricted Subsidiaries than those that would have been obtained in a comparable arm's-length transaction by HoldCo and its Restricted Subsidiaries with an unrelated Person;

(b) HoldCo delivers to the Senior Secured Trustee a resolution adopted by a majority of the members of the Board of Directors of HoldCo, approving such transaction and an Officers' Certificate certifying that such transaction complies with clause (a) above;

(c) any such designation or Investment pursuant to this "Restrictions Relating to the Investment of the Credit and Financial Services Business" covenant must occur on or before 31 March 2008; *provided that* subsequent Investments of any Share Capital that was the subject of a previous designation or Investment will be permitted;

(d) a CFS will not be considered an Unrestricted Subsidiary for the purpose of paragraph (b)(16) of "Limitations on Restricted Payments";

(e) HoldCo will not, and will not permit its Restricted Subsidiaries to sell, convey, transfer or make any other voluntary disposition (each a "disposition") of Share Capital of a CFS unless such disposition satisfies the requirements of the "Limitations on Asset Sales" covenant (other than paragraph (a)(2) of "Limitations on Asset Sales"); provided that such CFS may make a disposition of its property or assets in exchange for a minority interest in the Share Capital of any Person without complying with the requirements of the "Limitations on Asset Sales" covenant so long as if such Person is a Permitted Holder or a Subsidiary of a Permitted Holder (in each case other than HoldCo or its Restricted Subsidiaries), such Person enters into a supplemental indenture to the Indenture that requires such Person to comply with the provisions of this "Restrictions Relating to the Investment of the Credit and Financial Services Business" covenant;

(f) if a CFS is an Unrestricted Subsidiary, then HoldCo will not, and will not permit its Restricted Subsidiaries to, permit such CFS to (i) declare or pay any dividend or make any distribution on account of such CFS's Equity Interests, including any dividend or distribution payable in connection with any merger, consolidation, amalgamation or other combination involving such CFS (other than: (x) dividends or distributions by such CFS payable in Equity Interests (other than Disqualified Share Capital) of such CFS or in options, warrants or other rights to purchase such Equity Interests (other than Disqualified Share Capital); or (y) other dividends or distributions payable on or in respect of any class or series of securities issued by such CFS to HoldCo or a Restricted Subsidiary or Persons other than Permitted Holders), (ii) purchase, redeem or otherwise acquire or retire for value any Equity Interests of such CFS, including in connection with any merger, consolidation, amalgamation or other combination, held by Permitted Holders (other than HoldCo or a Restricted Subsidiary) or (iii) sell, convey, transfer or lease or make any other voluntary disposition (each a "disposition") of its property or assets unless such disposition satisfies the requirements of the "Limitations on Asset Sales" covenant (other than paragraph (a)(2) of "Limitations on Asset Sales"); provided that such CFS may make a disposition of its property or assets in exchange for a minority interest in the Share Capital of any Person without complying with the requirements of the "Limitations on Asset Sales" covenant so long as if such Person is a Permitted Holder or a Subsidiary of a Permitted Holder (in each case other than HoldCo or its Restricted Subsidiaries), such Person enters into a supplemental indenture to the Indenture that requires such Person to comply with the provisions of this "Restrictions Relating to the Investment of the Credit and Financial Services Business" covenant; and

(g) if a CFS is an Unrestricted Subsidiary, then HoldCo will not and will not permit its Restricted Subsidiaries to permit such CFS to issue or sell any shares of its Share Capital to Permitted Holders if HoldCo and its Restricted Subsidiaries would own less than a majority of the Voting Stock of such CFS and Permitted Holders would own a majority of the Voting Stock of such CFS unless such CFS enters into a supplemental indenture to the Indenture that requires such CFS to comply with the provisions of this covenant "Restrictions Relating to the Investment of the Credit and Financial Services Business".

***Additional Intercreditor Agreements; Amendments***

(a) The Indenture will provide that, subject to the terms of the covenant described under "—Certain Covenants—Business of HoldCo and the Restricted Subsidiaries", at the time of, or prior to, the Incurrence by HoldCo, the Issuer or any Subsidiary Guarantor of any Indebtedness for borrowed money (including any Guarantees constituting such Indebtedness of another Restricted Subsidiary) permitted pursuant to the covenant described under "—Certain Covenants—Limitations on Incurrence of Indebtedness and Issuance of Preference Shares", or any Refinancing Indebtedness in respect thereof HoldCo, the Issuer and/or the relevant Subsidiary Guarantors will, as applicable, and the Senior Secured Trustee will, be authorized (i) to enter into with the holders of such indebtedness (or their duly authorized agents) an Additional Intercreditor Agreement on terms substantially similar to the Intercreditor Agreement as determined in good faith by the Board of Directors (or terms more favorable to the Holders), including containing substantially identical terms with respect to the subordination and release of Subsidiary Guarantees and enforcement of security interests. Such Additional Intercreditor Agreement will not impose any personal obligations on the Senior Secured Trustee, adversely affect the rights, duties, liabilities, obligations or immunities of the Senior Secured Trustee, or adversely affect the rights, duties, liabilities, obligations or immunities of the Holders under the Indenture or Intercreditor Agreement in any material respect or result in the Senior Secured Trustee or the Holders being in breach or violation of the Intercreditor Agreement.

(b) The Indenture will also provide that at the direction of HoldCo and without the consent of the Holders, the Senior Secured Trustee will from time to time enter into one or more amendments to the Intercreditor Agreement or any such Additional Intercreditor Agreement to (i) cure any ambiguity, omission, defect or inconsistency therein, (ii) increase the amount or types of Indebtedness covered by any Intercreditor Agreement or Additional Intercreditor Agreement that may be incurred by HoldCo, the Issuer or a Subsidiary Guarantor that is subject to any Intercreditor Agreement or Additional Intercreditor Agreement (provided that such amendment is consistent with the preceding paragraph (a)), (iii) add Subsidiary Guarantors thereto, (iv) permit payments to be made to HoldCo or the Issuer that would not otherwise have been permitted pursuant to the terms thereof, (v) further secure the Senior Secured Notes, (vi) make provision for the security securing Additional Senior Secured Notes to rank *pari passu* with the Collateral or (vii) make any other such change thereto that does not adversely affect the rights of Holders in any material respect. HoldCo will not otherwise direct the Senior Secured Trustee to enter into any amendment to the Intercreditor Agreement or, if applicable, any Additional Intercreditor Agreement, without the consent of the Holders of a majority in principal amount of the outstanding Senior Secured Notes.

The Indenture will also provide that each Holder, by accepting a Senior Secured Note, will be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement or, if applicable, any Additional Intercreditor Agreement and by the entry by the Senior Secured Trustee into the Intercreditor Agreement and the performance by the Senior Secured Trustee of its obligations and the exercise of its rights thereunder and in connection therewith. A copy of the Intercreditor Agreement or, if applicable, any Additional Intercreditor Agreement will be available on any Business Day upon prior written request at the offices of the Senior Secured Trustee and, for so long as any Senior Secured Notes are listed on the Global Exchange Market of the Irish Stock Exchange, at the offices of the paying agent in Ireland.

**Statement as to Compliance**

HoldCo will deliver to the Senior Secured Trustee, within 150 days after the end of each fiscal year, an Officers' Certificate stating that in the course of the performance by the signer of his duties as an officer of the Issuer he would normally have knowledge of any Default and whether or not the signer knows of any Default that occurred during such period and, if any, specifying such Default, its status and what action the Issuer is taking or proposed to take with respect thereto. For purposes of this Statement as to Compliance covenant, such compliance will be determined without regard to any period of grace or requirement of notice under the Indenture. HoldCo will comply with TIA Section 314(a)(4).

When any Default has occurred and is continuing under the Indenture, HoldCo will deliver to the Senior Secured Trustee within ten Business Days by registered or certified mail or facsimile transmission an Officers' Certificate specifying such event, notice or other action, its status and what action HoldCo is taking or proposes to take with respect thereto.

**Events of Default**

(a) Each of the following constitutes an "Event of Default":

(1) a default in payment when due and payable, upon redemption, acceleration or otherwise, of principal of, or premium, if any, on the Senior Secured Notes;

(2) a default in the payment when due of interest or Additional Amounts, if any, on or with respect to the Senior Secured Notes and such default continues for a period of 30 days;

(3) a default in the performance of, or breaches of any covenant, warranty or other agreement contained in, the Indenture (other than a default in the performance or breach of a covenant, warranty or agreement which is specifically dealt with in clauses (1) or (2) above) and such default or breach continues for a period of 60 days after written notice from the Senior Secured Trustee or Holders of at least 30% in principal amount of outstanding Senior Secured Notes under the Indenture;

(4) a default under any mortgage, indenture or instrument under which there is issued or by which there is secured or evidenced any Indebtedness for money borrowed by HoldCo or any Restricted Subsidiary or the payment of which is guaranteed by HoldCo or any Restricted Subsidiary (other than Indebtedness owed to HoldCo or a Restricted Subsidiary), whether such Indebtedness or guarantee now exists or is created after the Issue Date, if (A) such default either (1) results from the failure to pay any such Indebtedness at its stated final maturity (after giving effect to any applicable grace periods) or (2) relates to an obligation other than the obligation to pay principal of any such Indebtedness at its stated final maturity and results in the holder or holders of such Indebtedness causing such Indebtedness to become due prior to its stated maturity and (B) the principal amount of such Indebtedness, together with the principal amount of any other such Indebtedness in default for failure to pay principal at stated final maturity (after giving effect to any applicable grace periods), or the maturity of which has been so accelerated, aggregate €50.0 million (or its foreign currency equivalent) or more at any one time outstanding;

(5) the failure by HoldCo or any Significant Subsidiary to pay final judgments aggregating in excess of €50.0 million (other than any judgments covered by indemnities or insurance policies issued by reputable and creditworthy companies), which final judgments remain unpaid, undischarged and unstayed for a period of more than 60 days after the applicable judgment becomes final;

(6) any security interest under the Security Documents on any material Collateral will, at any time, cease to be in full force and effect (other than in accordance with the terms of the relevant Security Documents and the Indenture) for any reason other than the satisfaction in full of all obligations under the Indenture or the release or amendment of any such security interest in accordance with the terms of the Indenture or such Security Document or any such security interest created thereunder will be declared invalid or unenforceable or either HoldCo or any Restricted Subsidiary will assert in writing that any such security interest is invalid or unenforceable and any such Default continues for 10 days;

(7) a breach by HoldCo or any of its Restricted Subsidiaries of any material representation or warranty or agreement in the Security Documents, the repudiation by HoldCo or any of its Restricted Subsidiaries of any of its obligations under the Security Documents or the unenforceability of the Security Documents (other than in accordance with their terms) against HoldCo or any of its Subsidiaries for any reason;

(8) the Guarantee of a Significant Subsidiary that is a Guarantor or any group of Subsidiaries that are Guarantors and that, taken together as of the date of the most recent audited financial statements of HoldCo, would constitute a Significant Subsidiary ceases to be in full force and effect (except as contemplated by the terms hereof) or any Guarantor denies or disaffirms its obligations under the Indenture or any Guarantee(s), other than by reason of the release of the Guarantee(s) in accordance with the terms of the Indenture, and such Default continues for 15 days;

(9) HoldCo, any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary, pursuant to or within the meaning of any Bankruptcy Law:

(A) commences a voluntary case;

(B) consents to the entry of an order for relief against it in an involuntary case;

(C) consents to the appointment of a custodian of it or for all or substantially all of its property;

(D) makes a general assignment for the benefit of its creditors; or

(E) generally is not paying its debts as they become due; and

(10) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(A) is for relief against HoldCo or any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, in an involuntary case;

(B) appoints a custodian of HoldCo or any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary or for all or substantially all of the property of HoldCo or any of its Restricted Subsidiaries; or

(C) orders the liquidation of HoldCo or any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary and the order or decree remains unstayed and in effect for 60 consecutive days.

(b) If an Event of Default under the Indenture (other than an Event of Default specified in clauses (9) or (10) above) shall occur and be continuing, the Senior Secured Trustee or the holders of at least 30% in principal amount of outstanding Notes under the Indenture may, and the Senior Secured Trustee, upon the written request of such holders will, declare the principal of and accrued interest on such Notes to be due and payable by notice in writing to HoldCo and the Senior Secured Trustee specifying the Event of Default and that it is a "notice of acceleration" (the "Acceleration Notice"), and the same will become immediately due and payable.

(c) If an Event of Default specified in clauses (9) or (10) above occurs and is continuing, then all unpaid principal of, and premium, if any, and accrued and unpaid interest on all of the outstanding Notes issued under the Indenture will ipso facto become and be immediately due and payable without any declaration or other act on the part of the Senior Secured Trustee or any holder of the Senior Secured Notes.

(d) The Indenture will provide that, at any time after a declaration of acceleration with respect to the Senior Secured Notes as described in the two preceding paragraphs, the holders of a majority in principal amount of the Senior Secured Notes may rescind and cancel such declaration and its consequences:

(1) if the rescission would not conflict with any judgment or decree;

(2) if all existing Events of Default have been cured or waived except nonpayment of principal or interest that has become due solely because of the acceleration;

(3) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid;

(4) if the Issuer has paid the Senior Secured Trustee its reasonable compensation and reimbursed the Senior Secured Trustee for its expenses, disbursements and advances; and

(5) in the event of the cure or waiver of an Event of Default under the Indenture of the type described in clause (4) of the description above of Events of Default, the Senior Secured Trustee will have received an Officers' Certificate and an opinion of counsel that such Event of Default has been cured or waived.

No such rescission will affect any subsequent Default under the Indenture or impair any right consequent thereto.

(e) The holders of a majority in principal amount of the Senior Secured Notes issued and then outstanding under the Indenture may waive any existing Default or Event of Default under the Indenture, and its consequences, except a default in the payment of the principal of or interest on such Notes.

(f) In the event of any Event of Default specified in clause (4) of paragraph (a) above, such Event of Default and all consequences thereof (excluding, however, any resulting payment default) will be annulled, waived and rescinded, automatically and without any action by the Senior Secured Trustee or the holders of the Senior Secured Notes, if within 30 Business Days after such Event of Default arose HoldCo delivers an Officers' Certificate to the Senior Secured Trustee stating that (x) the Indebtedness or guarantee that is the basis for such Event of Default has been discharged or (y) the holders thereof have rescinded or waived the acceleration, notice or action (as the case may be) giving rise to such Event of Default or (z) the default that is the basis for such Event of Default has been cured, it being understood that in no event will an acceleration of the principal amount of such Notes as described above be annulled, waived or rescinded upon the happening of any such events.

(g) In the event that HoldCo or any of its Restricted Subsidiaries becomes aware of any Default (the "Unknown Default") not previously known to it and had previously taken an action (or failed to take an action) which was prohibited (or required) solely because of the continuance of such Default, then any Default or Event of Default arising from such action (or failure to take such action) and all consequences thereof (excluding any resulting payment Default, other than as a result of acceleration of the Senior Secured Notes) will be annulled, waived and rescinded, automatically and without any action by the Senior Secured Trustee or the Holders, if the Unknown Default has been cured.

(h) Subject to the provisions of the Indenture relating to the duties of the Senior Secured Trustee, the Senior Secured Trustee is under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any of the holders of the Senior Secured Notes, unless such holders have offered to the Senior Secured Trustee indemnity or security satisfactory to it. Subject to all provisions of the Indenture and applicable law, the holders of a majority in aggregate principal amount of the then outstanding Senior Secured Notes issued under the Indenture have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Senior Secured Trustee or exercising any trust or power conferred on the Senior Secured Trustee.

**Legal Defeasance or Covenant Defeasance of Indenture**

The Indenture will provide that the Issuer may, at its option and at any time prior to the Stated Maturity of the Senior Secured Notes, elect to have the obligations of the Issuer discharged with respect to the outstanding Senior Secured Notes ("Legal Defeasance"). Legal Defeasance means that the Issuer will be deemed to have paid and discharged the entire Indebtedness represented by the outstanding Senior Secured Notes except as to:

(a) the rights of Holders of outstanding Senior Secured Notes to receive payments in respect of the principal of, premium, if any, and interest on such Senior Secured Notes when such payments are due from the trust referred to below;

(b) the Issuer's obligations to issue temporary Senior Secured Notes, register, transfer or exchange any Senior Secured Notes, replace mutilated, destroyed, lost or stolen Senior Secured Notes, maintain an office or agency for payments in respect of the Senior Secured Notes and segregate and hold such payments in trust;

(c) the rights, powers, trusts, duties and immunities of the Senior Secured Trustee and the obligations of the Issuer and the Guarantors in connection therewith; and

(d) the Legal Defeasance provisions of the Indenture.

In addition, the Issuer may, at its option and at any time, elect to have the obligations of the Issuer and the Guarantors released with respect to certain covenants set forth in the Indenture ("Covenant Defeasance") and thereafter any omission to comply with such covenants will not constitute a Default or an Event of Default with respect to the Senior Secured Notes. In the event Covenant Defeasance occurs, certain events described under "Events of Default" will no longer constitute an Event of Default with respect to the Senior Secured Notes. These events do not include events relating to non-payment, bankruptcy, insolvency, receivership and reorganization. The Issuer may exercise its Legal Defeasance option regardless of whether it has previously exercised Covenant Defeasance.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(a) the Issuer must irrevocably deposit or cause to be deposited in trust with the Senior Secured Trustee, for the benefit of the Holders, cash in euro, European Government Obligations, or a combination thereof and cash in U.S. dollars, U.S. Government Obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of an internationally recognized firm of independent public accountants, to pay and discharge the principal of, premium, if any, and interest, on the outstanding Senior Secured Notes on the Stated Maturity or on the applicable redemption date, as the case may be, and the Issuer must (i) specify whether the Senior Secured Notes are being defeased to maturity or to a particular redemption date and (ii) if applicable, have delivered to the Senior Secured Trustee an irrevocable notice to redeem all of the outstanding Senior Secured Notes of such principal, premium, if any, or interest;

(b) the Issuer must have delivered to the Senior Secured Trustee an opinion of counsel (reasonably acceptable to the Senior Secured Trustee) to the effect that the holders of the outstanding Senior Secured Notes will not recognize income, gain or loss for tax purposes in the Republic of South Africa as a result of such deposit and defeasance and will be subject to tax in the Republic of South Africa on the same amounts, in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred;

(c) the Issuer must have delivered to the Senior Secured Trustee an opinion of counsel (reasonably acceptable to the Senior Secured Trustee) to the effect that the holders of the outstanding Senior Secured Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred (and, in the case of Legal Defeasance only, such opinion of counsel must be based on a ruling of the U.S. Internal Revenue Service or a change in applicable U.S. federal income tax law since the date of the Indenture);

(d) no Default or Event of Default will have occurred and be continuing (i) on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) or (ii) insofar as bankruptcy or insolvency events described in clauses (a)(9) or (10) of "—Events of Default" above is concerned, at any time during the period ending on the 90th day after the date of such deposit;

(e) such Legal Defeasance or Covenant Defeasance will not cause the Senior Secured Trustee for the Senior Secured Notes to have a conflicting interest as defined in the Indenture with respect to any of the Issuer's securities;

(f) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit), any material agreement or instrument to which the Issuer or any Restricted Subsidiary is a party or by which the Issuer or any Restricted Subsidiary is bound;

(g) such Legal Defeasance or Covenant Defeasance will not result in the trust arising from such deposit constituting an investment company within the meaning of the U.S. Investment Company Act of 1940 unless such trust will be registered under such act or exempt from registration thereunder;

(h) the Issuer must have delivered to the Senior Secured Trustee an opinion of independent counsel in the country of the Issuer's incorporation, such counsel to be reasonably acceptable to the Senior Secured Trustee, to the effect that after the 90th day following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally and an opinion of independent counsel reasonably acceptable to the Senior Secured Trustee that the Senior Secured Trustee will have a perfected security interest in such trust funds for the rateable benefit of the Holders;

(i) the Issuer must have delivered to the Senior Secured Trustee an Officers' Certificate stating that the deposit was not made by the Issuer with the intent of preferring the Holders over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding creditors of the Issuer or other creditors, or removing assets beyond the reach of the relevant creditors or increasing debts of the Issuer to the detriment of the relevant creditors; and

(j) the Issuer must have delivered to the Senior Secured Trustee an Officers' Certificate and an opinion of counsel, such counsel to be reasonably acceptable to the Senior Secured Trustee, each stating that all conditions precedent provided for relating to the Legal Defeasance or the Covenant Defeasance, as the case may be, have been complied with.

If the funds deposited with the Senior Secured Trustee to effect Covenant Defeasance are insufficient to pay the principal of, premium, if any, and interest on the Senior Secured Notes when due because of any acceleration occurring after an Event of Default, then the Issuer and the Guarantors will remain liable for such payments.

**Satisfaction and Discharge**

The Indenture will be discharged and will cease to be of further effect as to all Senior Secured Notes issued thereunder, when:

(a) either:

(1) all such Senior Secured Notes that have been authenticated, except lost, stolen or destroyed Senior Secured Notes that have been replaced or paid and Senior Secured Notes for whose payment money has been deposited in trust and thereafter repaid to the Issuer, have been delivered to the Senior Secured Trustee for cancellation; or

(2) all such Senior Secured Notes that have not been delivered to the Senior Secured Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable by reason of the mailing of a notice of redemption or otherwise within one year and the Issuer or any Guarantor has irrevocably deposited or caused to be deposited with the Senior Secured Trustee as trust funds in trust solely for the benefit of the holders of the Senior Secured Notes, cash in euro, non-callable European Government Obligations, or a combination thereof and cash in U.S. dollars, non-callable U.S. Government Obligations or a combination thereof, in amounts as will be sufficient without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the Senior Secured Notes not delivered to the Senior Secured Trustee for cancellation for principal, premium and Additional Amounts, if any, and accrued interest to the date of maturity or redemption;

(b) no Default or Event of Default has occurred and is continuing under the Indenture on the date of the deposit or will occur as a result of the deposit (other than a Default resulting from borrowing of funds to be applied to such deposit and the grant of any Lien securing such borrowing) and the deposit will not result in a breach or violation of, or constitute a default under, any other material instrument to which the Issuer is a party or by which the Issuer is bound;

(c) the Issuer has paid or caused to be paid all sums payable by it under such Indenture; and

(d) the Issuer has delivered irrevocable instructions to the Senior Secured Trustee under the Indenture to apply the deposited money toward the payment of the Senior Secured Notes issued thereunder at maturity or the redemption date, as the case may be.

In addition, the Issuer must deliver an Officers' Certificate and an opinion of counsel to the relevant Senior Secured Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

**Amendments and Waivers**

The Indenture will contain provisions permitting the Issuer, any Guarantors and the Senior Secured Trustee to enter into a supplemental indenture without the consent of the Holders for certain limited purposes, including, among other things, curing ambiguities, defects or inconsistencies, or making any change that does not adversely affect the rights of any Holder in any material respect. With the consent of the Holders of not less than a majority in aggregate principal amount of the Senior Secured Notes then outstanding (in each case including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Senior Secured Notes), the Issuer and the Senior Secured Trustee are permitted to amend or supplement the Indenture, the Senior Secured Notes, the Guarantees or the Security Documents; provided that no such modification or amendment may, without the consent of (x) each Holder of outstanding Senior Secured Note affected thereby or (y) at least 90% of the aggregate principal amount of the Senior Secured Notes then outstanding (in each case including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Senior Secured Notes):

(a) change the Stated Maturity of the principal of, or any installment of or Additional Amounts or interest on, any Senior Secured Note;

(b) reduce the principal amount of any Senior Secured Note (or Additional Amounts or premium, if any) or the rate of or change the time for payment of interest on any Senior Secured Note;

(c) change the coin or currency in which the principal of any Senior Secured Note or any premium or any Additional Amounts or the interest thereon is payable;

(d) impair the right to institute suit for the enforcement of any payment of any Senior Secured Note in accordance with the provisions of such Senior Secured Note and the Indenture;

(e) reduce the principal amount of Senior Secured Notes whose Holders must consent to any amendment, supplement or waiver of provisions of the Indenture;

(f) modify any of the provisions relating to supplemental indentures requiring the consent of Holders or relating to the waiver of past defaults or relating to the waiver of certain covenants, except to increase the percentage of outstanding Senior Secured Notes required for such actions or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the Holder of each Senior Secured Note affected thereby;

(g) except as otherwise permitted under "—Certain Covenants—Merger, Consolidation, or Sale of All or Substantially All Assets", consent to the assignment or transfer by the Issuer of any of the Issuer's rights or obligations under the Indenture;

(h) release any Guarantees except in compliance with the terms of the Indenture;

(i) make any change to the provisions of the Indenture affecting the ranking of the Senior Secured Notes in a manner that adversely affects the rights of the Holders;

(j) make any change in the provisions of the Indenture described under "—Additional Amounts" that adversely affects the rights of any Holder or amend the terms of the Senior Secured Notes or the Indenture in a way that would result in a loss of an exemption from any of the Taxes described thereunder or an exemption from any obligation to withhold or deduct Taxes so described thereunder unless the Issuer or the Guarantors agree to pay Additional Amounts, if any, in respect thereof in the supplemental indenture; or

(k) release any of the Issuer, HoldCo or HoldCo's Subsidiaries from any of its respective obligations under the Security Documents, except in accordance with the terms of such Security Documents or the Indenture.

Notwithstanding the foregoing, without the consent of any Holder, the Issuer, any Guarantors and the Senior Secured Trustee may modify, amend or supplement the Indenture, the Senior Secured Notes, any Guarantees, the Security Arrangement Agreement and the Security Documents:

(a) to evidence the succession of another Person to the Issuer or any Guarantor and the assumption by any such successor of the covenants in the Indenture, the Senior Secured Notes, a Guarantor's Guarantee, the Security Arrangement Agreement or the Security Documents in accordance with "—Certain Covenants—Merger, Consolidation, or Sale of All or Substantially All Assets";

(b) to add to the Issuer's covenants and those of any Guarantor or any other obligor upon the Senior Secured Notes for the benefit of the Holders or to surrender any right or power conferred upon the Issuer or any Guarantor or any other obligor upon the Senior Secured Notes, as applicable, in the Indenture, the Senior Secured Notes, any Guarantees, the Security Arrangement Agreement or the Security Documents;

(c) (i) to cure any ambiguity, mistake, defect or inconsistency or to correct or supplement any provision in the Indenture, the Senior Secured Notes, any Guarantees, the Security Arrangement Agreement or the Security Documents that may be defective or inconsistent with any other provision in the Indenture, the Senior Secured Notes, any Guarantees, the Security Arrangement Agreement or the Security Documents or (ii) make any other provisions with respect to matters or questions arising under the Indenture, the Senior Secured Notes, any Guarantees, the Security Arrangement Agreement or the Security Documents; *provided that* such provisions will not adversely affect the interests of the Holders in any material respect;

(d) to conform the text of the Indenture, the Senior Secured Notes, any Guarantees, the Security Arrangement Agreement or the Security Documents to any provision of this "Description of the Senior Secured Notes" to the extent that such provision in this "Description of the Senior Secured Notes" was intended to be a verbatim recitation of a provision of the Indenture, the Senior Secured Notes, the Guarantees, the Security Arrangement Agreement or the Security Documents;

(e) to release any Guarantor in accordance with and if permitted by the terms of and limitations set forth in the Indenture and to add a Guarantor or other guarantor under the Indenture;

(f) to evidence and provide the acceptance of the appointment of a successor Senior Secured Trustee under the Indenture;

(g) to mortgage, pledge, hypothecate or grant a security interest in favor of the Senior Secured Trustee for the benefit of the Holders as additional security for the payment and performance of the Issuer's obligations under the Indenture, in any property, or assets, including any of which are required to be mortgaged, pledged or hypothecated, or in which a security interest is required to be granted to the Senior Secured Trustee pursuant to the Indenture or otherwise;

(h) to provide for the issuance of Additional Senior Secured Notes in accordance with and if permitted by the terms of and limitations set forth in the Indenture and to make such changes as may be required to the Security Arrangement Agreement and the Security Documents to accommodate and implement such issuance of Additional Senior Secured Notes; or

(i) to further secure the Senior Secured Notes or to release all or any portion of the Collateral pursuant to the terms of the Indenture, the Security Arrangement Agreement or the Security Documents.

In formulating its opinion on such matters, the Senior Secured Trustee will be entitled to require and rely on such evidence as it reasonably deems appropriate, including an opinion of counsel, such counsel to be reasonably acceptable to the Senior Secured Trustee, and an Officers' Certificate.

The Holders of a majority in aggregate principal amount of the Senior Secured Notes outstanding may waive compliance with certain restrictive covenants and provisions of the Indenture.

It will not be necessary for the consent of the Holders to approve the particular form of any proposed amendment, but it will be sufficient if such consent approves the substance thereof.

The Indenture will provide that without the consent of the Holders the Senior Secured Trustee is authorized to, and upon the request of the Issuer will, enter into additional security documents, enforcement rights agreements or an intercreditor deed to which the Issuer is a party, provided, among other things, that:

(a) there is no Default or Event of Default under the Indenture;

(b) the Senior Secured Trustee receives from the Issuer an Officers' Certificate to the effect of (a) above; and

(c) the intercreditor deed does not affect the ranking of the Senior Secured Notes, or otherwise adversely affect the rights of the Holders.

For so long as the Senior Secured Notes are listed on the Global Exchange Market of the Irish Stock Exchange and the rules of such exchange so require, the Issuer will notify the Irish Stock Exchange of any such amendment, supplement and waiver.

**Notices**

Notices regarding the Senior Secured Notes will be:

(a) published in accordance with the rules and regulations of the Irish Stock Exchange if at the time of such notice the Senior Secured Notes are listed on the Global Exchange Market of the Irish Stock Exchange and the rules of the exchange require such publication;

(b) in the case of certificated Senior Secured Notes, mailed to Holders of such Senior Secured Notes by first-class mail at their respective addresses as they appear on the registration books of the registrar; and

(c) in the case of Global Senior Secured Notes, delivered to Euroclear and Clearstream or DTC, as applicable, each of which will give notice to the holders of book-entry interests.

If publication as provided above is not practicable, notice will be given in such other manner, and will be deemed to be given on such date, as the Senior Secured Trustee may approve.

Notices given by first-class mail will be deemed given five calendar days after mailing and notices given by publication will be deemed given on the first date on which publication is made.

If and so long as the Senior Secured Notes are listed on any other securities exchange, notices will also be given in accordance with any applicable requirements of such securities exchange.

**The Senior Secured Trustee**

The Indenture directly or by reference will contain limitations on the rights of the Senior Secured Trustee under the Indenture in the event the Senior Secured Trustee becomes a creditor of the Issuer or any Guarantor. These include limitations on the Senior Secured Trustee's rights to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise.

The Indenture will contain provisions for the indemnification of the Senior Secured Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

**No Personal Liability of Directors, Officers, Employees and Stockholders**

A director, officer, employee, promoter, advisor, incorporator, or stockholder, as such, of the Issuer, the Senior Secured Trustee or any Guarantor will not have any liability in such capacity for any obligations of the Issuer under the Senior Secured Notes or the Indenture or of such Guarantor under its Guarantee or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Senior Secured Note, each Holder will waive and release all such liability. The waiver and release will be part of the consideration for the issue of the Senior Secured Notes. Such waiver and release may not be effective to waive liabilities under the U.S. Federal securities laws, and it is the view of the Commission that such a waiver is against public policy.

**Governing Law**

The Indenture and the Senior Secured Notes will be governed by and construed in accordance with the laws of New York.

**Certain Definitions**

"***Acquired Indebtedness***" will mean, with respect to any specified Person, (i) Indebtedness of any other Person existing at the time such other Person is merged, consolidated, amalgamated or otherwise combined with or into or becomes a Restricted Subsidiary of such specified Person, and (ii) Indebtedness secured by an existing Lien encumbering any asset acquired by such specified Person.

"***Acquisition***" will mean the acquisition by the Issuer of Control of the ECSL assets with the purpose of acquiring effective control and ownership of the business and all the operating assets of ECSL.

"***Affiliate***" of any specified Person will mean any other Person directly or indirectly Controlling or Controlled by or under direct or indirect common Control with such specified Person.

"***Agreed Security Principles***" will mean the security and guarantee principles set out in Schedule 11 of the Senior Revolving Credit Facility as in effect on the Issue Date, as applied reasonably and in good faith by HoldCo.

"***Applicable Redemption Premium***" will mean, with respect to any Senior Secured Note on any redemption date, the greater of:

(a) 1.0% of the principal amount of the Senior Secured Note; and

(b) the excess of:

(i) the present value at such redemption date of: (x) the redemption price of such Senior Secured Note at 1 March 2014 (such redemption price being set forth in the table appearing below the caption "Optional Redemption—Optional Redemption on or after 1 March 2014"); *plus* (y) all required interest payments that would otherwise be due to be paid on such Senior Secured Note during the period between the redemption date and 1 March 2014 (excluding accrued but unpaid interest), computed using a discount rate equal to the Bund Rate or the Treasury Rate, as applicable, at such redemption date *plus* 50 basis points; over

(ii) the outstanding principal amount of the Senior Secured Note.

For the avoidance of doubt, the calculation of the Applicable Redemption Premium shall not be a duty or obligation of the Trustee or the Paying Agents.

"***Asset Sale*** " will mean (i) the sale, conveyance, transfer, lease (as lessor) or other voluntary disposition (whether in a single transaction or a series of related transactions) of property or assets (including by way of a sale and leaseback) of HoldCo (other than the sale of Equity Interests of HoldCo) or any Restricted Subsidiary of HoldCo (each referred to in this definition as a "disposition") or (ii) the issuance or sale of Equity Interests of any Restricted Subsidiary of HoldCo (whether in a single transaction or a series of related transactions), in each case, by HoldCo or a Restricted Subsidiary of HoldCo and other than:

(a) a disposition of cash or Cash Equivalents;

(b) a disposition of obsolete, damaged or worn out property or equipment in the ordinary course of business or inventory (or other assets) held for sale in the ordinary course of business and dispositions of property or equipment that is no longer used or useful in the conduct of the business of HoldCo and its Restricted Subsidiaries;

(c) the disposition of all or substantially all of the assets of HoldCo or any Subsidiary Guarantor in a manner permitted pursuant to "Merger, Consolidation, or Sale of All or Substantially All Assets" or any disposition that constitutes a Change of Control;

(d) any Restricted Payment that is permitted to be made, and is made, under "—Certain Covenants—Limitations on Restricted Payments" and any Permitted Investment or the granting of a Lien permitted by "—Certain Covenants—Limitations on Liens";

(e) any disposition of property or assets of HoldCo or any Restricted Subsidiary and any issuance or sale of Equity Interests of any Restricted Subsidiary in any transaction or series of related transactions with an aggregate fair market value of less than €2.0 million;

(f) any disposition of property or assets, or issuance or sale of securities, by a Restricted Subsidiary to HoldCo, or by HoldCo or any Restricted Subsidiary to another Restricted Subsidiary;

(g) the lease, assignment or sublease of any real or personal property in the ordinary course of business;

(h) any sale of Equity Interests in, or Indebtedness or other securities of, an Unrestricted Subsidiary (other than a CFS to the extent provided under "—Certain Covenants—Restrictions Relating to the Investment of the Credit and Financial Services Business");

(i) foreclosures on assets or transfers by reason of eminent domain;

(j) sales of assets received by HoldCo or any Restricted Subsidiary upon foreclosures on a Lien granted in favor of HoldCo or any Restricted Subsidiary;

(k) disposition of an account receivable in connection with the collection or compromise thereof;

(l) sales or dispositions of Securitization Assets to a Receivables Purchaser either in connection with any Qualified Securitization Financing or that would, but for a guarantee by any member of the Group of the Indebtedness of such Receivables Purchaser, be a Qualified Securitization Financing;

(m) sales or dispositions of Receivables Assets to any Person in a recourse factoring or similar transaction, where such transaction does not constitute a Qualified Securitization Financing, but the Indebtedness incurred in respect of such transaction constitutes Permitted Indebtedness;

(n) any financing transaction with respect to property built or acquired by HoldCo or any of its Restricted Subsidiaries after the date hereof, including sale and leaseback transactions and asset securitizations not prohibited by the Indenture; and

(o) a disposition of the Restricted Subsidiary which performs the servicing and administration services in respect of Receivables Assets where such disposition is intended to permit such Restricted Subsidiary to continue to provide back-up servicing in respect of those Receivables Assets following the occurrence of an early amortization event or an event of default under any Securitization Financing.

"***Attributable Debt***" will mean, with respect to any sale and leaseback transaction at the time of determination, the present value (discounted at the interest rate implicit in the lease determined in accordance with GAAP or, if not known, at HoldCo's incremental borrowing rate for a loan of similar tenor and with the same security as provided by the lease) of the total obligations of the lessee of the property subject to such lease for rental payments during the remaining term of the lease included in such sale and leaseback transaction, including any period for which such lease has been extended or may, at the option of the lessor, be extended, or until the earliest date on which the lessee may terminate such lease without penalty or upon payment of penalty (in which case the rental payments will include such penalty), after excluding from such rental payments all amounts required to be paid on account of maintenance and repairs, insurance, taxes, assessments, water, utilities and similar charges; provided, that if such sale and leaseback transaction results in a Capitalized Lease Obligation, the amount of Indebtedness represented thereby will be determined in accordance with the definition of "Capitalized Lease Obligation".

"***Bankruptcy Law***" will mean any law of any jurisdiction relating to bankruptcy, insolvency, winding-up, liquidation, or in respect of compromise, composition, assignment or arrangement with any creditors of the Person, or any reorganization or the relief of debtors.

"***BBBEE Payments***" will mean reasonable payments (whether made by means of a dividend or otherwise) to the BBBEE Trust or to the employees of HoldCo or its Subsidiaries who are its beneficiaries, approved in good faith by the Board of Directors of HoldCo for the benefit of employees of HoldCo or its Subsidiaries who are beneficiaries of the BBBEE Trust.

***"BBBEE Trust"*** will mean the staff empowerment trust formed with the purpose of providing a framework for the promotion by Edcon of Black Economic Empowerment through the ownership of equity.

" ***BidCo***" will mean Edcon Acquisition (Proprietary) Limited.

"***Board of Directors***" will mean:

(a) with respect to HoldCo or any other corporation, the board of directors or managers of the corporation (which, in the case of any corporation having both a supervisory board and an executive or management board, will be the executive or management board) or any duly authorized committee thereof;

(b) with respect to any partnership, the board of directors of the general partner of the partnership or any duly authorized committee thereof; and

(c) with respect to any other Person, the board or any duly authorized committee thereof or committee of such Person serving a similar function.

"***Board Resolution***" will mean, with respect to any Person, a resolution duly adopted by the Board of Directors of such Person and in full force and effect on the date of such certification.

"***Borrowing Base***" will mean, as of any date, an amount equal to the sum of (x) €200.0 million, (y) 65% of the net book value of all inventory owned by HoldCo and its Restricted Subsidiaries and (z) 2.0% of retail sales of HoldCo and its Restricted Subsidiaries, in each case calculated on a consolidated basis; provided, however, that (i) if Indebtedness is being incurred to finance an acquisition pursuant to which any accounts receivable or inventory will be acquired (whether through the direct acquisition of assets or the acquisition of Share Capital of a Person), Borrowing Base will include the applicable percentage of inventory to be acquired in connection with such acquisition and (ii) if Indebtedness is being incurred to finance an acquisition, total revenue will be calculated on a pro forma basis for any acquisition.

"***Bund Rate***" will mean the yield to maturity at the time of computation of direct obligations of the Federal Republic of Germany (*Bunds or Bundesanleihen*) with a constant maturity (as officially compiled and published in the most recent financial statistics that has become publicly available at least two Business Days (but not more than five Business Days) prior to the redemption date (or, if such financial statistics are not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)) most nearly equal to the period from the redemption date to 1 March 2014; *provided*, *however*, that if the period from the redemption date to 1 March 2014 is not equal to the constant maturity of a direct obligation of the Federal Republic of Germany for which a weekly average yield is given, the Bund Rate will be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of direct obligations of the Federal Republic of Germany for which such yields are given, except that if the period from such redemption date to 1 March 2014 is less than one year, the weekly average yield on actually traded direct obligations of the Federal Republic of Germany adjusted to a constant maturity of one year will be used.

"***Business Day***" will mean any day (that is not a Saturday or Sunday) on which commercial banks are open for general business in London, New York and Johannesburg and:

(a) in relation to any date for payment or purchase of a currency other than the euro, on which commercial banks are open for general business in the principal financial center of the country of that currency; or

(b) in relation to any date for payment or purchase of euro, which is a TARGET Settlement Day.

"***Capitalized Lease Obligation***" will mean, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at such time be required to be capitalized and reflected as a liability on a balance sheet (excluding the footnotes thereto) in accordance with GAAP.

"***Cash Contribution Amount***" will mean the aggregate amount of cash contributions made to the capital of HoldCo or a Subsidiary Guarantor described in the definition of "Contribution Indebtedness".

"***Cash Equivalents***" will mean:

(a) rand, Sterling, euro or U.S. dollars or such local currencies held by HoldCo or its Restricted Subsidiaries from time to time in the ordinary course of business;

(b) securities issued or directly and fully and unconditionally guaranteed or insured by the Republic of South Africa, the United States, the United Kingdom or a member of the European Union, or any agency or instrumentality thereof, the securities of which are unconditionally guaranteed as a full faith and credit obligation of such government with maturities of 12 months or less from the date of acquisition;

(c) certificates of deposit, time deposits and eurodollar time deposits with maturities of one year or less from the date of acquisition, bankers' acceptances with maturities not exceeding one year and overnight bank deposits, in each case, with any lender party to the Senior Revolving Credit Facility or any commercial bank having capital and surplus in excess of €500.0 million;

(d) repurchase obligations for underlying securities of the types described in *clauses (b) and (c)* entered into with any financial institution meeting the qualifications specified in *clause (c)* above;

(e) commercial paper rated at the time of acquisition thereof at least P-1 by Moody's or at least A-1 by S&P and in each case maturing within 12 months after the date of acquisition thereof;

(f) readily marketable direct obligations issued by the Republic of South Africa, any state of the United States of America, any province of Canada, or any member of the European Union or any political subdivision thereof, in each case, having one of the two highest rating categories obtainable from either Moody's or S&P with maturities of 12 months or less from the date of acquisition;

(g) instruments equivalent to those referred to in clauses (a) to (f) above denominated in euro, U.S. dollars or Sterling or any other foreign currency comparable in credit quality and tenor to those referred to above and customarily used by corporations for cash management purposes in any jurisdiction outside of the Republic of South Africa to the extent reasonably required in connection with any business conducted by any Restricted Subsidiary in such jurisdiction; and

(h) interests in investment funds investing 95% of their assets in securities of the types described in clauses (a) through (g) above.

***"CFS"*** will mean any Subsidiary that holds the assets and operations of the credit and financial services business of Edcon, consisting of contract rights, intellectual property, information technology systems, leases, office furniture and equipment, customary amounts of cash in-transit (not to exceed €7.5 million), receivables for which HoldCo or its Restricted Subsidiaries have received payment or have the right to receive payment and other similar assets used in the business of the credit and financial services business of Edcon.

"***Change of Control***" will mean the occurrence of any of the following:

(a) the sale, lease or transfer, in one or a series of related transactions, of all or substantially all of the assets of HoldCo and its Restricted Subsidiaries, taken as a whole, to any Person other than a Restricted Subsidiary or one or more Permitted Holders; or

(b) HoldCo becomes aware of (by way of a report, proxy, vote, written notice or otherwise) the acquisition by any Person or group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act, or any successor provision), including any group acting for the purpose of acquiring, holding or disposing of securities (within the meaning of Rule 13d 5(b)(1) under the Exchange Act), other than the Permitted Holders, in a single transaction or in a series of transactions, by way of merger, consolidation, amalgamation or other business combination or purchase of beneficial ownership (within the meaning of Rule 13d 3(a) under the Exchange

Act, or any successor provision) of more than 50% of the total voting power of the Voting Shares of HoldCo (or any successor thereof, as applicable); *provided* that any Voting Shares of which any Permitted Holder is the beneficial owner (within the meaning of Rule 13d 3(a) under the Exchange Act, or any successor provision) will not in any case be included in any Voting Shares of which any such Person or group is the beneficial owner (as so defined).

"***Collateral***" will mean the Security created or expressed to be created in favor of the SPV Guarantor pursuant to the Security Documents, the proceeds from which are to be applied to amounts owing under the Senior Secured Notes or any Guarantee, and will include all other property that is subject to any Lien (indirectly through the SPV Guarantor or otherwise) in favor of the SPV Guarantor, the Holders or any Guarantee.

"***Commission***" will mean the U.S. Securities and Exchange Commission and any successor thereto.

"***Consolidated Depreciation and Amortization Expense***" will mean, with respect to any Person for any period, the total amount of depreciation and amortization expense, including the amortization of deferred financing fees and other non-cash charges (excluding any non-cash item that represents an accrual or reserve for a cash expenditure for a future period), of such Person and its Restricted Subsidiaries for such period on a consolidated basis and otherwise determined in accordance with GAAP.

"***Consolidated EBITDA***" will mean with respect to any Person for any period the Consolidated Net Income of such Person for such period plus (without duplication to the extent reflected in the calculation of Consolidated Net Income):

(a) provision for taxes or other payments based on income or profits of such Person and its Restricted Subsidiaries for such period deducted in computing Consolidated Net Income of such Person for such period including, without limitation, state franchise and similar taxes, and including an amount equal to the amount of tax distributions actually made to holders of Equity Interests of HoldCo and its Restricted Subsidiaries in respect of such period in accordance with "—Certain Covenants—Limitations on Restricted Payments", which will be included as though such amounts had been paid as income taxes directly by HoldCo or any Restricted Subsidiary; plus

(b) Fixed Charges of such Person for such period to the extent the same was deducted in calculating such Consolidated Net Income; *plus*

(c) Consolidated Depreciation and Amortization Expense of such Person for such period to the extent deducted in computing Consolidated Net Income of such Person for such period; *plus*

(d) any expenses, charges or other costs related to any Equity Offering, Permitted Investment, acquisition (including amounts paid in connection with the acquisition or retention of one or more individuals comprising part of a management team retained to manage the acquired business, *provided* that such payments are made at the time of such acquisition and are consistent with the customary practice in the industry at the time of such acquisition), disposition, recapitalization, Indebtedness permitted to be incurred by the Indenture, the refinancing of any other Indebtedness of such Person or any of its Restricted Subsidiaries (in each case whether or not successful) and, in each case, deducted in such period in computing Consolidated Net Income; *plus*

(e) the amount of any restructuring or redundancy charge (which, for the avoidance of doubt, will include retention, severance, systems establishment costs, excess pension charges, contract termination costs, future lease commitments and costs to consolidate facilities and relocate employees) deducted in such period in computing Consolidated Net Income of such Person for such period; *plus*

(f) without duplication, any other non-cash charges, expenses or losses (including any impairment charges and the impact of purchase accounting, including, but not limited to, the amortization of inventory step-up) reducing Consolidated Net Income of such Person for such period, excluding any such charge that represents an accrual or reserve for a cash expenditure in a future period; *plus*

(g) the amount of management, monitoring, consulting, advisory fees, termination payments and related expenses paid to the Sponsors (or any accruals relating to such fees and related expenses) during such period pursuant to the Management Agreements, *plus*

(h) Securitization Fees to the extent deducted in calculating Consolidated Net Income for such period, plus

(i) any net after-tax gains or losses from discontinued operations and any net after-tax gains or losses on disposal of discontinued operations, in each case to the extent increasing (or decreasing) Consolidated Net Income of such Person for such period, *less*

(j) unrealized non-cash gains (losses) resulting from foreign currency balance sheet adjustments required by GAAP to the extent increasing (or decreasing) Consolidated Net Income of such Person for such period, *less*

(k) non-cash items increasing Consolidated Net Income of such Person for such period, excluding any items which represent the reversal of any accrual of, or reserve for, anticipated cash expenditure in any prior period.

Notwithstanding the foregoing, the provision for taxes based on the income or profits of, and the depreciation and amortization and noncash charges of, a Restricted Subsidiary (other than a Guarantor) will be added to Consolidated Net Income to compute Consolidated EBITDA only to the extent (and in the same proportion, including by reason of minority interests) that the net income or loss of such Restricted Subsidiary was included in calculating Consolidated Net Income and only if a corresponding amount would be permitted at the date of determination to be dividended to HoldCo by such Restricted Subsidiary without any prior governmental approval (which has not been obtained) or would not be restricted from being so dividended, directly or indirectly, by the operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule, or governmental regulation applicable to that Restricted Subsidiary or its stockholders (other than to the extent such dividend is permitted under "—Certain Covenants—Dividend and Other Payment Restrictions Affecting Subsidiaries"), unless such restriction with respect to the payment of dividends or in similar distributions has been legally waived.

"***Consolidated Interest Expense***" will mean, with respect to any Person for any period, the sum, without duplication, of:

(1) consolidated interest expense of such Person and its Restricted Subsidiaries for such period (including (a) amortization of original issue discount, (b) non-cash interest payments, (c) the interest component of Capitalized Lease Obligations, (d) recurring commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptances (excluding upfront commissions, discounts and other fees and charges incurred in respect of letters of credit and bankers' acceptances) and (e) net payments, if any, pursuant to Hedging Obligations (but excluding unrealized gains and losses arising with respect to Hedging Obligations in accordance with GAAP); *provided*, *however*, that amortization of deferred financing fees and interest expense in relation to Shareholder Debt and Securitization Fees (so long as the Net Income of the relevant Receivables Purchaser is not included in Consolidated Net Income) will not be deemed to constitute Consolidated Interest Expense; and

(2) consolidated capitalized interest of such Person and its Restricted Subsidiaries for such period, whether paid or accrued (but excluding capitalized interest in relation to Shareholder Debt);

in each case, on a consolidated basis and determined in accordance with GAAP.

"***Consolidated Net Income***" will mean, with respect to any Person for any period, the aggregate of the Net Income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, and otherwise determined in accordance with GAAP; *provided, however*, that:

(a) any net after-tax extraordinary, unusual or non-recurring gains, losses, expenses or charges (including, without limitation, severance, relocation, signing bonus, transition and other restructuring costs and litigation settlements or losses) will be excluded;

(b) any net after-tax gain or loss from any write-off or forgiveness of Indebtedness of such Person will be excluded;

(c) the cumulative effect of a change in accounting principles during such period will be excluded;

(d) any net after-tax gains or losses attributable to asset dispositions other than in the ordinary course of business (as determined in good faith by the Board of Directors of HoldCo) and any gain (or loss) realized upon the sale or other disposition of any Share Capital of any Person will be excluded;

(e) the Net Income for such period of any Person that is not a Subsidiary, or is an Unrestricted Subsidiary of such Person, or that is accounted for by such Person by the equity method of accounting, will be excluded; *provided* that, to the extent not already included, Consolidated Net Income of the relevant Person will be, (i) increased by the product of (x) the amount of dividends, distributions or other returns on the relevant Person's Investments that are actually paid in cash or Cash Equivalents (or converted into cash or Cash Equivalents) to the relevant Person or a Restricted Subsidiary thereof during the relevant period (subject, in the case of dividends paid or distributions made to a Restricted Subsidiary, to the limitations contained in clause (f) below) multiplied by (y) the amount of tax payable on account of such dividend, distribution or other return whether payable by the Person making the dividend or distribution or by the relevant Person or a Restricted Subsidiary and (ii) decreased by the amount of any equity of HoldCo in a net loss of any such Person for such period to the extent HoldCo has funded such net loss in cash with respect to such period; *provided, further, however,* that for purposes of the definition under "—Consolidated EBITDA", the net income of any such Person will be only increased by the amount of dividends, distributions or other returns on the relevant Person's Investments that are actually paid in cash or Cash Equivalents (or converted into cash or Cash Equivalents) to the relevant Person or a Restricted Subsidiary thereof during the relevant period (subject in the case of dividends paid or distributions made to a Restricted Subsidiary, to the limitations contained in clause (f) below);

(f) solely for the purpose of determining the amount available for Restricted Payments under clause (a)(5)(C)(1) of "—Certain Covenants—Limitations on Restricted Payments", the Net Income for such period of any Restricted Subsidiary of such Person will be excluded to the extent the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of its Net Income is not at the date of determination permitted without any prior governmental approval (which has not been obtained) or, directly or indirectly, by the operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its shareholders, (other than to the extent such declaration or payment of dividends or similar distributions is permitted under "—Certain Covenants—Dividend and Other Payment Restrictions Affecting Subsidiaries"), unless, in each case, such restriction has been legally waived; provided, however, that notwithstanding the foregoing, Consolidated Net Income of the relevant Person for any relevant period will, subject to the exclusion in *clause (e)* above, be increased by the amount of dividends, distributions or other payments actually paid in cash or Cash Equivalents (or converted during such period into cash or Cash Equivalents) to such Person or (subject to the impact of this clause (f)) a Restricted Subsidiary of such Person to the extent not already included therein;

(g) non-cash compensation expense or charge related to grants of performance shares, deferred return shares, stock options or other rights to officers, directors and employees of such Person or any Restricted Subsidiary will be excluded;

(h) any increase in amortization or depreciation or any one time non-cash charges resulting from purchase accounting will be excluded;

(i) accruals and reserves that were established within twelve months after the FRN Issue Date and that were so required to be established as a result of the Acquisition in accordance with GAAP will be excluded;

(j) the effect of any non-cash items resulting from any amortization, write-up, write-down or write-off of assets (including intangible assets, goodwill and deferred financing costs in connection with the Acquisition or any future acquisition, disposition, merger, consolidation or similar transaction or any other non-cash impairment charges) will be excluded;

(k) the amount of any expense will be excluded to the extent a corresponding amount is received in cash by HoldCo and its Restricted Subsidiaries from a Person other than HoldCo or any of its Restricted Subsidiaries under any agreement providing for reimbursement of any such

expense, provided such reimbursement payment has not been included in determining Consolidated Net Income (it being understood that if the amounts received in cash under any such agreement in any period exceed the amount of expense in respect of such period, such excess amounts received may be carried forward and applied against expense in future periods);

(l) any unrealized non-cash gains (losses) resulting from Hedging Obligations and any ineffectiveness recognized in earnings related to qualifying hedging transactions with respect to Hedging Obligations or the fair value therein recognized in earnings for derivatives that do not qualify as hedging transactions, will be excluded;

(m) any net after-tax income or loss from discontinued operations and any net after-tax gain or loss on disposal of discontinued operations will be included;

(n) any goodwill or other intangible asset impairment charge will be excluded; and

(o) the impact of interest on Shareholder Debt will be excluded from the Consolidated Net Income of the relevant Person.

For purposes of clause (f) above, the net income of a Restricted Subsidiary that could have distributed such net income to the relevant Person will be included in such net income.

Notwithstanding the foregoing, for purposes of "—Certain Covenants—Limitations on Restricted Payments" only, there will be excluded from Consolidated Net Income any income arising from any sale or other disposition of Restricted Investments made by HoldCo and the Restricted Subsidiaries, any repurchases and redemptions of Restricted Investments made by HoldCo and any Restricted Subsidiary, any repayments of loans and advances which constitute Restricted Investments made by HoldCo and any Restricted Subsidiary, any sale of the stock of an Unrestricted Subsidiary or any distribution or dividend from an Unrestricted Subsidiary, in each case only to the extent such amounts increase the amount of Restricted Payments permitted under "—Certain Covenants—Limitations on Restricted Payments".

"***Consolidated Total Assets***" will mean, as of any date, the total assets of HoldCo and its Restricted Subsidiaries, determined on a consolidated basis in accordance with GAAP, as set forth on the consolidated balance sheet of HoldCo as of such date. Consolidated Total Assets will include as of any date, any assets acquired by HoldCo or any Restricted Subsidiary on such date.

"***Contribution Indebtedness***" will mean Indebtedness of HoldCo or any Subsidiary Guarantor in an aggregate principal amount not greater than twice the aggregate amount of cash contributions (other than Excluded Contributions) made to the capital of HoldCo or such Subsidiary Guarantor after the FRN Issue Date, provided that:

(1) if the aggregate principal amount of such Contribution Indebtedness is greater than the aggregate amount of such cash contributions to the capital of HoldCo or such Subsidiary Guarantor, as applicable, the amount in excess will be unsecured Subordinated Indebtedness with a Stated Maturity later than the Stated Maturity of the Senior Secured Notes, and

(2) such Contribution Indebtedness (a) is incurred within 180 days after the making of such cash contribution and (b) is so designated as Contribution Indebtedness pursuant to an Officers' Certificate on the incurrence date thereof.

"***Control***" will mean with respect to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise, and "***Controlling***" and "***Controlled***" will have meanings correlative thereto.

"***Credit Facilities***" will mean (i) the Senior Revolving Credit Facility and (ii) one or more debt facilities, indentures or other arrangements (including commercial paper facilities and overdraft facilities) with banks, other financial institutions or investors providing for revolving credit loans, term loans, notes, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables), letters of credit or other Indebtedness, in each case, as amended, restated, modified, renewed, refunded, replaced,

restructured, refinanced, repaid, increased or extended in whole or in part from time to time (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or other banks or institutions and whether provided under the original Senior Revolving Credit Facility or one or more other credit or other agreements, indentures, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other guarantees, pledges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term "***Credit Facility***" will include any agreement or instrument (1) changing the maturity of any Indebtedness Incurred thereunder or contemplated thereby, (2) adding Subsidiaries of HoldCo as additional borrowers or guarantors thereunder, (3) increasing the amount of Indebtedness Incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

"***Default*** " will mean any Event of Default or any event that would constitute an Event of Default but for the passage of time or the requirement that notice be given or both; provided, that any Default that results solely from the taking of an action that would have been permitted but for the continuation of a previous Default will be deemed to be cured if such previous Default is cured prior to becoming an Event of Default.

"***Designated Noncash Consideration***" will mean the fair market value of noncash consideration received by HoldCo or any Restricted Subsidiary in connection with an Asset Sale that is so designated as Designated Noncash Consideration pursuant to an Officers' Certificate setting forth the basis of such valuation, less the amount of cash or Cash Equivalents received in connection with a subsequent sale of such Designated Noncash Consideration.

"***Designated Preference Shares***" will mean Preference Shares of HoldCo or any direct or indirect parent corporation of HoldCo (other than Disqualified Share Capital of HoldCo) that are issued for cash (other than to HoldCo or any of its Subsidiaries or an employee stock ownership plan or trust established by HoldCo or any of its Subsidiaries) and are so designated as Designated Preference Shares, pursuant to an Officers' Certificate, on the issuance date thereof, the cash proceeds from which are excluded from the calculation set forth under "—Certain Covenants—Limitations on Restricted Payments".

"***Disqualified Share Capital***" will mean, with respect to any Person, any Share Capital of such Person which, by its terms, or by the terms of any security into which it is convertible or for which is putable or exchangeable, or upon the happening of any event, matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof (other than as a result of a change of control or asset sale), in whole or in part, in each case, for cash or in exchange for Indebtedness prior to the date 91 days after the earlier of the final maturity of the Senior Secured Notes and the date the Senior Secured Notes are no longer outstanding; provided, that, if such Share Capital is issued pursuant to any employee equity plan for the benefit of employees of HoldCo or its Subsidiaries or by any such plan to such employees, such Share Capital will not constitute Disqualified Share Capital solely because the relevant Person may be required to repurchase such Share Capital in order to satisfy applicable statutory or regulatory obligations.

"***ECSL***" will mean Edgars Consolidated Stores Limited, a company organized under the laws of the Republic of South Africa.

"***Equity Interests***" will mean all Share Capital and all warrants, options or other rights to acquire Share Capital (but excluding any Indebtedness that is convertible into, or exchangeable for, Share Capital).

"***Equity Offering***" will mean any public or private sale of ordinary shares, Preference Shares or other Equity Interests of, or contribution to the capital of, HoldCo or any direct or indirect parent entity (excluding Disqualified Share Capital) (other than (i) public offerings on Form S-4 or S-8 or (ii) an issuance to any Subsidiary of HoldCo).

"***euro***" or "***€***" will mean the single currency of the Participating Member States.

"***European Government Obligation***" shall mean direct obligations (or certificates representing an ownership interest in such obligations) of a member state of the European Union, Switzerland, Norway, Iceland or Liechtenstein as of the FRN Issue Date (including any agency or instrumentality thereof) for the payment of which the full faith and credit of such government is pledged.

"***Exchange Act***" will mean the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission promulgated thereunder.

"***Excluded Contribution***" will mean net cash proceeds, marketable securities or Qualified Proceeds, in each case received by HoldCo and the Restricted Subsidiaries from:

(1) contributions to their common equity capital; and

(2) the sale (other than to a Subsidiary or to any management equity plan or stock option plan or any other management or employee benefit plan or agreement of HoldCo or any Subsidiary) of Share Capital (other than Disqualified Share Capital and Designated Preference Shares),

in each case designated as Excluded Contributions pursuant to an Officers' Certificate on the date such capital contributions are made or the date such Equity Interests are sold, as the case may be, which are excluded from the calculations set forth in "—Certain Covenants—Limitations on Restricted Payments".

"***Existing Indebtedness***" will mean Indebtedness of HoldCo and Indebtedness and Preference Shares of its Restricted Subsidiaries outstanding on the Issue Date (including, for the avoidance of doubt, the Senior Floating Rate Notes and the Senior Secured Floating Rate Notes.

"***fair market value***", unless otherwise specified, wherever such term is used in the Indenture, may be conclusively established by means of an Officers' Certificate or a resolution of the Board of Directors of HoldCo setting out such fair market value as determined by such Officers or such Board of Directors in good faith.

"***Fixed Charge Coverage Ratio***" will mean, with respect to any Person, the ratio of Consolidated EBITDA of such Person for the most recently ended four fiscal quarters for which internal financial statements are available to the Fixed Charges of such Person for such period. The Fixed Charge Coverage Ratio will be calculated on a *pro forma* basis assuming that all Investments, acquisitions, dispositions, mergers, consolidations, amalgamations, disposed operations and other business combination transactions, as well as each repayment, repurchase, defeasance or other discharge of Indebtedness (as determined in accordance with GAAP) made or undertaken by the relevant Person or any Restricted Subsidiaries (including the change in Fixed Charges and Consolidated EBITDA resulting therefrom) during the four quarter reference period, or subsequent to such reference period and prior to the date of calculation had occurred on the first day of the four-quarter reference period. In addition, if (since the beginning of such four-quarter reference period) any Person that subsequently became a Restricted Subsidiary of the relevant Person or was merged, consolidated, amalgamated or otherwise combined with or into the relevant Person or any of its Restricted Subsidiaries since the beginning of such period will have made any Investment, acquisition, disposition, merger, consolidation, amalgamation, disposed operations or other business combination transaction or any repayment, repurchase, defeasance or other discharge of Indebtedness that would have required adjustment pursuant to this definition, then Consolidated EBITDA of the acquired Person will be calculated giving pro forma effect thereto for such period as if such Investment, acquisition, disposition, merger, consolidation, amalgamation, disposed operations or other business combination transaction or any such discharge of Indebtedness had occurred at the beginning of the applicable four-quarter period. For purposes of this definition, whenever *pro forma* effect is to be given to a transaction, the pro forma calculations will be made in good faith by a responsible financial or accounting officer of the relevant Person. If any Indebtedness bears interest at a floating rate and is being given *pro forma* effect, the interest on such Indebtedness will be calculated as if the rate in effect on the date of calculation had been the applicable rate for the entire period (taking into account any Hedging Obligations applicable to such Indebtedness). Interest on a Capitalized Lease Obligation will be deemed to accrue at an interest rate reasonably determined by a responsible financial or accounting officer of the relevant Person to be the rate of interest implicit in such Capitalized Lease Obligation in accordance with GAAP. For purposes of making the computation referred to above, interest on any

Indebtedness outstanding during the relevant period under a revolving credit facility computed on a *pro forma* basis will be computed based upon the average daily balance of such Indebtedness during the applicable period. Interest on Indebtedness that may optionally be determined at an interest rate based on a prime or similar rate, a eurocurrency interbank offered rate, or other rate, will be deemed to have been based upon the rate actually chosen, or, if none, then based upon such optional rate chosen as the relevant Person may designate.

"***Fixed Charges***" will mean, with respect to any Person for any period, the sum, without duplication, of:

(a) the Consolidated Interest Expense of such Person and its Restricted Subsidiaries for such period; *plus*

(b) all cash dividends paid during such period, on any series of Preference Shares of such Person and its Restricted Subsidiaries; *plus*

(c) all cash dividends paid during such period on any series of Disqualified Share Capital of such Person and its Restricted Subsidiaries; *plus*

(d) any interest expense on Indebtedness of another person that is guaranteed by such Person or its Restricted Subsidiaries or secured by a Lien on assets of such Person or its Restricted Subsidiaries, but only to the extent such guarantee or Lien is called upon;

in each case, on a consolidated basis and in accordance with GAAP.

"***FRN Issue Date***" will mean 8 June 2007, the date on which the Senior Secured Floating Rate Notes and the Senior Floating Rate Notes were first issued.

"***GAAP***" will mean the International Financial Reporting Standards, as amended, developed by the International Accounting Standards Board, as in effect on the FRN Issue Date.

"***guarantee***" will mean a guarantee (other than by endorsement of negotiable instruments for collection in the ordinary course of business), direct or indirect, in any manner (including, without limitation, by pledge of assets or through letters of credit and reimbursement agreements or any counter indemnity in respect thereof, and whether a primary obligation or not), of all or any part of any Indebtedness. When used as a verb, "***guarantee***" will have a corresponding meaning.

"***Guarantee***" will mean any guarantee of the obligations of the Issuer under the Indenture. When used as a verb, "***Guarantee***" will have a corresponding meaning.

"***Guarantor***" will mean HoldCo and any Subsidiary Guarantor and any other Person that incurs a Guarantee of the Senior Secured Notes; *provided* that upon the release and discharge of such Person from its Guarantee in accordance with the Indenture, such Person will cease to be a Guarantor.

"***Hedging Obligations***" will mean, with respect to any Person, the obligations of such Person under (i) currency exchange, interest rate or commodity swap agreements; currency exchange, interest rate or commodity cap, floor or ceiling agreements; and currency exchange, interest rate or commodity collar agreements; and (ii) other agreements or arrangements designed to manage, hedge or protect such Person against fluctuations in currency exchange rates, interest rates or commodity prices (any of the foregoing agreements, a "***Hedging Agreement***").

"***HoldCo***" will mean Edcon Holdings (Proprietary) Limited.

"***Holder***" will mean the Person in whose name a Senior Secured Note is registered on the Registrar's books.

"***Holding Company***" will mean, in relation to any person, any other body corporate or other entity of which it is a Subsidiary.

"***Immaterial Subsidiary***" will mean any Restricted Subsidiary of HoldCo that has Consolidated Total Assets and revenues of less than 5% of the Consolidated Total Assets and revenues of HoldCo and its Restricted Subsidiaries measured, in the case of Consolidated Total Assets, at the end of the most

recent fiscal period for which internal financial statements are available and, in the case of revenues, for the four quarters ended most recently for which internal financial statements are available, in each case measured on a pro forma basis giving effect to any acquisitions or disposition of companies, divisions or lines of business since such balance sheet date or the start of such four quarter period, as applicable, and on or prior to the date of acquisition of such Subsidiary and excluding from such calculations the Consolidated Total Assets or revenues of any Subsidiary of HoldCo that would, if determined for that Subsidiary as if it were HoldCo, result in a negative number.

"***Indebtedness***" will mean, with respect to any Person,

(a) the principal and premium amount of any indebtedness of such Person, whether or not contingent:

(1) in respect of borrowed money,

(2) evidenced by bonds, notes, debentures or similar instruments or letters of credit or bankers' acceptances (or, without duplication, reimbursement agreements in respect thereof);

(3) representing the deferred and unpaid balance of the purchase price (including Capitalized Lease Obligations) for any property, except, in each case, for (A) any such balance that constitutes a trade payable or similar obligation to a trade creditor, or to a bank or other lending institution on behalf of a trade creditor in each case accrued in the ordinary course of business and (B) reimbursement obligations in respect of trade letters of credit in the ordinary course of business with expiration dates not in excess of 365 days from the date of issuance (x) to the extent undrawn or (y) if drawn, to the extent repaid in full within 20 Business Days of any such drawing; or

(4) representing any Hedging Obligations (the amount of any such indebtedness to be equal at any time to the net payments that would be payable by such Person at such time under the Hedging Obligation at its termination date)

if and to the extent that any of the foregoing Indebtedness specified in clauses (1) through (4) (other than letters of credit and Hedging Obligations) would appear as a liability on the balance sheet (excluding the footnotes thereto) of such Person prepared in accordance with GAAP;

(b) Disqualified Share Capital of such Person;

(c) to the extent not otherwise included, any obligation of such Person to be liable for, or to pay, as obligor, guarantor or otherwise on the Indebtedness of any other Person (other than by endorsement of negotiable instruments for collection in the ordinary course of business); and

(d) to the extent not otherwise included, Indebtedness of another Person secured by a Lien on any asset owned by such Person, whether or not such Indebtedness is assumed by such Person (with the amount of such Indebtedness equal to the lesser of the fair market value (determined in good faith by HoldCo) of such asset at such date of determination and the amount of such Indebtedness of such other Person);

*provided*, *however*, that notwithstanding the foregoing, in no event will the following constitute Indebtedness:

(1) contingent obligations incurred in the ordinary course of business and not in respect of borrowed money,

(2) in connection with the purchase by HoldCo or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; *provided*, *however*, that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 30 days thereafter, and

(3) for the avoidance of doubt, any contingent obligations in respect of workers' compensation claims, early retirement obligations or pension fund contributions.

"***Indenture***" will mean the indenture governing the Senior Secured Notes, dated on or about 2011, among the Issuer and the Guarantors and The Bank of New York Mellon, as Senior Secured Trustee, and the other parties thereto.

"***Independent Financial Advisor***" will mean an accounting, appraisal or investment banking firm or consultant of internationally recognized standing that is, in the good faith judgment of the Board of Directors of HoldCo, qualified to perform the task for which it has been engaged.

"***Intercreditor Agreement***" will mean the intercreditor agreement dated 25 May 2007, as amended and restated on or about the Issue Date, and made between, among others, Absa Capital, a division of Absa Bank Limited, Barclays Bank PLC, Elephant OntheCards (Proprietary) Limited as SPV Guarantor and certain entities described therein as such document may be further modified, amended or amended and restated from time to time, relating to, inter alia, regulating the relationship between the Holders of the Senior Secured Notes, the holders of the Senior Secured Floating Rate Notes, the holders of the Senior Floating Rate Notes and the lenders under the Senior Revolving Credit Facility Documents and the Hedging Agreements.

"***Investments***" will mean, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the form of loans (including guarantees or other obligations), advances or capital contributions (including by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others, but excluding accounts receivable, trade credit, advances to customers, commission, travel and similar advances to officers and employees, in each case made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities issued by any other Person and investments that are required by GAAP to be classified on the balance sheet (excluding the footnotes) of the relevant Person in the same manner as the other investments included in this definition to the extent such transactions involve the transfer of cash or other property. If HoldCo or any Restricted Subsidiary of HoldCo sells or otherwise disposes of any Equity Interests of any direct or indirect Restricted Subsidiary of HoldCo such that, such Person is no longer a Restricted Subsidiary of HoldCo, HoldCo will be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of the Equity Interests of such Restricted Subsidiary not sold or disposed of as determined by the Board of Directors of HoldCo in good faith.

For purposes of the covenants in "—Certain Covenants—Limitations on Restricted Payments" and the definition of "Unrestricted Subsidiary", "Investments" will include (i) the portion (proportionate to HoldCo's equity interest in such Subsidiary) of the fair market value of the net assets of a Restricted Subsidiary of HoldCo at the time that such Restricted Subsidiary is designated an Unrestricted Subsidiary; provided that upon a redesignation of such Unrestricted Subsidiary as a Restricted Subsidiary, HoldCo will be deemed to continue to have a permanent "***Investment***" in an Unrestricted Subsidiary in an amount (if positive) equal to (x) HoldCo's "Investment" in such Subsidiary at the time of such redesignation less (y) the portion (proportionate to HoldCo's equity interest in such Subsidiary) of the fair market value of the net assets of such Subsidiary at the time of such redesignation; (ii) any property transferred to or from an Unrestricted Subsidiary will be valued at its fair market value at the time of such transfer in each case as determined in good faith by the Board of Directors of the Issuer; and (iii) any transfer of Share Capital that results in an entity which became a Restricted Subsidiary after the FRN Issue Date ceasing to be a Restricted Subsidiary will be deemed to be an Investment in an amount equal to the fair market value (as determined by the Board of Directors of HoldCo in good faith as of the date of initial acquisition) of the Share Capital of such entity owned by HoldCo and its Restricted Subsidiaries immediately after such transfer.

"***Investment Grade***" will mean (1) BBB- or above, in the case of S&P (or its equivalent under any successor Rating Categories of S&P) and Baa3 or above, in the case of Moody's (or its equivalent under any successor Rating Categories of Moody's), or (2) the equivalent in respect of the Rating Categories of any Rating Agencies.

"***Issue Date***" will mean the date on which the Senior Secured Notes are issued under the Indenture.

"***Issuer***" will mean Edcon (Proprietary) Limited (formerly Elephant RetailCo (Proprietary) Limited) (Registration No. 2007/003525/07), a private company duly incorporated according to the laws of the Republic of South Africa.

"***Joint Venture***" will mean any Person (other than a Restricted Subsidiary) in which HoldCo or any Restricted Subsidiary has beneficial ownership, directly or indirectly, of more than 15% of the Voting Shares of such Person.

"***Lien***" will mean, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction; *provided* that in no event will an operating lease be deemed to constitute a Lien.

"***Management Agreements***" will mean the Transaction Services Agreement and the Consulting Services Agreement, each dated on or about 3 May 2007, by and among HoldCo or any Restricted Subsidiary of HoldCo and the Sponsors, as in effect on the FRN Issue Date or otherwise amended, modified or supplemented.

"***Management Group***" will mean the group consisting of the directors, executive officers and other management personnel of HoldCo and the Issuer on the FRN Issue Date together with (a) any new directors of HoldCo or the Issuer whose election by such Boards of Directors or whose nomination for election by the shareholders of HoldCo was approved by a vote of a majority of the directors of HoldCo then still in office who were either directors on the FRN Issue Date or whose election or nomination was previously so approved and (b) executive officers and other management personnel of HoldCo or the Issuer hired at a time when the directors on the FRN Issue Date together with the directors so approved constituted a majority of the directors of HoldCo.

"***Material Subsidiary***" will mean any Restricted Subsidiary of HoldCo, other than an Immaterial Subsidiary.

"***Moody's***" will mean Moody's Investors Service, Inc. and any successor to its ratings business.

"***Net Income***" will mean, with respect to any person, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of Preference Share dividends.

"***Net Proceeds***" will mean the aggregate cash proceeds received by HoldCo or any Restricted Subsidiary in respect of any Asset Sale, in each case net of legal, accounting and investment banking fees, and brokerage and sales commissions, any relocation expenses incurred as a result thereof, taxes paid or payable as a result thereof (after taking into account any available tax credits or deductions and any tax sharing arrangements), repayment of Indebtedness that is secured by the property or assets that are the subject of such Asset Sale and any deduction of appropriate amounts to be provided by HoldCo as a reserve in accordance with GAAP against any liabilities associated with the asset disposed of in such transaction and retained by HoldCo after such sale or other disposition thereof, including, without limitation, pension and other post employment benefit liabilities and liabilities related to environmental matters or against any indemnification obligations associated with such transaction.

"***Obligations***" will mean any principal, interest, penalties, fees, indemnifications, reimbursements (including, without limitation, reimbursement obligations with respect to letters of credit), damages and other liabilities, and guarantees of payment of such principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities, payable under the documentation governing any Indebtedness.

"***Officer***" will mean, with respect to any Person, any director or officer of such Person.

"***Officers' Certificate***" will mean a certificate signed by two Officers of HoldCo, one of whom is the principal executive officer, the principal financial officer or the treasurer.

"***Pari Passu Indebtedness***" will mean (a) any Indebtedness of HoldCo that is *pari passu* in right of payment to the Senior Secured Notes and (b) with respect to any Guarantee, Indebtedness which ranks *pari passu* in right of payment to such Guarantee.

"***Participating Member State***" will mean any member state of the European Communities that adopts or has adopted the euro as its lawful currency in accordance with legislation of the European Community relating to Economic and Monetary Union.

"***Paying Agent***" will mean any Person authorized by HoldCo to pay the principal of, premium, if any, or interest on any Senior Secured Notes on behalf of HoldCo.

"***Permitted Collateral Lien***" will mean any Lien on the Collateral:

(a) (1) arising by operation of law or (2) to secure the performance of statutory obligations, and that, in each case, would not materially interfere with the ability of the collateral agent to enforce the Security in the Collateral;

(b) to secure Indebtedness of HoldCo or any Restricted Subsidiary that is permitted to be incurred under clause (b)(1), (2), (3) (other than the Senior Notes), (10), (13) (in the case of (13), to the extent such guarantee is in respect of Indebtedness otherwise permitted to be secured and specified in this definition of Permitted Collateral Liens) and (14) (if the original Indebtedness was so secured) of "—Certain Covenants—Limitations on Incurrence of Indebtedness and Issuance of Preference Shares"; *provided, however, that* such Lien ranks equal or junior to all other Liens on such Collateral securing Indebtedness of HoldCo or such Restricted Subsidiary, as applicable (except that a Lien in favor of Indebtedness incurred under clause (b)(1) and (2) of "—Certain Covenants—Limitations on Incurrence of Indebtedness and Issuance of Preference Shares" and the Hedging Obligations provided by the lenders under the Credit Facilities, any Securitization Financing and the Hedging Documents or their affiliates may have super priority not materially less favorable to the Holders than that accorded to the Credit Facilities, such Securitization Financing or Hedging Obligations on the FRN Issue Date);

(c) to secure Indebtedness permitted to be incurred under clause (a) of "—Certain Covenants—Limitations on Incurrence of Indebtedness and Issuance of Preference Shares", *Pari Passu* Indebtedness, Subordinated Indebtedness or other obligations of HoldCo and its Restricted Subsidiaries, provided that (1) if such Indebtedness is Pari Passu Indebtedness such Lien must rank *pari passu* with or junior to the Liens on the Collateral securing the Senior Secured Notes and (2) if such Indebtedness is Subordinated Indebtedness such Lien must rank junior to the Liens on the Collateral securing the Senior Secured Notes; provided further that after giving effect to the incurrence of any Senior Secured Indebtedness pursuant to this clause (z) (other than pursuant to clause (b)(5) of "—Certain Covenants—Limitations on Incurrence of Indebtedness and Issuance of Preference Shares"), the Senior Secured Leverage Ratio would be less than or equal to 5 to 1; and

(d) Permitted Liens (other than Liens described in clauses (i) and (j) of the definition of "Permitted Liens").

"***Permitted Holder***" will mean each of (a) the Sponsors and the Sponsor Group Affiliates and (b) the Management Group, with respect to not more than 10% of the total voting power of the Equity Interests of HoldCo or the Issuer, and (c) any "group" (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act or any successor provision) of which any of the foregoing are members, provided that in the case of such "group" and without giving effect to the existence of such "group" or any other "group", the Sponsor Group, Sponsor Group Affiliates and the Management Group, collectively, have beneficial ownership, directly or indirectly, of more than 50% of the total voting power of the Voting Shares of HoldCo or any of its direct or indirect parent entities held by such "group." Any person or group whose acquisition of beneficial ownership constitutes a Change of Control will thereafter, together with its Affiliates, constitute an additional Permitted Holder.

"***Permitted Investments***" will mean:

(a) any Investment in HoldCo or any Restricted Subsidiary;

(b) any Investment in cash or Cash Equivalents;

(c) any Investment by HoldCo or any Restricted Subsidiary in a Person that is engaged in a Similar Business if as a result of such Investment (i) such Person becomes a Restricted Subsidiary or (ii) such Person, in one transaction or a series of related transactions, is

merged, consolidated, amalgamated or otherwise combined with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, HoldCo or a Restricted Subsidiary;

(d) any Investment in securities or other assets not constituting cash or Cash Equivalents and received in connection with an Asset Sale made pursuant to the provisions of "—Limitations on Asset Sales" or any other disposition of property or assets, or issuance or sale of Equity Interests, not constituting an Asset Sale;

(e) any Investment existing on the Issue Date and any modification, replacement, renewal or extension thereof; *provided* that the amount of any such Investment may be increased (x) as required by the terms of such Investment as in existence on the Issue Date or (y) as otherwise permitted by the Indenture;

(f) (i) loans and advances to officers, directors and employees not in excess of €10.0 million outstanding at any one time, in the aggregate and (ii) loans and advances of payroll payments and expenses to officers, directors and employees, in the case of each of (i) and (ii) incurred in the ordinary course of business;

(g) any Investment acquired by HoldCo or any Restricted Subsidiary (i) in exchange for any other Investment or accounts receivable held by HoldCo or any such Restricted Subsidiary, in each case, in connection with or as a result of a bankruptcy, workout, reorganization or recapitalization or other settlement of such other Investment or accounts receivable or (ii) as a result of a foreclosure by HoldCo or any Restricted Subsidiary with respect to any secured Investment or other transfer of title with respect to any secured Investment in default;

(h) Hedging Obligations permitted under "—Certain Covenants—Limitations on Incurrence of Indebtedness and Issuance of Preference Shares";

(i) loans and advances to officers, directors and employees for business-related travel expenses, moving expenses and other similar expenses, in each case incurred in the ordinary course of business;

(j) additional Investments having an aggregate fair market value, taken together with all other Investments made pursuant to this clause (j) that are at the time outstanding, not to exceed the greater of €75.0 million and 2.75% of Consolidated Total Assets at the time of such Investment (with the fair market value of each Investment being determined in good faith by HoldCo and measured at the time made and without giving effect to subsequent changes in value); *provided* that if an Investment is made pursuant to this clause (j) in a Person that is not a Restricted Subsidiary and such Person is subsequently designated or otherwise becomes a Restricted Subsidiary, such Investment will thereafter be deemed to have been made pursuant to *clause (c)* of the definition of "Permitted Investments" and not this clause (j);

(k) Investments the payment for which consists of Equity Interests (except Disqualified Share Capital) of HoldCo or any of its direct or indirect parent companies;

(l) guarantees permitted by "—Certain Covenants—Limitations on Incurrence of Indebtedness and Issuance of Preference Shares";

(m) Investments consisting of licensing of intellectual property pursuant to joint marketing arrangements with other Persons;

(n) Investments of a Restricted Subsidiary acquired after the Issue Date or of an entity merged into HoldCo or merged into or consolidated with a Restricted Subsidiary after the Issue Date to the extent that such Investments were not made in contemplation of or in connection with such acquisition, merger or consolidation and were in existence on the date of such acquisition, merger or consolidation;

(o) Investments in connection with a Qualified Securitization Financing that, in the good faith determination of HoldCo, are necessary or advisable to effect or maintain such Qualified Securitization Financing;

(p) Investments consisting of earnest money deposits required in connection a purchase agreement or other acquisition;

(q) guarantees by HoldCo or any Restricted Subsidiary of operating leases (other than Capitalized Lease Obligations) or other obligations of Joint Ventures that do not constitute

Indebtedness, in each case entered into the ordinary course of business, that do not at any one time outstanding exceed 0.5% of Consolidated Total Assets;

(r) Investments consisting of purchases and acquisitions of inventory, supplies, materials and equipment or purchases of contract rights or licenses or leases of intellectual property, in each case in the ordinary course of business;

(s) Investments in Unrestricted Subsidiaries having an aggregate fair market value, taken together with all other Investments made pursuant to this *clause (s)* that are at the time outstanding, not to exceed €15.0 million at the time of such Investment (with the fair market value of each Investment being measured at the time made and without giving effect to subsequent changes in value);

(t) Investments in negotiable instruments held for collection and lease, utility and workers' compensation, performance or other similar deposits made in the ordinary course of business;

(u) any (i) designation of an Unrestricted Subsidiary or (ii) Investment, in each case, as permitted by the covenant described under "—Certain Covenants—Restrictions Relating to the Investment of the Credit and Financial Services Business"; and

(v) any Investment required pursuant to the Transaction Documents.

"***Permitted Lien***" will mean, with respect to any Person or asset:

(a) pledges or deposits by such Person under workmen's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which such Person is a party, or deposits to secure public or statutory obligations of such Person or deposits or cash or government bonds to secure surety or appeal bonds to which such Person is a party, or deposits as security for contested taxes or import duties or for the payment of rent, or Liens in favor of customs or revenue authorities to secure payment of custom duties in connection with the importation of goods, in each case, incurred in the ordinary course of business;

(b) Liens in favor of issuers of performance, surety, bid, indemnity, warranty, release, appeal or similar bonds or with respect to other regulatory requirements or letters of credit not issued to support Indebtedness for borrowed money or bankers' acceptances issued, and completion guarantees provided for pursuant to the request of and for the account of such Person in the ordinary course of its business;

(c) Liens on Equity Interests or property of a Person existing at the time such Person is merged, consolidated, amalgamated or otherwise combined with, or acquired by, such Person or any Restricted Subsidiary of such Person; *provided* that such Liens were in existence prior to the contemplation of such merger, consolidation, amalgamation, other combination or acquisition and do not extend to any assets other than those of the Person merged, consolidated, amalgamated or otherwise combined with, or acquired by, such Person or the Restricted Subsidiary;

(d) Liens on property at the time HoldCo or a Restricted Subsidiary acquired the property, including any acquisition by means of a merger or consolidation with or into HoldCo or any Restricted Subsidiary; provided, however, that such Liens are not created or incurred in connection with, or in contemplation of, such acquisition; provided, further, however, that such Liens may not extend to any other property owned by HoldCo or any Restricted Subsidiary;

(e) Liens securing Hedging Obligations permitted to be incurred under the Indenture;

(f) Liens on specific items of inventory or other goods and proceeds from any Person securing such Person's obligations in respect of bankers' acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(g) Liens in favor of HoldCo or any of its Restricted Subsidiaries;

(h) Liens to secure any refinancing, refunding, extension, renewal or replacement (or successive refinancings, refundings, extensions, renewals or replacements) as a whole, or in part, of any Indebtedness secured by any Liens referred to in clauses (f), (g), (h) and (q)(ii) of this definition; provided, however, that such Liens do not extend to or cover any property or assets of HoldCo or any of its Restricted Subsidiaries not securing the Indebtedness so refinanced;

(i) Permitted Collateral Liens;

(j) Liens on Securitization Assets incurred in connection with a Qualified Securitization Financing provided that any such Liens over the proceeds from the Receivables Assets for such Qualified Securitization Financing when received into a collection account of HoldCo or any Subsidiary may, by its terms, only be enforced if the relevant holder of that collection account fails to remit such monies to the Receivables Purchaser when required to do so or such holder of the collection account becomes subject to an Insolvency Event (as defined in the Intercreditor Agreement);

(k) Liens for taxes, assessments or other governmental charges or claims not yet subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings; *provided* that appropriate reserves have been taken on the books of such Person to the extent required under GAAP;

(l) Liens imposed by law, including landlord's, carriers', warehousemen's and mechanics' Liens, in each case, for sums not yet due or being contested in good faith by appropriate proceedings or other Liens arising out of judgments or awards against such Person with respect to which such Person will then be proceeding with an appeal or other proceedings for review;

(m) easements, rights-of-way, building, zoning and similar restrictions, utility agreements, covenants, reservations, restrictions, encroachments, charges and other similar encumbrances or title defects incurred, or leases or sub leases granted to others, in the ordinary course of business, that do not in the aggregate materially detract from the aggregate value of the properties of such Person and its Subsidiaries, taken as a whole, or in the aggregate materially interfere with or adversely affect in any material respect the ordinary course of the business of such Person and its Subsidiaries on the properties subject thereto, taken as whole;

(n) leases, licenses, subleases or sublicenses granted to others in the ordinary course of business that do not (x) interfere in any material respect with the business of HoldCo or any of its material Restricted Subsidiaries or (y) secure any Indebtedness;

(o) the rights reserved or vested in any Person by the terms of any lease, license, franchise, grant or permit held by HoldCo or any of its Restricted Subsidiaries or by a statutory provision, to terminate any such lease, license, franchise, grant or permit, or to require annual or periodic payments as a condition to the continuance thereof;

(p) banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depositary institution, provided that such deposit account is not subject to restrictions against access by HoldCo or any of its Subsidiaries in excess of those set forth by applicable law or regulation;

(q) (i) other Liens securing Indebtedness for borrowed money or other obligations with respect to property or assets with an aggregate fair market value (valued at the time of creation thereof) of not more than €25.0 million at any time and (ii) Liens securing Indebtedness incurred to finance the construction, purchase or lease of, or repairs, improvements or additions to, property of such Person; provided, however, that (x) the Lien may not extend to any other property (except for accessions to such property) owned by such Person or any of its Restricted Subsidiaries at the time the Lien is incurred, (y) such Liens attach concurrently with or within 270 days after the lease, acquisition, repair, replacement, construction or improvement (as applicable) of the property subject to such Liens and (z) with respect to Capitalized Lease Obligations, such Liens do not at any time extend to or cover any assets (except for accessions to such assets) other than the assets subject to such Capitalized Lease Obligations; provided that individual financings of property provided by one lender may be cross collateralized to other financings of equipment provided by such lender;

(r) Liens with respect to the assets of a Restricted Subsidiary that is not a Guarantor securing Indebtedness of such Restricted Subsidiary permitted by "Limitations on Incurrence of Indebtedness and Issuance of Preference Shares";

(s) Liens arising by operation of law (or by agreement to the same effect) in the ordinary course of business and not as a result of any default or omission on the part of HoldCo or any Restricted Subsidiary;

(t) Liens on the Equity Interests of Unrestricted Subsidiaries;

(u) Liens for the purpose of securing the payment (or the refinancing of the payment) of all or a part of any Indebtedness relating to assets or property acquired or constructed directly or indirectly, which Indebtedness is permitted by "—Certain Covenants—Limitations on Incurrence of Indebtedness and Issuance of Preference Shares"; *provided* that (a) the aggregate principal amount of Indebtedness secured by such Liens will not exceed the cost of the asset or property so acquired or constructed and (b) such Liens will not encumber any other asset or property of such Person or any Restricted Subsidiary other than such assets or property and assets affixed or appurtenant thereto;

(v) Liens securing obligations in respect of trade-related letters of credit permitted by "Limitations on Incurrence of Indebtedness and Issuance of Preference Shares" and covering the goods (or the documents of title in respect of such goods) financed by such letters of credit and the proceeds and products thereof;

(w) Liens securing Indebtedness resulting from the accrual of interest, the accretion of accreted value or original issue discount, and the payment of interest or dividends in the form of additional Indebtedness with substantially equivalent terms.

(x) Liens to secure the performance of statutory obligations, performance bonds or other obligations of a like nature incurred in the ordinary course of business;

(y) (i) Liens existing on the Issue Date or arising under the Senior Revolving Credit Facility or (ii) any Liens incurred in connection with any Refinancing Indebtedness in replacement of any such Liens existing on the Issue Date on the same assets which were the subject of the original Liens;

(z) (i) Liens over cash paid into escrow by any third party pursuant to any deposit or retention of purchase price arrangements entered into pursuant to any disposal or acquisition and (ii) any retention of title reserved by any seller of goods or any Lien imposed, reserved or granted over goods supplied by such seller.

"***person***" or "***Person***" will mean any individual, partnership, corporation, business trust, limited liability company, joint stock company, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof.

"***Preference Shares***" will mean any Equity Interest with preferential rights of payment of dividends or other distributions or upon liquidation, dissolution, or winding up including, without limitation, any preference shares.

"***Qualified Proceeds***" will mean assets that are used or useful in, or Share Capital of any Person engaged in, a Similar Business; provided that the fair market value of any such assets of Share Capital will be determined by the Board of Directors of HoldCo in good faith.

"***Qualified Securitization Financing***" will mean any Securitization Financing of a Receivables Purchaser that meets the following conditions: (1) the Board of Directors of HoldCo will have determined in good faith that such Securitization Financing (including financing terms, covenants, termination events and other provisions) is in the aggregate economically fair and reasonable to HoldCo or the Subsidiary participating in such Securitization Financing, (2) all sales of accounts receivable and related assets to the Receivables Purchaser are made at fair market value (as determined in good faith by HoldCo), and (3) the financing terms, covenants, termination events and other provisions thereof will be market terms, in the context of the South African securitization market for assets such as the relevant Receivables Assets utilizing the relevant securitization structure (as determined in good faith by HoldCo), and may include Standard Securitization Undertakings. The grant of a security interest in any accounts receivable of HoldCo or any of its Restricted Subsidiaries to secure Indebtedness under the Credit Facilities will not be deemed a Qualified Securitization Financing.

"***Rating Agencies***" will mean (1) S&P and Moody's or (2) if S&P or Moody's or both of them are not making ratings publicly available, a nationally recognized statistical rating organization with the meaning of Rule 15c3-1(c)(2) under the Exchange Act, as the case may be, selected by HoldCo, which will be substituted for S&P or Moody's or both, as the case may be.

"***Rating Category***" will mean (1) with respect to S&P, any of the following categories (any of which may include a "+" or "-"; AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories), (2) with respect to Moody's, any of the following categories: Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories), and (3) the equivalent of any such categories of S&P or Moody's used by another Rating Agency, if applicable.

"***Receivables Assets***" will mean all rights to receive payments on designated store card accounts arising from the purchase of goods or services by a Person on credit provided by HoldCo or any of its Subsidiaries or other accounts receivables arising in the ordinary course of business, together with all collateral securing such receivables, all agreement and arrangements that support or secure the payment of the relevant receivables by the debtor(s), including rights to returned or repossessed goods, all insurance policies, security deposits, guarantees, indemnities, cheques or other negotiable instruments relating to the debtor(s) obligations and the right to the proceeds from any such payments once received into a collection account of HoldCo or such Subsidiary.

"***Receivables Purchaser***" will mean any Person who acquires Receivables Assets or is granted a security interest in Receivables Assets in a Securitization Financing; provided that (a) no portion of the Indebtedness or any other obligations (contingent or otherwise) of the Receivables Purchaser, (i) is guaranteed by HoldCo or any Restricted Subsidiary of HoldCo (excluding guarantees of obligations other than the principal of, and interest on, Indebtedness pursuant to Standard Securitization Undertakings and any guarantee of the Indebtedness of a Receivables Purchaser in connection with a Securitization Financing that would, but for such guarantee, constitute a Qualified Securitization Financing), (ii) is recourse to or obligates HoldCo or any Restricted Subsidiary or HoldCo in any way other than pursuant to Standard Securitization Undertakings, or (iii) subjects any property or asset of HoldCo or any Restricted Subsidiary of HoldCo, directly or indirectly, contingently or otherwise, to the satisfaction thereof other than pursuant to Standard Securitization Undertakings; (b) the Receivables Purchaser has no contract, agreement, arrangement or understanding with HoldCo or any Restricted Subsidiary or HoldCo other than on terms which HoldCo reasonably believes to be no less favorable to HoldCo or such Restricted Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of HoldCo and (c) neither HoldCo nor any Restricted Subsidiary of HoldCo has any obligations to maintain or preserve the Receivables Purchaser's financial condition or cause such entity to achieve certain levels of operating results.

"***Refunding Capital Stock***" will have the meaning assigned to such term in "—Certain Covenants—Limitations on Restricted Payments";

"***Restricted Investment***" will mean an Investment other than a Permitted Investment.

"***Restricted Subsidiary***" will mean, at any time, any Subsidiary of HoldCo that is not then an Unrestricted Subsidiary; *provided*, *however*, that upon the occurrence of an Unrestricted Subsidiary ceasing to be an Unrestricted Subsidiary, such Subsidiary will be included in the definition of Restricted Subsidiary.

"***S&P***" will mean Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and any successor to its ratings business.

"***Schemes***" will mean the scheme or schemes of arrangement under Section 311 of the South African Companies Act in relation to Edcon.

"***Scheme Documents***" will mean all documents related to the Schemes.

"***Securities Act***" will mean the U.S. Securities Act of 1933 and the rules and regulations of the Commission promulgated thereunder, as amended.

"***Securitization Assets***" are any assets that are or will be the subject of a Qualified Securitization Financing.

"***Securitization Borrowing Base***" will mean, as of any date, an amount equal to 85% of the face value of all accounts receivable of HoldCo and its Restricted Subsidiaries, calculated on a consolidated basis; provided, however, that if Indebtedness is being incurred to finance an acquisition pursuant to

which any accounts receivable will be acquired (whether through the direct acquisition of assets or the acquisition of Share Capital of a Person), Securitization Borrowing Base will include the applicable percentage of any accounts receivable to be acquired in connection with such acquisition.

"***Securitization Fees***" will mean distributions or payments made directly or by means of discounts with respect to any participation interest issued or sold in connection with, and other fees paid to a Person that is not a Restricted Subsidiary in connection with, any Qualified Securitization Financing.

"***Securitization Financing***" will mean any transaction or series of transactions that may be entered into by HoldCo or any of its Subsidiaries pursuant to which HoldCo or any of its Subsidiaries may sell, convey or otherwise transfer to a Receivables Purchaser or may grant a security interest to a Receivables Purchaser (including, without any limitation, any lender), in any Receivables Assets.

"***Securitization Financing Amount***" will mean, as of any date, the amount of all outstanding Indebtedness incurred by a Receivables Purchaser in connection with a Securitization Financing that involves a sale, conveyance or other transfer of Receivables Assets to a Receivables Purchaser less the outstanding amount of Permitted Investments made by HoldCo and its Restricted Subsidiaries in connection with such Securitization Financings, so long as such Securitization Financing is not recorded as a liability on the balance sheet of HoldCo or any of its Restricted Subsidiaries.

"***Securitization Repurchase Obligation***" will mean any obligation of a seller of receivables in a Qualified Securitization Financing to repurchase receivables arising as a result of a breach of a representation, warranty or covenant or otherwise, including as a result of a receivable or portion thereof becoming subject to any asserted defense, dispute, off-set or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

"***Security***" will mean a mortgage, charge, pledge, lien, assignment, cession, hypothecation or other security interest securing any obligation of any person or any other agreement or arrangement having similar effect.

"***Security Arrangement Agreement***" will mean the security arrangement agreement dated on or about 24 May 2007 between, amongst others, the SPV Administrator and the Lenders pursuant to which the SPV Administrator is appointed as security administrator and which, amongst other things, sets out the terms of such appointment and the terms on which the Collateral will be held.

"***Security Documents***" will mean any document entered into by the Issuer or any SPV Indemnifier creating or expressed to create any Lien over all or any part of its assets in respect of the obligations of the Issuer or any SPV Indemnifier under any of the "Finance Documents," as such term is defined in each Senior Revolving Credit Facility Agreement.

"***Senior Floating Rate Notes***" will mean the €630,000,000 Senior Floating Rate Notes due 2015 issued by HoldCo on 15 June 2007.

"***Senior Floating Rate Notes Indenture***" will mean the indenture governing the Senior Floating Rate Notes and dated 15 June 2007.

"***Senior Indebtedness***" will mean, with respect to any Person:

Indebtedness of such Person, whether outstanding on the Issue Date or thereafter Incurred, unless in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such Indebtedness is subordinated in right of payment to the Senior Secured Notes or the Guarantee of such Person, as the case may be; *provided*, *however*, that Senior Indebtedness will not include:

(1) any obligation of such Person to the Issuer or any Subsidiary of the Issuer;

(2) any liability for national, state, local or other taxes owed or owing by such Person;

(3) any accounts payable or other liability to trade creditors arising in the ordinary course of business (including guarantees thereof or instruments evidencing such liabilities);

(4) any Indebtedness of such Person which is subordinate or junior in any respect to any other Indebtedness of such Person; or

(5) that portion of any Indebtedness which at the time of Incurrence is Incurred in violation of the Indenture.

"***Senior Secured Floating Rate Notes***" will mean the €1,180,000,000 Senior Secured Floating Rate Notes due 2014 issued by the Issuer on 15 June 2007.

"***Senior Secured Indebtedness***" will mean any Senior Indebtedness of HoldCo, the Issuer or a Guarantor that is secured by a Lien that also secures the Senior Secured Notes or a Guarantee on a *pari passu* first-priority basis.

"***Senior Secured Leverage***" will mean the sum of the aggregate outstanding Senior Secured Indebtedness of HoldCo and its Restricted Subsidiaries, other than Indebtedness incurred pursuant to paragraph (b)(2) of the "—Certain Covenants—Limitations on Incurrence of Indebtedness and Issuance of Preference Shares" covenant and Hedging Obligations, as of the relevant time of determination on a consolidated basis in accordance with GAAP.

"***Senior Secured Leverage Ratio***" will mean, as of any time of determination, the ratio of (x) Senior Secured Leverage at such time to (y) the aggregate amount of Consolidated EBITDA for the period of the most recently ended four fiscal quarters for which internal financial statements are available at the date of such determination; provided, however, that:

(1) if the Issuer or any Restricted Subsidiary has incurred any Senior Secured Indebtedness since the beginning of such period that remains outstanding or if the transaction giving rise to the need to calculate the Senior Secured Leverage Ratio is an Incurrence of Senior Secured Indebtedness, or both, Consolidated EBITDA for such period will be calculated after giving effect on a *pro forma* basis to such Senior Secured Indebtedness as if such Senior Secured Indebtedness had been Incurred on the first day of such period;

(2) if the Issuer or any Restricted Subsidiary has repaid, repurchased, defeased or otherwise discharged any Senior Secured Indebtedness since the beginning of such period or if any Senior Secured Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each ease other than Senior Secured Indebtedness Incurred under any revolving credit facility unless such Senior Secured Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving rise to the need to calculate the Senior Secured Leverage Ratio, Consolidated EBITDA for such period will be calculated on a *pro forma* basis as if such discharge had occurred on the first day of such period and as if the Issuer or such Restricted Subsidiary had not earned the interest income actually earned during such period in respect of cash or Cash Equivalents used to repay, repurchase, defease or otherwise discharge such Senior Secured Indebtedness;

(3) Consolidated EBITDA for such period will be calculated in a manner consistent with the calculation of Consolidated EBITDA in the definition of Fixed Charge Coverage Ratio.

"***Senior Revolving Credit Facility***" will mean any revolving credit facilities (including any letter of credit thereunder) made available to the Borrowers thereunder pursuant to the Senior Revolving Credit Facility Agreement.

"***Senior Revolving Credit Facility Agreement***" will mean the credit facility agreement dated on or about 29 May 2007 among the Issuer, ECSL, the SPV Guarantor and the other parties thereto.

"***Senior Revolving Credit Facility Documents***" will mean the Senior Revolving Credit Facility Agreement and each of the other "Finance Documents," as such term is defined in each Senior Revolving Credit Facility Agreement.

"***Senior Secured Trustee***" will mean The Bank of New York Mellon or any other person acting as trustee under the Indenture.

"***Super Senior Secured ZAR Loan***" will mean the super senior rand loan expected to be entered on or about the Issue Date providing for a facility of R985 million.

"***Share Capital***" will mean:

(a) in the case of a corporation, authorized share capital or other capital stock;

(b) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of capital stock;

(c) in the case of a South African company, shares;

(d) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and

(e) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of the issuing Person.

"***Shareholder Debt***" will mean Indebtedness of HoldCo (and any security into which such Indebtedness is convertible or for which it is exchangeable at the option of the holder) issued to and held by a direct or indirect parent entity or one or more shareholders of a direct or indirect parent entity or any Permitted Holder or Affiliate thereof that (1) does not mature or require any cash amortization, redemption or other cash repayment of principal or any sinking fund payment prior to the earlier of the first anniversary of the maturity (other than through conversion or exchange of such Indebtedness into Share Capital (other than Disqualified Share Capital) of HoldCo or any Indebtedness meeting the requirements of this definition) of the Senior Secured Notes or the date on which no Senior Secured Notes are outstanding, (2) does not require, prior to the first anniversary of the maturity of the Senior Secured Notes, payment of cash interest, cash withholding amounts or other cash gross-ups, or any similar cash amounts, (3) contains no change of control or similar provisions and does not accelerate and has no right to declare a default or event of default or take any enforcement action or otherwise require any cash payment, in each case, prior to the earlier of the first anniversary of the maturity of the Senior Secured Notes and the date on which the Senior Secured Notes are no longer outstanding, (4) does not provide for or require any security interest or encumbrance over any asset of HoldCo or any of its Subsidiaries, (5) does not contain any covenants (financial or otherwise), as applicable, other than a covenant to pay such Shareholder Debt and (6) is fully subordinated and junior in right of payment to the Senior Secured Notes pursuant to subordination, payment blockage and enforcement limitation terms which taken as a whole are no less favorable in any material respect to the Holders than those contained in the Intercreditor Agreement, the Guarantees and the SPV Counter-Indemnities, as applicable, as in effect on the Issue Date.

"***Significant Subsidiary***" will mean any Restricted Subsidiary that would be a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act of 1933, as amended, as such Regulation is in effect on the date hereof.

"***Similar Business***" will mean the retail business, and any services, activities or businesses incidental or directly related or similar thereto, or any line of businesses engaged in by HoldCo and its Subsidiaries on the Issue Date or any business activity that is a reasonable extension, development or expansion thereof or ancillary thereto.

"***Sponsor Group***" shall mean funds managed and/or advised by Affiliates of Bain Capital Partners, LLC.

"***Sponsor Group Affiliate***" shall mean (a) each Affiliate of the Sponsor Group and (b) any individual who is a partner or employee of the Sponsor Group.

"***Sponsors***" will mean Bain Capital Partners, LLC and its Affiliates.

"***SPV Administrator***" will mean Absa Bank Limited acting through its division Absa Capital as the administrator of the SPV Guarantor.

"***SPV Counter-Indemnity***" will mean each counter-indemnity given by the SPV Indemnifiers in favor of the SPV Guarantor and "***SPV Counter-Indemnities***" will mean all of such counter-indemnities.

"***SPV Guarantee***" will mean a guarantee dated on or around the date of the Indenture by the SPV Guarantor in favor of the Holders guaranteeing the obligations of HoldCo and each Guarantor under the Indenture and the Senior Secured Notes.

"***SPV Guarantor***" will mean Elephant OntheCards (Proprietary) Limited (Formerly Micawber 540 (Proprietary) Limited), a private company duly incorporated according to the laws of the Republic of South Africa.

"***SPV Indemnifier***" will mean any of the Issuer and the Guarantors.

"***Standard Securitization Undertakings***" will mean representations, warranties, covenants, indemnities and guarantees of performance entered into by HoldCo or any Subsidiary of HoldCo, which HoldCo has determined in good faith to be customary in a Securitization Financing, utilizing the relevant securitization structure and involving the relevant Receivables Assets in the South African securitization market, including, without limitation, those relating to the servicing of the assets of a Receivables Purchaser, it being understood that any Securitization Repurchase Obligation will be deemed to be a Standard Securitization Undertaking.

"***Stated Maturity***" will mean, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the original documentation governing such Indebtedness, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"***Sterling***" or "***£***" will mean the lawful currency of the United Kingdom.

"***Subordinated Indebtedness***" will mean (a) with respect to HoldCo, any Indebtedness of HoldCo which is by its terms subordinated in right of payment to the Senior Secured Notes, including the Shareholder Debt; and (b) with respect to any Guarantor, any Indebtedness of such Guarantor which is by its terms subordinated in right of payment to such Guarantor's Guarantee and the SPV Counter-Indemnity to which it is a party.

"***Subordinated Refinancing Indebtedness***" will have the meaning assigned to such term in "—Certain Covenants—Limitations on Restricted Payments".

"***Subordination Agreement***" means the subordination agreement dated on or about 24 May 2007 as amended from time to time and made between, among others, the Facility Agent (as defined therein), HoldCo, Barclays Bank PLC, the SPV Guarantor and certain entities defined therein, in relation to regulating, principally, the relationship between the Lenders under the Senior Revolving Credit Facility and the other parties named therein.

"***Subsidiary***" will mean with respect to any Person:

(a) any corporation, association, or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total voting power of shares of Share Capital entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time of determination owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof; and

(b) any partnership, joint venture, limited liability company or similar entity of which (i) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof whether in the form of membership, general, special or limited partnership or otherwise and (ii) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

"***Subsidiary Guarantor***" will mean any Restricted Subsidiary that incurs a Guarantee of the Senior Secured Notes.

"***Suspension Condition***" will have the meaning assigned to such term in "—Certain Covenants—Suspension of Covenants".

"***Taxes***" includes all present or future income and other taxes, levies, imposts, duties, or other charges or deductions or withholdings of a similar nature wheresoever imposed and together with interest thereon and penalties and fines with respect thereto, if any, and any payments made on or in respect thereof and "***Tax***" and "***Taxation***" will be construed accordingly.

"***Transaction Documents***" will have the meaning ascribed to such terms under the Senior Floating Rate Notes Indenture.

**"*Treasury Rate*"** means the yield to maturity at the time of computation of U.S. Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two Business Days (but not more than five Business Days) prior to the redemption date (or, if such statistical release is not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)) most nearly equal to the period from the redemption date to 1 March 2014; *provided, however*, that if the period from the redemption date to 1 March 2014, is not equal to the constant maturity of a U.S. Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of U.S. Treasury securities for which such yields are given, except that if the period from such redemption date to 1 March 2014, is less than one year, the weekly average yield on actually traded U.S. Treasury securities adjusted to a constant maturity of one year shall be used.

"***Unrestricted Subsidiary***" will mean (i) any Subsidiary of HoldCo which at the time of determination is an Unrestricted Subsidiary (as designated by the Board of Directors of HoldCo, as provided below) and (ii) any Subsidiary of an Unrestricted Subsidiary. The Board of Directors of HoldCo may designate any Subsidiary (including any existing Subsidiary and any newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary unless such Subsidiary or any of its Subsidiaries owns any Equity Interests or Indebtedness of, or owns or holds any Lien on, any property of, HoldCo or any Subsidiary of HoldCo (other than any Subsidiary of the Subsidiary to be so designated or otherwise an Unrestricted Subsidiary); *provided* that (a) such designation complies with "—Certain Covenants—Limitations on Restricted Payments" and (b) each of the Subsidiaries to be so designated and its Subsidiaries has not at the time of designation created, incurred, issued, assumed or guaranteed or otherwise become directly or indirectly liable with respect to any Indebtedness pursuant to which the lender has recourse to any of the assets of HoldCo or any Restricted Subsidiary (other than could be released upon such designation). The Board of Directors of HoldCo may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that: (i) immediately after giving effect to such designation, no payment Default or Default under "—Certain Covenants" or Event of Default will have occurred and be continuing and (ii) any Indebtedness assumed or otherwise incurred in connection with such designation will have been permitted to have been incurred by HoldCo pursuant to "—Certain Covenants—Limitations on Incurrence of Indebtedness and Issuance of Preference Shares". Any such designation by the Board of Directors will be notified by HoldCo to the Senior Secured Trustee by promptly filing with the Senior Secured Trustee a copy of the Board Resolution giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing provisions.

"***U.S. dollar***" or "***U.S. $***" will mean the lawful currency of the United States of America.

"***U.S. Government Obligation***" shall mean direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged.

"***Voting Shares***" of any Person as of any date will mean the Share Capital of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

"***Weighted Average Life to Maturity***" will mean, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments payment of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years

(calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by

(2) the then outstanding principal amount of such Indebtedness.

"***Wholly-Owned Restricted Subsidiary***" is any Wholly-Owned Subsidiary that is a Restricted Subsidiary.

"***Wholly-Owned Subsidiary***" of any Person will mean a Subsidiary of such Person, 100% of the outstanding Share Capital or other ownership interests of which (other than directors' qualifying shares, or interests of partners not entitled to economic participation) will at the time be owned by such Person, or by one or more Wholly-Owned Subsidiaries of such Person, or by such Person and one or more Wholly-Owned Subsidiaries of such Person.

"***ZAR***" or "***Rand***" will mean the lawful currency of the Republic of South Africa.

## DESCRIPTION OF BOOK-ENTRY SYSTEM

### General

The USD Senior Secured Notes sold to QIBs in reliance on Rule 144A will be represented by one or more global notes in registered form without coupons attached (the "USD Rule 144A Global Notes"). The USD Rule 144A Global Notes will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee for DTC. The EUR Senior Secured Notes sold to QIBs in reliance on Rule 144A will be represented by one or more global notes in registered form without interest coupons attached (the "EUR Rule 144A Global Notes" and, together with the USD Rule 144A Global Notes, the "Rule 144A Global Notes"). The USD Senior Secured Notes sold to persons outside the United States in reliance on Regulation S will be represented by one or more global notes in registered form without interest coupons attached (the "USD Regulation S Global Notes") and the EUR Senior Secured Notes sold to persons outside the United States in reliance on Regulation S will be represented by one or more global notes in registered form without interest coupons attached (the "EUR Regulation S Global Notes" and, together with the USD Regulation S Global Notes, the "Regulation S Global Notes"). The Rule 144A Global Notes and the Regulation S Global Notes are collectively referred to as the "Global Notes." The EUR Rule 144A Global Notes and the Regulation S Global Notes will be deposited with a common depositary and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream Banking.

Ownership of interests in the Rule 144A Global Notes (the "Rule 144A Book-Entry Interests") and in the Regulation S Global Notes (the "Regulation S Book-Entry Interests" and, together with the Rule 144A Book-Entry Interests, the "Book-Entry Interests") will be limited to persons who have accounts with DTC, Euroclear and/or Clearstream Banking, or persons who hold interests through such participants. DTC, Euroclear and Clearstream Banking will hold interests in the Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. Except under the limited circumstances described below, Book-Entry Interests will not be held in definitive certificated form.

Book-Entry Interests will be shown on, and transfers thereof will be done only through, records maintained in the book-entry form by DTC, Euroclear and Clearstream Banking and their participants. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive certificated form. The foregoing limitations may impair the ability to own, transfer or pledge Book-Entry Interests. In addition, while the Senior Secured Notes are in global form, holders of Book-Entry Interests will not be considered the owners or "holders" of Senior Secured Notes for any purpose.

So long as the Senior Secured Notes are held in global form, DTC, Euroclear and/or Clearstream Banking, as applicable (or their respective nominees), will be considered the sole holders of the Global Notes for all purposes under the Indenture governing the Senior Secured Notes. In addition, participants must rely on the procedures of DTC, Euroclear and/or Clearstream Banking, and indirect participants must rely on the procedures of DTC, Euroclear, Clearstream Banking and the participants through which they own Book-Entry Interests, to transfer their interests or to exercise any rights of holders under the Indenture.

Neither we nor the Trustee will have any responsibility, or be liable, for any aspect of the records relating to the Book-Entry Interests.

### Redemption of the Global Notes

In the event any Global Note (or any portion thereof) is redeemed, DTC, Euroclear and/or Clearstream Banking, as applicable, will redeem an equal amount of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by DTC, Euroclear and Clearstream Banking, as applicable, in connection with the redemption of such Global Note (or any portion thereof). We understand that, under the existing practices of DTC, Euroclear and Clearstream Banking, if fewer than all of a series of Senior Secured Notes are to be redeemed at any time, DTC, Euroclear and Clearstream Banking will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions), by lot

or on such other basis as they deem fair and appropriate; *provided, however*, that no Book-Entry Interest of less than €100,000 or $150,000 as applicable may be redeemed in part.

**Payments on Global Notes**

We will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, and interest) to DTC or its nominee (in the case of the USD Rule 144A Global Notes) and to the common depositary or its nominee for Euroclear and Clearstream Banking (in the case of the EUR Rule 144A Global Notes and Regulation S Global Notes), which will distribute such payments to participants in accordance with their customary procedures. We will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under "Description of the Senior Secured Notes—Additional Amounts". If any such deduction or withholding is required to be made, then, to the extent described under "Description of the Senior Secured Notes—Additional Amounts", we will pay additional amounts as may be necessary in order that the net amounts received by any holder of the Global Notes or owner of Book-Entry Interests after such deduction or withholding will equal the net amounts that such holder or owner would have otherwise received in respect of such Global Note or Book-Entry Interest, as the case may be, absent such withholding or deduction. We expect that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants.

Under the terms of the Indenture, the Issuer and the Trustee will treat the registered holder of the Global Notes (e.g., DTC, Euroclear or Clearstream Banking (or their respective nominees)) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Issuer, the Trustee or any of their respective agents has or will have any responsibility or liability for any aspect of the records of DTC, Euroclear, Clearstream Banking or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest or for maintaining, supervising or reviewing the records of DTC, Euroclear, Clearstream Banking or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest, or DTC, Euroclear, Clearstream Banking or any participant or indirect participant.

**Currency of Payment for the Global Notes**

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the USD Rule 144A Global Notes and the USD Regulation S Global Notes will be paid to holders of interests in such Notes through DTC or Euroclear and/or Clearstream Banking in U.S. dollars. The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the EUR Rule 144A Global Notes and the EUR Regulation S Global Notes, will be paid to holders of interests in such Senior Secured Notes through Euroclear and/or Clearstream in euro.

**Action by Owners of Book-Entry Interests**

DTC, Euroclear and Clearstream Banking have advised the Issuer that they will take any action permitted to be taken by a holder of Senior Secured Notes (including the presentation of Senior Secured Notes for exchange as described below) only at the direction of one or more participants to whose account the Book-Entry Interests are credited and only in respect of such portion of the aggregate principal amount of Senior Secured Notes as to which such participant or participants has or have given such direction. DTC, Euroclear and Clearstream Banking will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an Event of Default under the Indenture, each of DTC, Euroclear and Clearstream Banking reserves the right to exchange the Global Notes for definitive registered notes in certificated form ("Definitive Registered Notes") and to distribute Definitive Registered Notes to its participants.

**Transfers**

Transfers between participants in DTC, Euroclear and Clearstream Banking will be effected in accordance with DTC, Euroclear and Clearstream Banking rules and will be settled in immediately available funds. If a holder requires physical delivery of Definitive Registered Notes for any reason,

including to sell Senior Secured Notes to persons in jurisdictions that require physical delivery of securities or to pledge such Senior Secured Notes, such holder must transfer its interests in the Global Notes in accordance with the normal procedures of DTC, Euroclear and Clearstream Banking and in accordance with the procedures set forth in the Indenture.

The Global Note for Rule 144A Book-Entry Interests will have a legend to the effect set forth under "Notice to Investors." Book-Entry Interests in the Global Notes will be subject to the restrictions on transfers and certification requirements discussed under "Notice to U.S. Investors."

Rule 144A Book-Entry Interests may be transferred to a person who takes delivery in the form of a Regulation S Book-Entry Interest only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 under the U.S. Securities Act or any other exemption (if available under the U.S. Securities Act).

In connection with transfers involving an exchange of a Regulation S Book-Entry Interest for a Rule 144A Book-Entry Interest, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Notes and a corresponding increase in the principal amount of the Rule 144A Global Notes.

Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first mentioned Global Note and become a Book-Entry Interest in such other Global Note, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it remains such a Book-Entry Interest.

**Definitive Registered Notes**

Under the terms of the Indenture, owners of the Book-Entry Interests will receive Definitive Registered Notes:

- if DTC, Euroclear or Clearstream Banking notifies the Issuer that it is unwilling or unable to continue to act as depositary and a successor depositary is not appointed by us within 120 days;
- if the owner of a Book-Entry Interest requests such an exchange in writing delivered through DTC, Euroclear or Clearstream Banking following an Event of Default under the Indenture.

In the case of the issuance of Definitive Registered Notes, the holder of a Definitive Registered Note may transfer such Senior Secured Note by surrendering it to the registrar or transfer agent. In the event of a partial transfer or a partial redemption of a holding of Definitive Registered Notes represented by one Definitive Registered Note, a Definitive Registered Note will be issued to the transferee in respect of the part transferred and a new Definitive Registered Note in respect of the balance of the holding not transferred or redeemed will be issued to the transferor or the holder, as applicable; *provided* that no Definitive Registered Note in a denomination less than €100,000 or $150,000, as applicable, will be issued. We will bear the cost of preparing, printing, packaging and delivering the Definitive Registered Notes.

We will not be required to register the transfer or exchange of Definitive Registered Notes for a period of 15 calendar days preceding (i) the record date for any payment of interest on the Senior Secured Notes, (ii) any date fixed for redemption of the Senior Secured Notes or (iii) the date fixed for selection of the applicable series of Senior Secured Notes to be redeemed in part. Also, we are not required to register the transfer or exchange of any Senior Secured Notes selected for redemption. In the event of the transfer of any Definitive Registered Note, the Trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents as described in the applicable Indenture. We may require a holder to pay any taxes and fees required by law and permitted by the applicable Indenture and the applicable series of Senior Secured Notes.

If Definitive Registered Notes are issued and a holder thereof claims that such Definitive Registered Note has been lost, destroyed or wrongfully taken, or if such Definitive Registered Note is mutilated and is surrendered to the registrar or at the office of the transfer agent, we will issue and the Trustee will authenticate a replacement Definitive Registered Note if the Trustee's and our

requirements are met. The Issuer or the Trustee may require a holder requesting replacement of a Definitive Registered Note to furnish an indemnity bond sufficient in the judgment of both to protect us, the Trustee or the Paying Agent appointed pursuant to the Indenture from any loss which any of them may suffer if a Definitive Registered Note is replaced. The Issuer may charge for any expenses incurred by us in replacing a Definitive Registered Note.

In case any such mutilated, destroyed, lost or stolen Definitive Registered Note has become or is about to become due and payable, or is about to be redeemed or purchased by the Issuer pursuant to the provisions of the Indenture, the Issuer, in its discretion, may, instead of issuing a new Definitive Registered Note, pay, redeem or purchase such Definitive Registered Note, as the case may be.

Definitive Registered Notes may be transferred and exchanged only after the transferor first delivers to the Trustee a written certification (in the form provided in the Indentures) to the effect that such transfer will comply with the transfer restrictions applicable to such Senior Secured Notes. See “Notice to U.S. Investors” and “Notice to Non-U.S. Investors”.

So long as the Senior Secured Notes are listed on the Irish Stock Exchange and the rules of such exchange so require, we will publish a notice of any issuance of Definitive Registered Notes in a newspaper having general circulation in Ireland (which we expect to be *The Irish Times*) or, to the extent and in the manner permitted by such rules, posted on the official website of the Irish Stock Exchange (http://www.ise.ie).

**Information Concerning DTC, Euroclear and Clearstream Banking**

***DTC***

DTC is:

- a limited purpose trust company organised under the New York Banking Law;
- a “banking organisation” under the New York Banking Law;
- a member of the Federal Reserve System;
- a “clearing corporation” within the meaning of the New York Uniform Commercial Code; and
- a “clearing agency” registered under Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of transactions among its participants. It does this through electronic book-entry changes in the accounts of securities participants, eliminating the need for physical movement of securities certificates. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations such as the initial purchasers. Others, such as banks, brokers, dealers, trust companies and clearing corporations, that clear through or maintain a custodial relationship with a direct participant also have access to the DTC system and are known as indirect participants.

Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the DTC system or otherwise take actions in respect of such interest may be limited by the lack of a definitive certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the DTC system will receive distributions attributable to the Rule 144A Global Note only through DTC participants.

The address of DTC in New York is 55 Water Street, New York, New York 10041.

***Euroclear and Clearstream Banking***

Our understanding with respect to the organisation and operations of Euroclear and Clearstream Banking is as follows. Euroclear and Clearstream Banking hold securities for participating organisations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream Banking provide various services to their participants, including the

safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream Banking interface with domestic securities markets. Euroclear and Clearstream Banking participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear and Clearstream Banking is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream Banking participant, either directly or indirectly.

**Global Clearance and Settlement Under the Book-Entry System**

Subject to compliance with the transfer restrictions applicable to the Global Notes, cross-market transfers between participants in DTC, on the one hand, and Euroclear or Clearstream Banking participants, on the other hand, will be done through DTC in accordance with DTC's rules on behalf of each of Euroclear or Clearstream Banking by the common depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream Banking by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream Banking will, if the transaction meets its settlement requirements, delivery instructions to the common depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the Global Notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream Banking participants may not deliver instructions directly to the common depositary.

Because of time zone differences, the securities account of a Euroclear or Clearstream Banking participant purchasing an interest in a Global Note from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream Banking participant, during the securities settlement processing day (which must be a business day for Euroclear or Clearstream Banking, as the case may be) immediately following the settlement date of DTC. Cash received in Euroclear and Clearstream Banking as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream Banking participant to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream Banking cash account only as of the business day for Euroclear or Clearstream Banking following DTC's settlement date.

Although DTC, Euroclear and Clearstream Banking are expected to follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants of DTC, Euroclear or Clearstream Banking, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream Banking or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

## CERTAIN TAX CONSIDERATIONS

*This information is not a substitute for independent advice pertaining to any person's particular circumstances as a holder of Senior Secured Notes. It is intended as a general guide only. Prospective purchasers of the Senior Secured Notes are advised to consult their own tax advisers as to the tax consequences, under the tax laws of the country of which they are resident or otherwise subject to tax, of a purchase of notes including without limitation, the consequences of receipt of interest and premium or gain, if any, on and sale or redemption of, the Senior Secured Notes or any interest therein.*

### Certain South African Tax Considerations

The following is a summary of the material South African tax consequences of the acquisition, ownership and disposition of the Senior Secured Notes by South African tax residents and non-residents who are beneficial owners of the Senior Secured Notes.

The summary does not cover all aspects of South African income tax that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of the Senior Secured Notes by particular investors and does not address any taxes other than the taxes discussed herein.

#### *Payments of Interest*

Interest received by or accruing to a South African tax resident holder of the Senior Secured Notes will be subject to income tax in such holders' hands. The interest accrual must be determined in accordance with the relevant provisions of the Income Tax Act. The Income Tax Act requires a South African tax resident holder of the Senior Secured Notes to account for, *inter alia*, any interest accrued (whether received or not) to the Issuer on the Senior Secured Notes and any premium or discount on the issue and/or redemption of the Senior Secured Notes as interest. The tax accrual of such interest must be spread over the term of the Senior Secured Notes using a yield-to-maturity or an acceptable alternative methodology, unless the Senior Secured Notes are treated as trading stock, in which case their tax treatment will be governed by the rules discussed below.

As the Senior Secured Notes will be denominated in euro and U.S. dollar, the interest accruing to the holders of the Senior Secured Notes must be converted to rand on the date that the interest accrues for tax purposes, using the rate prescribed in the Income Tax Act.

#### *South African tax residents: Issue, Sale and Redemption of the Senior Secured Notes*

A sale of the Senior Secured Notes by a South African tax resident holder may result in a capital gain or loss if the Senior Secured Notes were held as capital assets. Such capital gain will be subject to capital gains tax in the holder's hands. The gain or loss is determined in accordance with the provisions of the Income Tax Act.

The issue, sale and redemption of the Senior Secured Notes are not subject to value added tax or any transfer taxes.

#### *South African tax residents: Senior Secured Notes held as trading stock*

Under the Income Tax Act, a company whose business comprises dealing in financial instruments such as the Senior Secured Notes may elect that such financial instruments be exempt from the provisions of the Income Tax Act providing for the spreading of the interest of such financial instruments over the term of such financial instruments on a day-to-day basis. The consequence of such an election is that the Senior Secured Notes will be treated as trading stock in the hands of the holders of the Senior Secured Notes and will be subject to the provisions of the Income Tax Act governing the tax treatment of trading stock: specifically, the income tax.

#### *Taxation of Foreign Exchange Gains and Losses*

As the Senior Secured Notes will be denominated in euro and U.S. dollar, a South African tax resident holder who is (1) a company; (2) trust carrying on a trade; or (3) a natural person who holds the Senior Secured Notes as trading stock will be required to account for foreign exchange gains and losses on translation and realisation of the Senior Secured Notes in accordance with the provisions of section 24I

of the Income Tax Act. Such persons will be required to include in their taxable income any translation and realisation exchange gains and losses on the Senior Secured Notes. No taxable foreign exchange gains or losses will arise for such persons where the Senior Secured Notes are attributable to a permanent establishment outside of South Africa and the functional currency of that permanent establishment is euro or U.S. dollar.

Non-trading trusts and natural persons who hold the Senior Secured Notes as capital assets will be required to include in their aggregate capital gain or aggregate capital loss for the relevant year of assessment any foreign currency capital gain or any foreign currency capital loss on the sale or redemption of the Senior Secured Notes in accordance with the Eighth Schedule to the Income Tax Act. The Senior Secured Notes will constitute foreign currency assets in the hands of such holders and the foreign currency capital gain or the foreign currency capital loss on the sale or redemption of the Senior Secured Notes will be calculated as the difference between the foreign currency proceeds and the foreign currency base cost of that person in relation to the Senior Secured Notes.

***Non-Residents: Withholding Tax***

Under current taxation law in South Africa, all payments made under the Senior Secured Notes to resident and non-resident noteholders will generally be made free of withholding or deduction for or on account of any taxes, duties, assessments or governmental charges in South Africa. Assuming that the interest paid on the Senior Secured Notes will be from a South African source, non-South African residents will, subject to treaty relief, only be liable to South African income tax on interest on the Senior Secured Notes if they:

- are natural persons who were physically in South Africa for a period exceeding 183 days in aggregate during the relevant year of assessment; or
- carried on business through a permanent establishment in South Africa at any time during the relevant year of assessment.

Apart from the two exceptions, non-South African residents are exempt from South African income tax on interest earned on a South Africa source.

There will be withholding tax on interest payments to non-residents (excluding controlled foreign companies) at 10%, effective 1 January 2013. The rate of this withholding tax may be reduced to the extent any relevant double taxation treaty applies. This withholding tax will apply to interest as defined in section 24J(1) of the Income Tax Act or deemed interest as contemplated in section 8E(2) of the Income Tax Act. There are exemptions, which include interest paid in respect of any listed debt instrument. A “debt instrument” includes any loan, advance, debt, bond, debenture, bill, promissory note, banker’s acceptance, negotiable certificate of deposit or similar instrument. To the extent the Senior Secured Notes are similar in nature to the instruments listed above to which the exemptions apply interest paid by the Issuer will not be subject to any withholding tax. The legislation providing for the withholding tax may be subject to change before it is implemented on 1 January 2013.

***Non-Residents: Issue, Sale and Redemption of the Senior Secured Notes***

A sale of Senior Secured Notes by a non-resident holder will only be subject to capital gains tax in South Africa if the Senior Secured Notes are attributable to a permanent establishment of that person in South Africa. This tax treatment will be subject to the provisions of any applicable tax treaty.

The issue, sale and redemption of the Senior Secured Notes are not subject to value added tax or any transfer taxes.

***Non-residents: Notes held as trading stock***

Senior Secured Notes held as trading stock will be subject to the provisions of the Income Tax Act governing the taxation of non-residents in South Africa. Specifically if transactions in Senior Secured Notes held as trading stock give rise to income derived from a South African source they may, subject to treaty relief, expose the holders of the Senior Secured Notes to a liability for income tax in South Africa.

**EU directive on the taxation of savings interest**

Under EC Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments, each member state of the European Union (each, a "Member State") is required to provide to the tax or other relevant authorities of another Member State details of payments of interest or other similar income made by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entity established in that other Member State. However, for a transitional period, Austria and Luxembourg have instead opted to apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%, unless during that period they elect otherwise. The ending of such transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-European Union countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding).

The European Commission has published proposals for amendments to EC Council Directive 2003/48/EC, which, if implemented, would amend and broaden the scope of the requirements above. The European Parliament approved an amended version of this proposal on April 24, 2009.

**Certain U.S. federal income tax considerations**

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS OFFERING CIRCULAR IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"); (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN AND (C) PROSPECTIVE INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion is a general summary of the material U.S. federal income tax considerations relevant to the purchase, ownership and disposition of the Senior Secured Notes. This discussion is limited to U.S. holders (as defined below) who purchase the Senior Secured Notes in this offering at their "issue price" (as defined below) and will hold the Senior Secured Notes as capital assets. It does not address the special situations that may apply to particular holders including, but not limited to, tax-exempt entities, holders subject to the U.S. federal alternative minimum tax, U.S. expatriates, dealers in securities or currencies, traders in securities who elect to apply a mark-to-market method of accounting, certain financial institutions, insurance companies, regulated investment companies, partnerships or other pass-through entities, persons whose "functional currency" is not the U.S. dollar and persons who hold the Senior Secured Notes in connection with a "straddle," "hedging," "conversion" or other risk reduction transaction. This discussion does not address the tax considerations relevant to U.S. holders of the Senior Secured Notes under any state, local or foreign tax laws or any other tax laws other than the U.S. federal income tax laws.

The discussion below is based upon the Code, Treasury regulations promulgated thereunder, court decisions, revenue rulings and administrative pronouncements of the Internal Revenue Service (the "IRS") currently in force, all as of the date of this offering, and all of which are subject to change or changes in interpretation. Prospective investors should particularly note that any such change or changes in interpretation could have retroactive effect so as to result in U.S. federal income tax consequences different from those discussed below.

As used herein, the term "U.S. holder" means a beneficial owner of Senior Secured Notes that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or any other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof or the District of Columbia;

- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons control all of the substantial decisions of the trust.

If a partnership (including for this purpose any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of the Senior Secured Notes, the U.S. tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. A holder of the Senior Secured Notes that is a partnership and partners in such partnership should consult their own tax advisers regarding the U.S. federal income tax consequences of holding and disposing of the Senior Secured Notes.

The issue price of a Senior Secured Note is the first price at which a substantial amount of the Senior Secured Notes is sold to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) for money.

**Prospective investors are urged to consult their own tax advisers with respect to the particular tax consequences to them of the purchase, ownership and disposition of the Senior Secured Notes, including the tax consequences under any state, local, foreign and other tax laws.**

*Interest*

Payments of qualified stated interest (including any amounts withheld and any Additional Amounts paid in respect of withholding taxes imposed on payments on the Senior Secured Notes) on a Senior Secured Note will be includible in the gross income of a U.S. holder as ordinary interest income at the time the interest is received or accrued, depending on the U.S. holder's method of accounting for U.S. tax purposes.

A U.S. holder of a EUR Senior Secured Note that uses the cash method of accounting for tax purposes will realize interest income equal to the U.S. dollar value of the interest payment, based on the exchange rate on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

A U.S. holder of a Senior Secured Note that uses the accrual method of accounting for tax purposes, or who otherwise is required to accrue interest prior to receipt, will accrue interest income on the EUR Senior Secured Notes in euros and translate that amount into U.S. dollars at the average spot exchange rate in effect during the interest accrual period (or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the U.S. holder's taxable year). Alternatively, an accrual basis holder may make an election (which must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS) to translate accrued interest income at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year in the case of a partial accrual period), or at the spot rate on the date of receipt, if that date is within five business days of the last day of the accrual period. A U.S. holder that uses the accrual method of accounting for tax purposes will recognize foreign currency gain or loss if the exchange rate in effect on the date the payment is received differs from the rate applicable to the previous accrual of that interest. This exchange gain or loss generally will be treated as U.S. source ordinary income or loss, and generally will not be treated as an adjustment to interest income or expense.

*Sale and Disposition of the Senior Secured Notes*

Upon the sale, exchange or other disposition of a Senior Secured Note, a U.S. holder generally will recognize gain or loss in an amount equal to the difference between the amount realized and the U.S. holder's adjusted tax basis in the Senior Secured Note. A U.S. holder's adjusted tax basis in a Senior Secured Note generally will equal the cost of the Senior Secured Note to the holder decreased by any principal payments previously received.

The cost of a EUR Senior Secured Note purchased with euros will be the U.S. dollar value of the euro purchase price on the date of purchase, calculated at the exchange rate in effect on that date. If the Senior Secured Note is traded on an established securities market, a cash basis U.S. holder (and if it elects, an accrual basis U.S. holder) will determine the U.S. dollar value of the cost of the Senior Secured Note at the spot rate on the settlement date of the purchase. The amount realized on the sale, exchange or other disposition of a Senior Secured Note for an amount of foreign currency will be the U.S. dollar value of that amount on (i) the date payment is received in the case of a cash basis U.S. holder or (ii) the date of disposition in the case of an accrual basis U.S. holder. If the Senior Secured Note is traded on an established securities market, the amount realized on the sale, exchange or other disposition of a Senior Secured Note for an amount of foreign currency will be the U.S. dollar value of that amount on the settlement date for a cash basis U.S. holder (and, if it elects, an accrual basis U.S. holder). If an accrual method taxpayer makes the election described in this paragraph, the election must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

Gain or loss recognized by a U.S. holder upon the sale, exchange or other disposition of a EUR Senior Secured Note that is attributable to changes in currency exchange rates relating to the principal thereof will be ordinary income or loss and will be equal to the difference between the U.S. dollar value of the U.S. holder's purchase price of the EUR Senior Secured Note in foreign currency determined on the date of the sale, exchange or other disposition, and the U.S. dollar value of the U.S. holder's purchase price of the EUR Senior Secured Note in foreign currency determined on the date the U.S. holder acquired the Senior Secured Note. The foregoing foreign exchange gain or loss will be recognized only to the extent of the total gain or loss realized by the U.S. holder on the sale, exchange or other disposition of the EUR Senior Secured Note, and will generally be treated as from sources within the United States for U.S. foreign tax credit limitation purposes.

Any gain or loss recognized by a U.S. holder recognized on the sale, exchange or other disposition of a Senior Secured Note (which, in the case of a EUR Senior Secured Note, is in excess of foreign currency gain or loss) will generally be U.S. source capital gain or loss and will be long-term capital gain or loss if the Senior Secured Note has been held for more than one year at the time of the sale or other disposition. In the case of an individual U.S. holder, any such gain will be subject to preferential U.S. federal income tax rates if that U.S. holder satisfies certain prescribed minimum holding periods. The deductibility of capital losses is subject to limitations.

*Receipt of Euros*

A U.S. holder of a EUR Senior Secured Note may receive euros in payment for interest or principal. The tax basis of any euros received by a U.S. holder generally will equal the U.S. dollar equivalent of such euros at the spot rate on the date the euros are received. Upon any subsequent exchange of euros for U.S. dollars, a U.S. holder generally will recognize exchange gain or loss equal to the difference between the amount of U.S. dollars received and the U.S. holder's tax basis in the euro. Upon any subsequent exchange of euros for property (including non-U.S. currency), a U.S. holder generally will recognize exchange gain or loss equal to the difference between the U.S. dollar value of the euros exchanged for such property based on the U.S. dollar spot rate for euros on the date of the exchange and the U.S. holder's tax basis in the euros so exchanged. Any such exchange gain or loss generally will be treated as U.S. source ordinary income or loss.

*Reportable Transactions*

Treasury regulations require U.S. holders to report certain transactions that give rise to a loss in excess of certain thresholds. Under these regulations, a U.S. holder that recognizes exchange rate loss with respect to the Senior Secured Notes would be required to report the loss on IRS Form 8886 (Reportable Transaction Statement) if the loss exceeds the thresholds set forth in the regulations. For individuals and trusts, this loss threshold is U.S. $50,000 in any single year (if the loss is related to a foreign currency transaction). For other types of taxpayers and other types of losses, the thresholds are higher. Prospective investors are urged to consult their own tax advisers regarding the application of these rules to the acquisition, holding or disposition of the Senior Secured Notes.

*U.S. Information Reporting and Backup Withholding*

Payments of interest and proceeds paid from the sale or other disposition of the Senior Secured Notes may be subject to information reporting to the IRS and possible U.S. federal backup withholding. Backup withholding will not apply to a holder who furnishes a correct taxpayer identification number and makes any other required certification, or who is otherwise exempt from backup withholding. U.S. holders who are required to establish their exempt status generally must provide IRS Form W-9 (Request for Taxpayer Identification Number and Certification). Backup withholding is not an additional tax. Any amounts withheld from a payment to a holder under the backup withholding rules may be credited against a holder's U.S. federal income tax liability, and a holder may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS in a timely manner and furnishing any required information.

## EXCHANGE CONTROLS

The following is a summary of certain exchange controls in force in South Africa as at the date of this Offering Memorandum as they may affect holders of the Senior Secured Notes. These controls are subject to change at any time without notice. The information below is not intended as legal advice and does not purport to describe all of the considerations that may be relevant to a prospective purchaser of Senior Secured Notes. Prospective purchasers of Senior Secured Notes non-South African residents or emigrants from the Common Monetary Area are urged to seek further professional advice in regard to the purchase of Senior Secured Notes. For the purposes of the discussion below, the "Common Monetary Area" means South Africa, Lesotho, Namibia and Swaziland.

### General

The South African exchange control regulations restrict the export of capital from the Common Monetary Area. These regulations are administered by the Financial Surveillance (formerly called the Exchange Control Department) Department of SARB, with certain powers of administration being delegated to the local commercial banks in South Africa ("Authorised Dealers"), and serve to and regulate transactions involving South African residents. The purpose of exchange controls is to mitigate the decline of foreign capital reserves in South Africa. We expert that South African exchange controls will continue to operate for the foreseeable future. The South African government has, however, committed itself to gradually relaxing exchange controls and significant relaxation has occurred in recent years. It is the stated objective of the authorities to achieve equality of treatment between residents and non-residents in relation to inflows and outflows of capital. The gradual approach towards the abolition of exchange controls adopted by the South African government is designed to allow the economy to adjust more smoothly to the removal of controls that have been in place for a considerable period of time.

The issuance and sale of the Senior Secured Notes (including the Senior Secured Guarantees) to the Initial Purchasers and any payment of interest or principal in respect thereof, requires the approval of SARB. We have obtained the approval of SARB for the issuance and sale of the Senior Secured Notes to the Initial Purchasers and payments of interest and principal thereon. We will, however, be required to obtain the approval of SARB for any redemption or repurchase of Senior Secured Notes prior to their final maturity (including any repurchase of Senior Secured Notes pursuant to a change of control, tax event or asset sale offer).

Under the terms of the SARB approval for the Senior Secured Notes, no South African entity or institution or any offshore subsidiary or branch thereof may subscribe for or purchase any Senior Secured Note or beneficially hold or own any Senior Secured Note unless such subscription, purchase or beneficial holdings or ownership is otherwise permitted under the South African exchange control regulations or the rulings promulgated thereunder or specific approval has been obtained.

## PLAN OF DISTRIBUTION

Under the terms and subject to the conditions set forth in a purchase agreement to be dated the date of this Offering Memorandum (the "Purchase Agreement") between us and Barclays Bank PLC, Deutsche Bank AG, London Branch, Goldman Sachs International and Morgan Stanley & Co. International plc as Initial Purchasers, the Issuer has agreed to sell to each Initial Purchaser, and each of the Initial Purchasers has agreed, severally and not jointly, to purchase, all of the Senior Secured Notes. The Purchase Agreement provides that the obligations of the Initial Purchasers thereunder are subject to certain conditions precedent.

The following table sets forth the amount of Senior Secured Notes to be purchased by each Initial Purchaser in the Offering:

| Initial Purchasers* | Principal Amount of EUR Senior Secured Notes | | Principal Amount of USD Senior Secured Notes | |
|---|---|---|---|---|
| Barclays Bank PLC | € | 79,250,000 | U.S. $ | 62,500,000 |
| Deutsche Bank AG, London Branch | € | 79,250,000 | U.S. $ | 62,500,000 |
| Goldman Sachs International | € | 79,250,000 | U.S. $ | 62,500,000 |
| Morgan Stanley & Co. International plc | € | 79,250,000 | U.S. $ | 62,500,000 |
| Total | € | 317,000,000 | U.S. $ | 250,000,000 |

* Sales in the United States may be made through affiliates of the initial purchasers listed above.

The obligations of the Initial Purchasers under the Purchase Agreement, including their agreement to purchase the Senior Secured Notes from the Issuer, are several and not joint. The Purchase Agreement provides that the Initial Purchasers are obligated to purchase all of the Senior Secured Notes, if any of them are purchased. The Purchase Agreement also provides that, if an Initial Purchaser defaults, the purchase commitments of the non-defaulting Initial Purchasers may be increased or the offering may be terminated. We have agreed, subject to certain limited exceptions, not to offer, sell, contract to sell or otherwise dispose of, except as provided under the Purchase Agreement, any debt securities of, or guaranteed by, the Issuer, or any of its affiliates having a maturity of more than one year during the period from the date of the Purchase Agreement through and including the date 90 days after the date of the Purchase Agreement, without the prior consent of the Initial Purchasers.

The Issuer and the Senior Secured Guarantors have jointly and severally agreed in the Purchase Agreement to indemnify the Initial Purchasers, their respective affiliates and their respective officers, directors, employees, representatives, agents and controlling persons against certain liabilities in connection with the offer and sale of the Senior Secured Notes, including liabilities under the U.S. Securities Act, and to contribute to payments (including expenses) that the Initial Purchasers may be required to make in respect thereof.

The Initial Purchasers propose to offer the Senior Secured Notes initially at the price indicated on the cover page. The issue price and other selling terms may be changed at any time without notice.

The Senior Secured Notes and the Senior Secured Guarantees have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States or of any other jurisdiction. The Initial Purchasers have agreed that they will offer to sell the Senior Secured Notes within the United States through their U.S. registered broker-dealer affiliates only to persons who they reasonably believe to be qualified institutional buyers in reliance on Rule 144A and outside the United States only to non-U.S. persons in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S. Resales of the Senior Secured Notes are restricted as described under "Notice to U.S. Investors" and "Notice to Non-U.S. Investors".

Until 40 days after the commencement of the offering, an offer or sale of any Senior Secured Notes, initially sold in reliance on Regulation S, within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the U.S. Securities Act or pursuant to another exemption from registration under the U.S. Securities Act.

The Senior Secured Notes may not be and, accordingly, are not being offered or sold to prospective investors in South Africa other than on reverse-solicitation basis. Accordingly, the offer of the Senior Secured Notes will not be an "offer to the public" (as such expression is defined in the SA Companies Act, as amended) in South Africa and this offering memorandum does not, nor is it intended to, constitute a "prospectus" prepared and registered under the SA Companies Act.

No South African residents or their offshore subsidiaries may subscribe or purchase any Senior Secured Notes or beneficially hold or own Senior Secured Notes unless such subscription, purchase or beneficial holding or ownership is otherwise permitted under South African exchange control regulations or the rulings promulgated thereunder, or specific approval has been obtained from SARB.

Each of the Initial Purchasers has severally and not jointly represented and agreed that:

(1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the U.K. Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of any Senior Secured Notes in circumstances in which section 21(1) of the FSMA does not apply to any Issuer or any Guarantor; and

(2) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Senior Secured Notes in, from or otherwise involving the United Kingdom.

Persons who purchase Senior Secured Notes from the Initial Purchasers may be required to pay stamp duty, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page of this Offering Memorandum.

No action has been taken in any jurisdiction, including the United States and the United Kingdom, by us or the Initial Purchasers that would permit a public offering of the Senior Secured Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to us or the Senior Secured Notes in any jurisdiction where action for this purpose is required. Accordingly, the Senior Secured Notes may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisements in connection with the Senior Secured Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This Offering Memorandum does not constitute an offer to sell, or a solicitation of an offer to purchase, Senior Secured Notes in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this Offering Memorandum comes are advised to inform themselves about and to observe any restrictions relating to the offering of the Senior Secured Notes, the distribution of this Offering Memorandum and resale of the Senior Secured Notes. See "Notice to U.S. Investors" and "Notice to Non-U.S. Investors".

The Senior Secured Notes are new issues of securities with no established trading market. We have applied to list the Senior Secured Notes on the Official List of the Irish Stock Exchange and to be admitted for trading on its Global Exchange Market. The Initial Purchasers have advised us that they currently intend to make a market in the Senior Secured Notes as permitted by applicable law. However, the Initial Purchasers are not obligated to do so and any market making may be discontinued by the Initial Purchasers at any time at their sole discretion without notice. Accordingly, no assurance can be given as to the liquidity of, or the trading market for, the Senior Secured Notes.

Delivery of the Senior Secured Notes will be made against payment therefore on or about the date specified in the last paragraph of the cover page of this Offering Memorandum, which will be the fifth business day following the date of pricing of the Senior Secured Notes (such settlement being referred to as "T+5"). Pursuant to Rule 15(c)6-1 under the U.S. Securities Exchange Act of 1934, as amended, (the "U.S. Exchange Act") trades in the secondary market generally are required to settle in three business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Senior Secured Notes on the date of pricing or the next business day will be required, by virtue of the fact that the Senior Secured Notes will initially settle in T+5 to specify an alternative settlement cycle at the time of such trade to prevent failed settlement. Purchasers of the Senior Secured Notes who wish to trade the Senior Secured Notes on the date of pricing or the next business day should consult their own advisors.

In connection with this offering, the Stabilisation Manager or any person acting for it may engage in over-allotment, stabilising transactions, covering transactions and penalty bids in accordance with Regulation M under the U.S. Exchange Act.

Over-allotment involves sales in excess of the offering size, which creates a short position for the Initial Purchasers.

Stabilising transactions permit bids to purchase the underlying security so long as the stabilising bids do not exceed a specified maximum.

Covering transactions involve purchases of the Senior Secured Notes in the open market after the distribution has been completed in order to cover short positions.

Penalty bids permit the Initial Purchasers to reclaim a selling concession from a broker/dealer when the Senior Secured Notes originally sold by that broker/dealer are purchased in a stabilising or covering transaction to cover short positions.

These stabilising transactions, covering transactions and penalty bids may cause the price of the Senior Secured Notes to be higher than it would otherwise be in the absence of these transactions. There is no obligation on the Stabilisation Manager or any person acting for it to undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Senior Secured Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Senior Secured Notes and 60 days after the date of the allotment of the Senior Secured Notes.

Such stabilisation activities will not be carried out by the Stabilisation Manager or any person acting for it as agent for the Issuer, and neither the Stabilisation Manager nor any person acting for it will account to the Issuer for any resulting profit nor will the Stabilisation Manager or any person acting for it be liable for any loss.

Each of Barclays Bank PLC, Deutsche Bank AG, Goldman Sachs International and Morgan Stanley & Co. International plc directly or through their respective affiliates, has provided from time to time, and expects to provide in the future, investment and commercial banking, financial advisory, trading and other services to us and our affiliates for which they have received and/or will receive customary compensation. In particular:

- ABSA, an affiliate of Barclays Bank PLC, is the agent and a lender under the Amended Super Senior Revolving Credit Facility;
- Deutsche Bank AG and/or one of its affiliates are a lender under the Amended Super Senior Revolving Credit Facility and a hedge counterparty under the Existing Hedging Arrangements;
- Goldman Sachs International and/or one of its affiliates is a lender under the Amended Super Senior Revolving Credit Facility, sole lenders under the Super Senior Rand Loan and a hedge counterparty under the Existing Hedging Arrangements; and
- Morgan Stanley & Co. International plc or one of its affiliates is a lender under the Amended Revolving Super Senior Credit Facility.

In addition, Goldman Sachs International ("GSI") has been selected by the Issuer to coordinate the restructuring of the Existing Hedging Arrangements. Consequently, GSI has a substantial commercial interest in the outcome of the Hedge Refinancing and the execution of the New Senior Secured Hedging Arrangements. In the future, GSI may from time to time enter into further hedging arrangements with, or in respect of its credit risk to, the Issuer and/or may novate or otherwise terminate its arrangements with some of all of the Existing Hedging Counterparties.

## NOTICE TO U.S. INVESTORS

You are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any of the Senior Secured Notes offered hereby.

The Senior Secured Notes and the Senior Secured Guarantees have not been registered under the U.S. Securities Act, or any securities laws of any state, and, therefore, the Senior Secured Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. Accordingly, the Senior Secured Notes may only be offered and sold:

- in the United States to "qualified institutional buyers", commonly referred to as "QIBs", as defined in Rule 144A and in reliance on Rule 144A; and
- in offshore transactions in reliance on Regulation S.

We use the terms "offshore transaction" and "United States" with the meanings given to them in Regulation S.

In addition, until 40 days after the later of the commencement of the offering and the closing date, an offer or sale of the Senior Secured Notes within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

Each purchaser of the Senior Secured Notes, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with us and the Initial Purchasers as follows:

(1) It understands and acknowledges that neither the Senior Secured Notes nor the Senior Secured Guarantees have been registered under the U.S. Securities Act or any other applicable securities law, are being offered for resale in transactions not requiring registration under the U.S. Securities Act or any other securities law, including sales pursuant to Rule 144A under the U.S. Securities Act, and may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the U.S. Securities Act or any other applicable securities law, pursuant to an exemption therefrom or in any transaction not subject thereto and in each case in compliance with the conditions for transfer set out in paragraph (5) below.

(2) It is not an "affiliate" (as defined in Rule 144 under the U.S. Securities Act) of the Issuer or any Guarantor or acting on the Issuer or any Guarantor's behalf and it is either:

(i) a QIB and is aware that any sale of Senior Secured Notes to it will be made in reliance on Rule 144A and the acquisition of the Senior Secured Notes will be for its own account or for the account of another QIB; or

(ii) a non-U.S. person purchasing the Senior Secured Notes outside the United States in an offshore transaction in accordance with Regulation S under the U.S. Securities Act.

(3) It acknowledges that none of the Issuer, the Senior Secured Guarantors or the Initial Purchasers, nor any person representing any of them, has made any representation to it with respect to the offering or sale of any Senior Secured Notes, other than the information contained in the Offering Memorandum, which Offering Memorandum has been delivered to it and upon which it is relying in making its investment decision with respect to the Senior Secured Notes. It has had access to such financial and other information concerning us and the Issuer, the Senior Secured Guarantors, the Indenture, the Senior Secured Notes, the Senior Secured Guarantees and the Security Documents as it deemed necessary in connection with its decision to purchase any of the Senior Secured Notes, including an opportunity to ask questions of, and request information from, the Issuer, the Senior Secured Guarantors and the Initial Purchasers.

(4) It is purchasing the Senior Secured Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the U.S. Securities Act or any other securities laws, subject to any requirement of law that the disposal of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell the Senior Secured Notes pursuant to Rule 144A, Regulation S or any other exemption from registration available under the U.S. Securities Act.

(5) Each holder of the Senior Secured Notes issued in reliance on Rule 144A ("Rule 144A Notes") agrees on its own behalf and on behalf of any investor account for which it is purchasing the Senior Secured Notes, and each subsequent holder of the Senior Secured Notes by its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Senior Secured Notes prior to the date (the "Resale Restriction Termination Date") that is one year after the later of the date of the Issue Date and the last date on which the Issuer or any of its affiliates was the owner of such Senior Secured Notes (or any predecessor thereto) only (i) to the Issuer, (ii) pursuant to a registration statement that has been declared effective under the U.S. Securities Act, (iii) for so long as the Senior Secured Notes are eligible pursuant to Rule 144A under the U.S. Securities Act, to a person it reasonably believes is a QIB that purchases for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A under the U.S. Securities Act, (iv) pursuant to offers and sales to non-U.S. persons that occur outside the United States in compliance with Regulation S under the U.S. Securities Act, (v) to an institutional accredited investor (within the meaning of Rule 501(a)(1), (2), (3) or (7) under the U.S. Securities Act) that is not a qualified institutional buyer and that is purchasing for its own account or for the account of another institutional accredited investor, in each case in a minimum principal amount of Senior Secured Notes of $250,000, or (vi) pursuant to any other available exemption from the registration requirements of the U.S. Securities Act, subject in each of the foregoing cases to any requirement of law that the disposal of its property or the property of such investor account or accounts be at all times within its or their control and in compliance with any applicable state securities laws, and any applicable local laws and regulations, and further subject to the Issuer's and the Trustee's rights prior to any such offer, sale or transfer (I) pursuant to clause (iv), (v) or (vi) to require the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them and (II) in each of the foregoing cases, to require that a certificate of transfer in the form appearing on the other side of the security is completed and delivered by the transferor to the Trustee. Each purchaser acknowledges that each Senior Secured Note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT") OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT) OR (B) IT IS NOT A U.S. PERSON ACQUIRING THIS NOTE IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR FOR WHICH IT HAS PURCHASED SECURITIES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS IN THE CASE OF RULE 144A NOTES: ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY) IN THE CASE OF REGULATION S NOTES: 40 DAYS AFTER THE LATER OF THE DATE WHEN THE SECURITIES WERE FIRST OFFERED TO PERSONS OTHER THAN DISTRIBUTORS IN RELIANCE ON REGULATION S AND THE DATE OF THE COMPLETION OF THE DISTRIBUTION ONLY (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS THAT OCCUR OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S.

SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM AND (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

If it purchases the Senior Secured Notes, it will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Senior Secured Notes as well as to holders of these Senior Secured Notes.

(6) It agrees that it will give to each person to whom it transfers the Senior Secured Notes notice of any restrictions on transfer of such Senior Secured Notes.

(7) It acknowledges that until 40 days after the commencement of the Offering, any offer or sale of the Senior Secured Notes within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the U.S. Securities Act.

(8) It acknowledges that the Registrar will not be required to accept for registration of transfer any Senior Secured Notes except upon presentation of evidence satisfactory to us and the Trustee that the restrictions set out therein have been complied with.

(9) It acknowledges that we, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations, warranties and agreements and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by its purchase of the Senior Secured Notes are no longer accurate, it shall promptly notify the Initial Purchasers. If it is acquiring any Senior Secured Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such investor account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such investor account.

(10) It understands that no action has been taken in any jurisdiction (including the United States) by the Issuer or the Initial Purchasers that would result in a public offering of the Senior Secured Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to us or the Senior Secured Notes in any jurisdiction where action for such purpose is required. Consequently, any transfer of the Senior Secured Notes will be subject to the selling restrictions set out under "Plan of Distribution".

## NOTICE TO NON-U.S. INVESTORS

### South Africa

The Senior Secured Notes may not be and, accordingly, are not being offered or sold to prospective investors in the Republic of South Africa ("South Africa") other than on reverse-solicitation basis. Accordingly, the offer of the Senior Secured Notes will not be an "offer to the public" (as such expression is defined in the SA Companies Act, No. 61 of 1973 (as amended) (the "SA Companies Act") in South Africa and this Offering Memorandum does not, nor is it intended to, constitute a "prospectus" (as that term is defined in the SA Companies Act) prepared and registered under the SA Companies Act." No South African residents or other offshore subsidiary may subscribe for the purchase any of the Senior Secured Notes or beneficially own or hold any or the Senior Secured Notes unless such subscription, purchase or beneficial holding or ownership is otherwise permitted under the South African exchange control regulations or the rulings promulgated thereunder or specific approval has been obtained from the Financial Surveillance Department of the South African Reserve Bank.

### United Kingdom

In the United Kingdom the Senior Secured Notes will only be available for purchase pursuant to the offering to a person who represents and agrees that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act of 2000 (the "FSMA")) received by it in connection with the issue or sale of any Senior Secured Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or any Guarantor; and
- it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Senior Secured Notes in, from or otherwise involving the United Kingdom.

## SERVICE OF PROCESS AND ENFORCEMENT OF LIABILITIES

### Choice of law

Our South African counsel has advised us that in any proceedings for the enforcement of the obligations of any South African party, the South African courts will generally give effect to the choice of foreign law as contemplated in the Senior Secured Notes as the governing law thereof.

### Jurisdiction

According to said counsel, subject as set out below, any party's (i) irrevocable submission under the 2007 Indentures and the Senior Secured Indenture and the Senior Secured Notes to the jurisdiction of a New York court; and (ii) agreement not to claim any immunity to which it or its assets may be entitled, is generally legal, valid, binding and enforceable under the laws of South Africa, and any judgement obtained in the foreign jurisdiction will be recognised and be enforceable by the courts of South Africa without the need for re-examination of the merits. The appointment by any party of an agent in a New York court to accept service of process in respect of the jurisdiction of the New York courts is generally valid and binding on that party.

Under South African law, a court will not accept a complete ouster of jurisdiction, although generally it recognises party autonomy and gives effect to choice of law and choice of jurisdiction provisions. However, jurisdiction remains within the discretion of the court and a court may, in certain instances, assume jurisdiction provided there are sufficient jurisdictional connecting factors. South African courts may, in rare instances, choose not to give effect to a choice of jurisdiction clause, if, for example, such choice is contrary to public policy. Proceedings before a court of South Africa may be stayed if the subject of the proceedings is concurrently before any other court.

### Recognition of foreign judgments

We have also been advised by our South African counsel that subject to obtaining the permission of the South African Minister of Trade and Industry under the South African Protection of Businesses Act, No. 99 of 1978 (the "SA PB Act"), an authenticated judgement obtained in a competent court of jurisdiction other than South Africa will be recognised and enforced by ordinary action in accordance with procedures ordinarily applicable under South African law for the enforcement of foreign judgments, namely a provisional sentence summons claiming enforcement of the foreign judgment; provided, that the judgment was pronounced by a proper court of law, was final and conclusive (in the case of a judgment for money, on the face of it), has not become stale, and has not been obtained by fraud or in any manner opposed to natural justice or contrary to the international principles of due process and procedural fairness, the enforcement thereof is not contrary to South African public policy and the foreign court in question had jurisdiction and competence according to the applicable South African rules on conflict of laws. A foreign judgement will probably not be recognised in South Africa if the foreign court exercised jurisdiction over the defendant solely by virtue of an attachment to found jurisdiction or on the basis of domicile alone. South African courts will not enforce foreign revenue or penal laws (e.g. fines, governmental levy (in distinction to private judgements)) and South African courts have, as a matter of public policy, generally not enforced awards for multiple or punitive damages. Permission from the Minister of Trade and Industry will similarly not be granted if it would result in the recovery of excessive damages.

Where obligations are to be performed in a jurisdiction outside South Africa they may not be enforceable under the laws of South Africa to the extent that such performance would be illegal or contrary to public policy under the laws of South Africa, or the foreign jurisdiction or to the extent that the law precludes South African courts from granting extra territorial orders. South African courts have the discretion of refusing the granting of orders with extra territorial effect if the granting of such order would be ineffectual.

Under the South African Recognition and Enforcement of Foreign Arbitral Awards Act, No. 40 of 1977 (the "SA Enforcement Act"), any foreign arbitral award may, subject to the provisions of sections 3 and 4 thereof, be made an order of court by any court. Any such award which has been made an order of court pursuant to the provisions of the SA Enforcement Act may be enforced in the same manner as any judgment or order to the same effect (subject to the provisions of the SA PB Act, which apply *mutatis mutandis* to foreign arbitral awards).

**Effect of liquidation on civil proceedings**

Said counsel has further advised us that, in general and subject to certain exceptions, civil proceedings (including arbitration proceedings) instituted by or against an insolvent company are automatically stayed on the liquidation of the insolvent company's estate until the appointment of a liquidator. A plaintiff wishing to continue with such proceedings against the insolvent company must give notice of its intention to do so within a period of three weeks from the date of the first meeting of creditors, in accordance with the provisions of the South African Insolvency Act, No. 24 of 1936, failing which, the proceedings lapse. In circumstances where the court finds that there was a reasonable excuse for a failure to give the requisite notice, it has a discretion to allow a plaintiff to continue with proceedings on such conditions as it thinks fit. Execution against the insolvent's assets is similarly stayed.

## LEGAL MATTERS

Certain legal matters in connection with the offering will be passed upon for us by Kirkland & Ellis International LLP, London, England and Kirkland & Ellis LLP, New York, the United States with respect to U.S. federal and New York law, and Werksmans Attorneys, Johannesburg, South Africa, with respect to South African law. Certain legal matters in connection with the offering will be passed upon for the Initial Purchasers by Shearman & Sterling LLP, London, England, with respect to U.S. federal, New York and English law, and Bowman Gilfillan Inc., Johannesburg, South Africa, with respect to South African law.

## INDEPENDENT AUDITORS

In this Offering Memorandum, the historical financial statements for HoldCo for fiscal year 2009 and 2010 have been audited by Ernst & Young Inc., South Africa, independent auditors, as stated in reports appearing herein. Ernst & Young Inc., South Africa, is a Registered Auditor with the Independent Regulatory Board for Auditors of South Africa.

## AVAILABLE INFORMATION

We are currently not subject to the periodic reporting requirements of the U.S. Securities and Exchange Act of 1934, as amended (the "U.S. Exchange Act"). However, pursuant to the 2007 Indentures and the Senior Secured Indenture governing the Senior Secured Notes, we will furnish periodic information to holders of the Senior Secured Notes. See "Description of the Senior Secured Notes—Reports to Holders".

In addition, documents concerning this offering can be inspected at HoldCo's office at Edgardale, Press Avenue, Crown Mines, Johannesburg, Republic of South Africa. Copies of such documents and other information relating to the issuance of the Senior Secured Notes will be available at the specified office of the paying agent in Ireland.

For so long as any of the Senior Secured Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, we will, during any period in which we are not subject to Section 13 or 15(d) under the U.S. Exchange Act nor exempt from reporting thereunder pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial holder of a Senior Secured Note, or to any prospective purchaser of a Senior Secured Note designated by such holder or beneficial holder, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the U.S. Securities Act upon the written request of any such holder or beneficial holder. Any such request should be directed to us at the address given in the previous paragraph. It should be delivered to the attention of HoldCo's company secretary.

## LISTING AND GENERAL INFORMATION

### Listing

Application has been made to admit the Senior Secured Notes to listing on the Official List of the Irish Stock Exchange and to trading on its Global Exchange Market in accordance with the rules and regulations of the Irish Stock Exchange. This application is subject to the approval of the Global Exchange Market of the Irish Stock Exchange. This Offering Memorandum constitutes "Listing Particulars" and does not constitute "Prospectus" for such an application.

We will maintain a paying and transfer agent in Ireland for as long as any of the Senior Secured Notes are listed on the Global Exchange Market of the Irish Stock Exchange. We reserve the right to vary such appointment and will notify the Global Exchange Market of the Irish Stock Exchange of such change of appointment.

So long as any of the Senior Secured Notes remain outstanding and listed on the Global Exchange Market of the Irish Stock Exchange, copies of this Offering Memorandum will be made available for inspection by physical means at the registered office of our paying agent for the Senior Secured Notes in Ireland, and at our registered office located at Edgardale, 1 Press Avenue, Crown Mines, Johannesburg, 2092, Republic of South Africa.

In addition, for so long as the Senior Secured Notes remain listed on the Official List of the Irish Stock Exchange, copies of the following documents will be made available for inspection by physical means at the registered office of our paying agent for the Senior Secured Notes in Ireland, and at our registered office located at Edgardale, 1 Press Avenue, Crown Mines, Johannesburg, 2092, Republic of South Africa:

- the memorandum and articles of association of each of the Issuers and the Senior Secured Guarantors;
- the Indenture;
- our most recent audited financial statements, and any interim financial statements published by us;
- the purchase agreement relating to the Senior Secured Notes; and
- any other material documents relating to the listing.

The total expenses related to the admission of the Senior Secured Notes to trading on the Global Exchange Market of the Irish Stock Exchange are expected to be approximately €10,000. We have not been involved in any governmental, legal or arbitration proceedings that may have, or have had during the 12 months preceding the date of this Offering Memorandum, a significant effect on our financial position nor are we aware that any such proceedings are pending or threatened.

As of the date of this Offering Memorandum, our most recent audited financial statements available were as of and for the year ended 3 April 2010. Except as disclosed in this Offering Memorandum, as of the date of this Offering Memorandum, there has been no significant adverse change in our consolidated financial condition or trading position since 3 April 2010, the date of the last consolidated annual accounts.

### Clearing information

The Notes have been accepted for clearance through the facilities of DTC, Euroclear and Clearstream. Certain trading information with respect to the Notes is set forth below.

| | ISIN | Common code | CUSIP |
|---|---|---|---|
| **Rule 144A Global Notes** | | | |
| EUR Senior Secured Notes ..... | XS0596918648 | 059691864 | |
| USD Senior Secured Notes ..... | US27929TAB35 | | 27929T AB3 |
| **Regulation S Global Notes** | | | |
| EUR Senior Secured Notes ..... | XS0596918135 | 059691813 | |
| USD Senior Secured Notes ..... | XS0596919026 | 059691902 | |

**Organisational information**

The Issuer of the Senior Secured Notes, Edcon (Proprietary) Limited, formerly Elephant RetailCo (Proprietary) Limited), (the "Issuer") is a private limited company registered under the laws of South Africa and was incorporated on 5 February 2007 under Registration No. 2007/003525/07 pursuant to the SA Companies Act of 1973, as amended.

The Senior Secured Notes will be guaranteed on a senior secured basis by Edcon Acquisition (Proprietary) Limited ("BidCo"), formerly Elephant Acquisition (BC) (Proprietary) Limited, a company registered under the laws of South Africa and incorporated on 12 January 2007 under Registration No. 2007/000518/07 pursuant to the SA Companies Act of 1973, as amended.

The Senior Secured Notes will be guaranteed on a senior secured basis by Edcon Holdings (Proprietary) Limited ("HoldCo"), a company registered under the laws of South Africa and incorporated on 27 November 2006 under Registration No. 2006/036903/07 pursuant to the SA Companies Act of 1973, as amended.

The Senior Secured Notes will be guaranteed on a senior secured basis by ECSL, a company registered under the laws of South Africa and incorporated on 7 August 1946 under Registration No. 1946/022751/06 pursuant to the SA Companies Act of 1973, as amended.

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Unaudited Interim Condensed Consolidated Financial Statements

**EDCON HOLDINGS (PROPRIETARY) LIMITED ("EDCON")**

**FOR THE NINE-MONTH PERIOD ENDED 1 JANUARY 2011**

**Condensed Consolidated Statement of Financial Position (unaudited)**

| | 2011 1 January | 2010 3 April | 2009 26 December |
|---|---|---|---|
| | Rm | Rm | Rm |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Properties, fixtures, equipment and vehicles | **2,372** | 2,663 | 2,857 |
| Intangible assets | **18,129** | 18,442 | 18,684 |
| Equity accounted investment in joint ventures | **15** | – | 24 |
| Deferred tax | **474** | 153 | 1 |
| **Total non-current assets** | **20,990** | 21,258 | 21,566 |
| **Current assets** | | | |
| Inventories | **2,726** | 2,402 | 2,547 |
| Trade, other receivables and prepayments | **9,889** | 8,983 | 9,720 |
| Cash and cash equivalents | **1,332** | 1,125 | 1,542 |
| **Total current assets** | **13,947** | 12,510 | 13,809 |
| **Total assets** | **34,937** | 33,768 | 35,375 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to shareholders** | | | |
| Share capital and premium | **2,148** | 2,148 | 2,148 |
| Other reserves | **(175)** | (408) | (464) |
| Retained loss | **(4,172)** | (3,329) | (2,665) |
| **Total equity** | **(2,199)** | (1,589) | (981) |
| **Non-current liabilities – shareholder's loan** | | | |
| Shareholder's loan | **7,980** | 7,341 | 7,117 |
| **Total equity and shareholder's loan** | **5,781** | 5,752 | 6,136 |
| **Non-current liabilities – third parties** | | | |
| Floating rate notes issued | **13,446** | 15,020 | 16,561 |
| Notes issued – securitisation | **4,300** | 3,855 | 3,855 |
| Derivative financial instruments | **5,697** | 3,093 | 1,487 |
| Lease equalisation | **390** | 386 | 365 |
| Employee benefit liability | **120** | 114 | 118 |
| | **23,953** | 22,468 | 22,386 |
| **Total non-current liabilities** | **31,933** | 29,809 | 29,503 |
| **Current liabilities** | | | |
| Interest-bearing debt | **–** | 350 | 351 |
| Notes issued – securitisation | **–** | 445 | 445 |
| Current taxation | **240** | 236 | 281 |
| Derivative financial instruments | **479** | 817 | 688 |
| Trade and other payables | **4,484** | 3,700 | 5,088 |
| **Total current liabilities** | **5,203** | 5,548 | 6,853 |
| **Total equity and liabilities** | **34,937** | 33,768 | 35,375 |
| **Total managed capital per IAS 1** | **23,527** | 25,422 | 27,348 |

**Condensed Consolidated Statement of Comprehensive Income (unaudited)**

| | Note | 2011 39 weeks to 1 January | 2009 39 weeks to 26 December |
|---|---|---|---|
| | | Rm | Rm |
| **Total revenues** | 3 | **20,054** | 19,066 |
| **Revenue – retail sales** | | **17,917** | 16,813 |
| Cost of sales | | **(11,251)** | (10,590) |
| **Gross profit** | | **6,666** | 6,223 |
| Other income | | **361** | 360 |
| Store costs | | **(3,249)** | (3,002) |
| Other operating costs | | **(2,506)** | (2,317) |
| **Retail trading profit** | | **1,272** | 1,264 |
| Income from credit | 4.1 | **1,371** | 1,567 |
| Expenses from credit | 4.2 | **(880)** | (1,377) |
| Equity accounted earnings of joint venture | | **349** | 309 |
| **Trading profit** | | **2,112** | 1,763 |
| Fees incurred funding facilities | | **(10)** | (28) |
| Derivative expense | | **(3,062)** | (3,139) |
| Foreign exchange gain | | **1,609** | 3,069 |
| **Profit before net financing costs** | | **649** | 1,665 |
| Interest received | | **57** | 17 |
| **Profit before financing costs** | | **706** | 1,682 |
| Financing costs | | **(1,897)** | (2,240) |
| **Loss before taxation** | | **(1,191)** | (558) |
| Taxation | | **348** | 187 |
| **LOSS FOR THE PERIOD** | | **(843)** | (371) |
| **Other comprehensive income after tax:** | | | |
| Exchange differences on translating foreign operations | | **(28)** | (36) |
| Cash flow hedges | | **261** | (148) |
| **Other comprehensive income for the period, net of tax** | | **233** | (184) |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **(610)** | (555) |
| **Loss attributable to:** | | | |
| Owners of the parent | | **(843)** | (371) |
| **Total comprehensive income attributable to:** | | | |
| Owners of the parent | | **(610)** | (555) |

**Condensed Consolidated Statement of Changes in Equity (unaudited)**

| | Share capital and premium | Translation of foreign operations | Cash flow hedges | Revaluation surplus | Retained loss | Total equity |
|---|---|---|---|---|---|---|
| | Rm | Rm | Rm | Rm | Rm | Rm |
| AT 26 DECEMBER 2009 | | | | | | |
| Opening balance at 29 March 2009 | 2,143 | 28 | (331) | 23 | (2,289) | (426) |
| Issue of share capital | 5 | | | | | 5 |
| Dividends | | | | | (5) | (5) |
| Loss for the period | | | | | (371) | (371) |
| Other comprehensive income for the period | | (36) | (148) | | | (184) |
| Balance at 26 DECEMBER 2009 | 2,148 | (8) | (479) | 23 | (2,665) | (981) |
| **AT 1 JANUARY 2011** | | | | | | |
| Opening balance at 4 April 2010 | 2,148 | (20) | (391) | 3 | (3,329) | (1,589) |
| Loss for the period | | | | | (843) | (843) |
| Other comprehensive income for the period | | (28) | 261 | | | 233 |
| **Balance at 1 JANUARY 2011** | **2,148** | **(48)** | **(130)** | **3** | **(4,172)** | **(2,199)** |

**Condensed Consolidated Statement of Cash Flows (unaudited)**

| | 2011 39 weeks to 1 January | 2009 39 weeks to 26 December |
|---|---|---|
| | Rm | Rm |
| **Cash retained from operating activities** | | |
| Profit before net financing costs | **649** | 1,665 |
| Depreciation | **606** | 606 |
| Amortisation | **314** | 313 |
| Foreign exchange gain | **(1,609)** | (3,069) |
| Derivative expense | **3,062** | 3,139 |
| Other non-cash items | **(4)** | 23 |
| **Operating cash inflow before changes in working capital** | **3,018** | 2,677 |
| Working capital movement | **(421)** | 1,482 |
| Inventories | **(326)** | (6) |
| Trade accounts receivable | **(851)** | (25) |
| Other debtors | **(65)** | (12) |
| Accounts payable | **821** | 1,525 |
| **Cash generated from operating activities** | **2,597** | 4,159 |
| Interest received | **37** | 15 |
| Financing costs paid | **(1,634)** | (1,666) |
| Taxation paid | **(72)** | (320) |
| **Net cash retained** | **928** | 2,188 |
| **Cash utilised in investment activities** | | |
| Net investment in fixtures, equipment and vehicles | **(355)** | (345) |
| **Net cash invested** | **(355)** | (345) |
| **Cash effects of financing activities** | | |
| Notes issued and refinancing | **–** | 4,300 |
| Decrease in interest bearing debt | **(350)** | (4,949) |
| **Net cash outflow from financing activities** | **(350)** | (649) |
| **Increase in cash and cash equivalents** | **223** | 1,194 |
| **Cash and cash equivalents at the beginning of the period** | **1,125** | 379 |
| Currency adjustments | **(16)** | (31) |
| **Cash and cash equivalents at the end of the period** | **1,332** | 1,542 |

**Notes to the Condensed Consolidated Financial Statements (unaudited)**

**Basis of Accounting**

Edcon Holdings (Proprietary) Limited's consolidated financial statements (Financial Statements) are prepared in accordance with International Financial Reporting Standards (IFRS) and stated in Rands (R).

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

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

In preparing these Financial Statements, the same accounting principles and methods of computation are applied as in the Group Financial Statements of Edcon Holdings (Proprietary) Limited on 3 April 2010 and for the period then ended.

These Financial Statements should be read in conjunction with the audited Financial Statements as at and for the period ended 3 April 2010 as included in the 2010 audited Group Annual Financial Statements of Edcon Holdings (Proprietary) Limited.

**OntheCards Investments II (Proprietary) Limited**

In August 2010, OtC II raised R1,400 million through the issuance of three year notes (R968 million), four year notes (R182 million) and seven year notes (R250 million). The spreads on these notes were Jibar + 215bps, Jibar +225bps and Jibar +250bps respectively. Both the three year and four year notes were placed at a tighter spread than the existing OtC II notes with a similar maturity.

The funds raised by OtC II were used to refinance R445 million notes due in July 2010 and R955 million notes due in October 2012.

**Going concern**

The going concern assumption has been considered after including the Shareholder's loan in the assessment. To the extent required to maintain the solvency of the Group, the Shareholder's loan agreement is subordinated to the claims of all of the creditors of the Group.

| | 2011 39 weeks to 1 January | 2009 39 weeks to 26 December |
|---|---|---|
| | Rm | Rm |
| **2. SEGMENTAL RESULTS** | | |
| **2.1 Revenues** | | |
| Edgars | **9,499** | 8,817 |
| CNA | **1,392** | 1,325 |
| Discount Division | **7,347** | 7,001 |
| Manufacturing | **40** | 30 |
| Credit and Financial Services | **1,719** | 1,876 |
| Group Services | **57** | 17 |
| | **20,054** | 19,066 |
| **2.2 Retail sales** | | |
| Edgars | **9,322** | 8,658 |
| CNA | **1,392** | 1,325 |
| Discount Division | **7,203** | 6,830 |
| | **17,917** | 16,813 |
| **2.3 Number of stores** | | |
| Edgars | **265** | 274 |
| CNA | **202** | 206 |
| Discount Division | **731** | 770 |
| | **1,198** | 1,250 |
| **2.4 Segment result – operating profit** | | |
| Edgars | **2,142** | 1,987 |
| CNA | **91** | 91 |
| Discount Division | **873** | 862 |
| Manufacturing | **(1)** | (7) |
| Credit and Financial Services | **839** | 499 |
| Group Services[1] | **(3,295)** | (1,767) |
| | **649** | 1,665 |

[1] Included in the allocation to the Group Services segment is corporate overheads, derivative expense, foreign exchange gain and amortisation of intangible assets and additional depreciation as a result of the Transactions.

| **3. REVENUES** | | |
|---|---|---|
| Retail sales | **17,917** | 16,813 |
| Club fees | **321** | 330 |
| Finance charges on trade receivables | **1,370** | 1,567 |
| Equity accounted earnings of joint ventures | **349** | 309 |
| Interest received | **57** | 17 |
| Manufacturing sales to third parties | **40** | 30 |
| | **20,054** | 19,066 |

| | 2011 39 weeks to 1 January | 2009 39 weeks to 26 December |
|---|---|---|
| | Rm | Rm |
| **4. CREDIT INCOME AND EXPENSE** | | |
| **4.1 Income from credit** | | |
| Finance charges on trade receivables | **1,371** | 1,567 |
| | **1,371** | 1,567 |
| **4.2 Expenses from credit** | | |
| Net bad debt | **(798)** | (897) |
| Net decrease/(increase) in doubtful debt provision | **317** | (81) |
| Administration costs | **(399)** | (399) |
| | **(880)** | (1,377) |
| **4.3 Net credit income** | **491** | 190 |
| **5. Consolidation of OntheCards Investments Limited and OntheCards Investments II (Proprietary) Limited** | | |
| **Year-to-date Statement of Comprehensive Income** | | |
| **Total revenues** | **522** | 454 |
| Income from credit | **497** | 442 |
| Expenses from credit | **(144)** | (343) |
| **Trading profit and profit before financing costs** | **353** | 99 |
| Interest received | **26** | 12 |
| **Profit before financing costs** | **379** | 111 |
| Financing costs | **(310)** | (231) |
| **Profit/(loss) before taxation** | **69** | (120) |
| Taxation | **(18)** | 31 |
| **Profit/(loss) for the period** | **51** | (89) |

| | 2011 1 January | 2010 3 April | 2009 26 December |
|---|---|---|---|
| | Rm | Rm | Rm |
| **5. Consolidation of OntheCards Investments Limited and OntheCards Investments II (Proprietary) Limited** *(continued)* | | | |
| Included in the Group Condensed Statement of Financial Position by line, are the following balances: | | | |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | **79** | 79 | 79 |
| Held-to-maturity investments | **(78)** | (78) | (78) |
| Loan – Edcon (Proprietary) Limited | **(2,062)** | (2,062) | (2,062) |
| Deferred tax | **115** | 133 | 145 |
| **Total non-current assets** | **(1,946)** | **(1,928)** | **(1,916)** |
| **Current assets** | | | |
| Trade, other receivables and prepayments | **6,154** | 5,468 | 5,798 |
| Cash and cash equivalents | **93** | 684 | 371 |
| **Total current assets** | **6,247** | **6,152** | **6,169** |
| **Total assets** | **4,301** | **4,224** | **4,253** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to shareholders** | | | |
| Retained loss | **(89)** | (140) | (141) |
| **Total equity** | **(89)** | **(140)** | **(141)** |
| **Non-current liabilities – third parties** | | | |
| Notes issued – securitisation | **4,300** | 3,855 | 3,855 |
| **Total non-current liabilities** | **4,300** | **3,855** | **3,855** |
| **Current liabilities** | | | |
| Notes issued – securitisation | | 445 | 445 |
| Current taxation | **–** | – | 23 |
| Trade and other payables | **90** | 64 | 71 |
| **Total current liabilities** | **90** | **509** | **539** |
| **Total equity and liabilities** | **4,301** | **4,224** | **4,253** |
| **Total managed capital per IAS 1** | **4,211** | **4,160** | **4,159** |

| | 2011 39 weeks to 1 January | 2009 39 weeks to 26 December |
|---|---|---|
| | **Rm** | Rm |
| **5. Consolidation of OntheCards Investments Limited and OntheCards Investments II (Proprietary) Limited** *(continued)* | | |
| Included in the Group Condensed Statement of Cash Flows by line, are the following amounts: | | |
| **Year-to-date Statement of Cash Flows** | | |
| **Trading profit and profit before financing costs** | **353** | 99 |
| Other non-cash items | **30** | 129 |
| **Operating cash inflow before changes in working capital** | **383** | 228 |
| Working capital movement | **(174)** | 42 |
| Trade accounts receivable | **(200)** | 23 |
| Other debtors | **–** | (19) |
| Accounts payable | **26** | 38 |
| **Cash generated from operating activities** | **209** | 270 |
| Interest received | **26** | 11 |
| Financing costs paid | **(310)** | (199) |
| **Net cash (utilised)/generated** | **(75)** | 82 |
| **Cash effects of financing activities** | | |
| Purchase of receivables | **(516)** | (2,042) |
| Loan – Edcon (Proprietary) Limited | | 612 |
| Increase in held-to-maturity investments | | 78 |
| Notes issued and refinancing | **–** | 4,300 |
| Decrease in interest bearing debt | | (2,659) |
| **Net cash (outflow)/inflow from financing activities** | **(516)** | 289 |
| **(Decrease)/increase in cash and cash equivalents** | **(591)** | 371 |
| **Cash and cash equivalents at the beginning of the period** | **684** | – |
| **Cash and cash equivalents at the end of the period** | **93** | 371 |

## 6. Contingent liability taxation

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

Edcon had applied for the Commissioner's approval to use such an alternative rate to determine foreign exchange gains or losses on its open forward exchange contracts. During fiscal 2008, the movement in foreign exchange rates was significant, creating large unrealised fair value gains on the revaluation of the forward exchange contracts. The impact is a timing difference over the life of the forward exchange contracts.

As the Edcon had complied with the requirements of the Income Tax Act and believed that the use of the alternative rate would have been granted, the taxation computations for 2008 were performed using the alternative rate.

During fiscal 2010 the South African Revenue Services issued a non – binding private opinion, where they denied Edcon permission to use the alternative rate as the ruling market rate in terms of section 24I. Edcon has obtained independent advice from senior council and will object against the decision.

The estimated potential exposure is R423 million, the tax payment would be recoverable in future, as it is a timing difference. The exact timing however, is uncertain due to the assessed loss in Edcon (Pty) Ltd.

**Corporate Information**

**Edcon Holdings (Proprietary) Limited**
Incorporated in the Republic of South Africa
Registration number 2006/036903/07

**Non-executive directors**
DM Poler* (Chairman), EB Berk*, M Levin*, ZB Ebrahim,
MMV Valentiny**

**Executive directors**
SM Ross* (Managing Director and Chief Executive Officer), U Ferndale

*USA **Belgium

**Group Secretary**
CM Vikisi

**Registered office**
Edgardale, 1 Press Avenue
Crown Mines, Johannesburg 2092
Telephone: +27 11 495-6000
Fax: +27 11 837-5019

**Postal address**
PO Box 100, Crown Mines 2025

**Auditors**
Ernst & Young Inc.
Wanderers Office Park
52 Corlett Drive, Illovo 2196
PO Box 2322, Johannesburg 2000
Telephone: +27 11 772-3000
Fax: +27 11 772-4000

**Listing Agent, Trustee, Registrar, Transfer Agent and Principal Paying Agent**
The Bank of New York
1 Canada Square
London E14 SAL
United Kingdom

**Tracy Sheridan, Listing Executive** – Tracy Sheridan
The Bank of New York Mellon (Ireland) Limited Hanover Building, Windmill Lane
Dublin 2
Phone + 353 1 9006991
Email Tracy.x.sheridan@bankofny.com

**Group Financial Statements**

**Edcon Holdings (Proprietary) Limited**

***For the period ended 3 April 2010***

**Group Financial Statements of Edcon Holdings (Proprietary) Limited**

*(Registration number 2006/036903/07)*

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**Group Financial Statements of Edcon Holdings (Proprietary) Limited**

*(Registration number 2006/036903/07)*

**Certificate by Group Secretary**

In my capacity as Group Secretary, I hereby confirm, in terms of the Companies Act, 1973, that for the period ended 3 April 2010, the Company has lodged with the Registrar of Companies all such returns as are required of a company in terms of this Act and that all such returns are true, correct and up to date.

**CM Vikisi**
**Group Secretary**

Johannesburg
2 June 2010

Ernst & Young Inc.
Wanderers Office Park
52 Corlett Drive, Illovo
Private Bag X14
Northlands 2116
Tel: 00 27 (0)11 772-3000
Fax: 00 27 (0)11 772-4000
Docex 123 Randburg
Website www.ey.com/za

**Independent Auditor's Report**

**TO THE MEMBERS OF EDCON HOLDINGS (PROPRIETARY) LIMITED**

We have audited the Group Financial Statements of Edcon Holdings (Proprietary) Limited and its subsidiaries ('the Group'), which comprise the Group statement of financial position as at 3 April 2010, Group statement of comprehensive income, Group statement of changes in equity and Group statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages F-18 to F-87.

*Director's Responsibility for the Financial Statements*

The Group's directors are responsible for the preparation and fair presentation of these Financial Statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act (No 61 of 1973) of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, these Group Financial Statements present fairly, in all material aspects, the financial position of the Group as at 3 April 2010, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act (No 61 of 1973) of South Africa.

*Ernst & Young Inc.*

Ernst & Young Inc.
Registered Auditor

2 June 2010
Johannesburg

**Chief Executive: Philip Hourquebie**
A full list of Directors is available from the website.

A member firm of Ernst & Young Global Limited

**GROUP FINANCIAL STATEMENTS OF EDCON HOLDINGS (PROPRIETARY) LIMITED**

*(Registration number 2006/036903/07)*

**GOING CONCERN AND DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING**
For the period 3 April 2010

**GOING CONCERN**

The Group's statement of financial position at 3 April 2010 reports a net debit of R408 million in other reserves, an accumulated retained loss of R3,329 million and share premium of R2,148 million in equity attributable to shareholders. Therefore, the total deficit reported in equity at 3 April 2010 is R1,589 million.

The directors' having considered the going concern assumption have included the shareholder's loan of R7,341 million in the assessment (refer to note 33, management of capital). To the extent required to maintain the solvency of the Group, the Shareholder's loan agreement is subordinated to the claims of all of the creditors of the Group.

As a result, the Group Financial Statements set out on pages F-18 to F-87 have been prepared on the going-concern basis. The directors have every reason to believe that the Group has adequate resources to continue in operation for the foreseeable future.

**PRESENTATION OF FINANCIAL STATEMENTS**

With effect 14 May 2007, the issued ordinary shares and preference shares in Edgars Consolidated Stores Limited (the "Predecessor") were acquired by Edcon Acquisition (Proprietary) Limited whose sole shareholder is Edcon Holdings (Proprietary) Limited (the "Successor"). Edcon Acquisition (Proprietary) Limited is the legal successor to Edgars Consolidated Stores Limited and Edcon Holdings (Proprietary) Limited is the parent of the Edcon Group.

As of 5 May 2007, all conditions precedent to the private equity transaction had been fulfilled and the new Group consisting of Edcon Holdings (Proprietary) Limited and all its subsidiaries has been consolidated as from 6 May 2007.

The Group Financial Statements for the period ended 3 April 2010 incorporate the results for the 53 weeks ended 3 April 2010 of the Successor. The Group Financial Statements for the comparative period ended 28 March 2009 incorporate the results for the 52 weeks of the Successor and for the period ended 29 March 2008 47 weeks of the Successor. One months results, being 5 weeks relating to the Predecessor for the period ending 5 May 2007, have been presented for comparative purposes.

In preparing these Group Financial Statements, the same accounting principles and methods of computation are applied as in the Group Financial Statements of Edcon Holdings (Proprietary) Limited on 28 March 2009 and for the periods then ended except for the changes set out on page F-19.

Accordingly, information for the current and comparative periods has been provided on the following basis: For periods ending prior to 6 May 2007, the financial position and results of the Predecessor are included and presented. For periods ending after 6 May 2007, the financial position and results of the Successor are included and presented.

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

No event, material to the understanding of this report, has occurred between the financial year-end and the date of this report.

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

**COMPARABILITY**

**OntheCards Investments II (Proprietary) Limited**

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

In November 2009, OtC II raised a further R3,378 million through the issuance of three-year receivables-backed notes, including R78 million issued to Edcon (Proprietary) Limited. OtC II used the proceeds from this issuance, together with a subordinated loan from Edcon (Proprietary) Limited of R1,547 million, to acquire accounts receivable of R1,429 million and R2,562 million from Edcon (Proprietary) Limited and OtC respectively.

In March 2010, OtC II acquired a further R152 million of trade accounts receivable from Edcon (Proprietary) Limited and refinanced R750 million of the notes issued in November 2009 with notes listed on the Bond Exchange of South Africa.

The results of OtC and OtC II have been consolidated and the results thereof are included in note 36 of these Group Financial Statements.

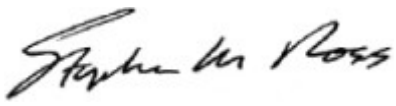
**DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING**

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

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

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

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



**DM Poler, Chairman** **SM Ross, Group Chief Executive Officer**

Johannesburg
2 June 2010

**Currency of Group Financial Statements**

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

The approximate Rand cost of a unit of the following currencies at year-end was:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| US Dollar | **7.24** | 9.48 | 8.15 |
| Sterling | **11.07** | 13.68 | 16.26 |
| Botswana Pula | **1.07** | 1.23 | 1.25 |
| Euro | **9.82** | 12.78 | 12.82 |

**Group Statement of Financial Position**

| | Note | Successor | | |
|---|---|---|---|---|
| | | 2010 3 April | 2009 28 March | 2008 29 March |
| | | Rm | Rm | Rm |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Properties, fixtures, equipment and vehicles | 3 | **2,663** | 3,128 | 3,263 |
| Intangible assets | 4 | **18,442** | 18,997 | 20,112 |
| Equity accounted investment in joint ventures | 7 | **–** | 1 | 11 |
| Derivative financial instruments | 8 | | 2,393 | 5,429 |
| Deferred tax | 9 | **153** | | |
| **Total non-current assets** | | **21,258** | 24,519 | 28,815 |
| **Current assets** | | | | |
| Inventories | 10 | **2,402** | 2,544 | 2,148 |
| Trade, other receivables and prepayments | 11 | **8,983** | 9,710 | 8,742 |
| Derivative financial instruments | 8 | | 188 | 421 |
| Cash and cash equivalents | 12 | **1,125** | 379 | 492 |
| **Total current assets** | | **12,510** | 12,821 | 11,803 |
| **Total assets** | | **33,768** | 37,340 | 40,618 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity attributable to shareholders** | | | | |
| Share capital | 13 | **–** | – | – |
| Share premium | 13 | **2,148** | 2,143 | 2,143 |
| Other reserves | 14 | **(408)** | (280) | 836 |
| Retained loss | 15 | **(3,329)** | (2,289) | (1,590) |
| | | **(1,589)** | (426) | 1,389 |
| Non-controlling interest | | **–** | – | 1 |
| **Total equity** | | **(1,589)** | (426) | 1,390 |
| **Non-current liabilities – shareholder's loan** | | | | |
| Shareholder's loan | 17 | **7,341** | 6,492 | 5,547 |
| **Total equity and shareholder's loan** | | **5,752** | 6,066 | 6,937 |
| **Non-current liabilities – third parties** | | | | |
| Interest bearing debt | 18 | **18,875** | 19,600 | 22,761 |
| Subordinated loan | 18 | | | 25 |
| Lease equalisation | | **386** | 369 | 399 |
| Derivative financial instruments | 8 | **3,093** | 1,002 | 379 |
| Employee benefit liability | 27.1 | **114** | 112 | 120 |
| Deferred tax | 9 | | 374 | 1,851 |
| | | **22,468** | 21,457 | 25,535 |
| **Total non-current liabilities** | | **29,809** | 27,949 | 31,082 |
| **Current liabilities** | | | | |
| Interest-bearing debt | 19 | **795** | 5,300 | 4,507 |
| Current taxation | | **236** | 470 | 138 |
| Derivative financial instruments | 8 | **817** | 514 | |
| Trade and other payables | 20 | **3,700** | 3,533 | 3,501 |
| **Total current liabilities** | | **5,548** | 9,817 | 8,146 |
| **Total equity and liabilities** | | **33,768** | 37,340 | 40,618 |
| **Total managed capital per IAS 1** | 33 | **25,422** | 30,966 | 34,204 |

**Group Statement of Comprehensive Income**

| | Note | Successor | | | Predecessor |
|---|---|---|---|---|---|
| | | 2010 53 weeks to 3 April | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 weeks to 5 May |
| | | Rm | Rm | Rm | Rm |
| **Total revenues** | 23 | **24,876** | 25,195 | 20,950 | 2,094 |
| **Revenue – retail sales** | | **21,888** | 22,075 | 18,244 | 1,939 |
| Cost of sales | | **(13,848)** | (13,774) | (11,407) | (1,178) |
| **Gross profit** | | **8,040** | 8,301 | 6,837 | 761 |
| Other income | 24 | **473** | 467 | 411 | 35 |
| Store costs | | **(4,078)** | (3,847) | (3,162) | (270) |
| Other operating costs | 25 | **(3,028)** | (3,284) | (2,476) | (206) |
| **Retail trading profit** | | **1,407** | 1,637 | 1,610 | 320 |
| Income from credit | 26.1 | **2,049** | 2,271 | 1,783 | 102 |
| Expenses from credit | 26.2 | **(1,771)** | (1,772) | (1,382) | (92) |
| Equity accounted earnings of joint venture | | **435** | 349 | 264 | 23 |
| **Trading profit** | | **2,120** | 2,485 | 2,275 | 353 |
| Restructure costs | | | | (152) | (5) |
| Acquisition costs | | | | (39) | |
| Gain on buy-back of senior floating rate notes | 18.2 | | 1,350 | | |
| Derivative (loss)/gain | 8.6 | **(5,081)** | (1,184) | 4,612 | |
| Unrealised foreign exchange gain/(loss) on notes issued | 18.1 | **4,622** | 134 | (5,926) | |
| Fees incurred on OtC II | | **(33)** | | | |
| Impairment of indefinite life brands and goodwill | 4 | **(137)** | (697) | | |
| **Profit before net financing costs** | | **1,491** | 2,088 | 770 | 348 |
| Interest received | 28.2 | **31** | 33 | 248 | – |
| **Profit before financing costs** | | **1,522** | 2,121 | 1,018 | 348 |
| Financing costs | 28.1 | **(2,946)** | (3,288) | (3,100) | (8) |
| **(Loss) / profit before taxation** | | **(1,424)** | (1,167) | (2,082) | 340 |
| Taxation | 29 | **370** | 472 | 522 | (95) |
| **(LOSS) /PROFIT FOR THE PERIOD** | | **(1,054)** | (695) | (1,560) | 245 |
| **Other comprehensive income after tax:** | | | | | |
| Gains on revaluation of buildings | | | | 23 | |
| Cash flow hedges | | **(60)** | (1,113) | 782 | |
| Exchange difference on translating foreign operations | | **(48)** | (3) | 31 | (5) |
| Other | | **(1)** | (5) | (4) | (1) |
| **Other comprehensive income for the period after tax** | | **(109)** | (1,121) | 832 | (6) |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **(1,163)** | (1,816) | (728) | 239 |
| **(Loss)/profit attributable to:** | | | | | |
| Owners of the parent | | **(1,054)** | (694) | (1,559) | 245 |
| Non-controlling interest | | **–** | (1) | (1) | – |
| **Total comprehensive income attributable to:** | | | | | |
| Owner of the parent | | **(1,163)** | (1,815) | (730) | 239 |
| Non-controlling interest | | **–** | (1) | 2 | – |

**Group Statement of Changes in Equity**

| | Share capital | Share premium | Translation of foreign operations | Cash flow hedges | Revaluation surplus | Retained (loss)/ surplus | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | Rm | Rm | Rm | Rm | Rm | Rm | Rm | Rm | Rm |
| **Predecessor** | | | | | | | | | |
| Balance at 1 April 2007 | 5 | 231 | 55 | | | 4,670 | 4,961 | 11 | 4,972 |
| Total comprehensive income for the period | | | (5) | | | 244 | 239 | | 239 |
| Share based payments | | | | | | 4 | 4 | | 4 |
| Acceleration of options | | 727 | | | | | 727 | | 727 |
| Balance at 5 May 2007 | 5 | 958 | 50 | | | 4,918 | 5,931 | 11 | 5,942 |
| **Successor** | | | | | | | | | |
| Opening balance at 6 May 2007 | | | | | | | | | |
| Total comprehensive income for the period | | | 31 | 782 | 23 | (1,563) | (727) | 1 | (726) |
| Ordinary share capital issued | – | 1,936 | | | | | 1,936 | | 1,936 |
| Preference share capital issued | – | 207 | | | | | 207 | | 207 |
| Preference share dividends | | | | | | (27) | (27) | | (27) |
| **Balance at 29 March 2008** | – | 2,143 | 31 | 782 | 23 | (1,590) | 1,389 | 1 | 1,390 |
| Total comprehensive income for the period | | | (3) | (1,113) | | (699) | (1,815) | (1) | (1,816) |
| **Balance at 28 March 2009** | – | 2,143 | 28 | (331) | 23 | (2,289) | (426) | – | (426) |
| Total comprehensive income for the period | | | (48) | (60) | | (1,055) | (1,163) | – | (1,163) |
| Transfer to retained earnings | | | | | (20) | 20 | | | |
| Preference share capital issued | – | 180 | | | | | 180 | | 180 |
| Ordinary share capital repurchased | – | (175) | | | | | (175) | | (175) |
| Preference dividends | | | | | | (5) | (5) | | (5) |
| **Balance at 3 April 2010** | **–** | **2,148** | **(20)** | **(391)** | **3** | **(3,329)** | **(1,589)** | **–** | **(1,589)** |
| Note | 13.6 | 13.6 | 14 | 14 | 14 | 15 | | | |

**Group disclosure of tax effects on other comprehensive income**

| | Successor | | | Predecessor |
|---|---|---|---|---|
| | 2010 53 weeks to 3 April | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 weeks to 5 May |
| | Rm | Rm | Rm | Rm |
| **Disclosure of tax effects relating to each component of other comprehensive income:** | | | | |
| **Before tax amount** | | | | |
| Gains on revaluation of buildings | | | 26 | |
| Cash flow hedges | **(83)** | (1,546) | 1,086 | |
| Exchange differences on translating foreign operations | **(48)** | (3) | 31 | (5) |
| Other | **(1)** | (5) | (4) | (1) |
| **Other comprehensive income for the period before tax** | **(132)** | (1,554) | 1,139 | (6) |
| **Tax (expense) / income** | | | | |
| Gains on revaluation of buildings | | | (3) | |
| Cash flow hedges | **23** | 433 | (304) | |
| **Tax (expense) / income** | **23** | 433 | (307) | |
| **After tax amount** | | | | |
| Gains on revaluation of buildings | | | 23 | |
| Cash flow hedges | **(60)** | (1,113) | 782 | |
| Exchange differences on translating foreign operations | **(48)** | (3) | 31 | (5) |
| Other | **(1)** | (5) | (4) | (1) |
| **Other comprehensive income for the period after tax** | **(109)** | (1,121) | 832 | (6) |

**Group Statement of Cash Flows**

| | Note | Successor | | | Predecessor |
|---|---|---|---|---|---|
| | | 2010 53 weeks to 3 April | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 weeks to 5 May |
| | | Rm | Rm | Rm | Rm |
| **Cash retained from operating activities** | | | | | |
| (Loss)/profit before taxation | | **(1,424)** | (1,167) | (2,082) | 340 |
| Interest received | | **(31)** | (33) | (248) | – |
| Financing costs | | **2,946** | 3,288 | 3,100 | 8 |
| Impairment of intangibles | 4 | **137** | 697 | | |
| Derivative realised and unrealised loss/(gain) | 8.6 | **5,081** | 1,184 | (4,612) | |
| Unrealised foreign exchange (gain)/loss on notes issued | 18.1 | **(4,622)** | (134) | 5,926 | |
| Gain on buy-back of senior floating rate notes | 18.2 | | (1,350) | | |
| Amortisation | 25.1 | **418** | 418 | 380 | – |
| Depreciation | 25.3 | **807** | 681 | 410 | 27 |
| Other non-cash items | 31.1 | **40** | 131 | 14 | (16) |
| **Operating cash inflow before changes in working capital** | | **3,352** | 3,715 | 2,888 | 359 |
| Working capital movement | 31.2 | **952** | (1,553) | 165 | (506) |
| **Cash generated/(utilised) from operating activities** | | **4,304** | 2,162 | 3,053 | (147) |
| Interest received | | **31** | 15 | 248 | – |
| Financing costs paid | | **(2,190)** | (2,280) | (2,298) | (8) |
| Taxation paid | 31.3 | **(368)** | (235) | (246) | – |
| **Net cash retained/(utilised)** | | **1,777** | (338) | 757 | (155) |
| **Cash utilised in investment activities** | | | | | |
| Investment to maintain operations | 31.4 | **(264)** | (419) | (332) | (26) |
| Investment to expand operations | 31.5 | **(89)** | (149) | (24,390) | (21) |
| **Net cash invested** | | **(353)** | (568) | (24,722) | (47) |
| **Cash effects of financing activities** | | | | | |
| Increase in shareholder funding | 31.6 | | | 7,025 | |
| Notes issued | 31.7 | | | 17,063 | |
| Buy-back of senior floating rate notes | 31.8 | | (1,768) | | |
| Proceeds from derivatives | | | 1,793 | | |
| Proceeds from receivables-backed notes issued | 31.9 | **4,300** | | | |
| (Decrease)/increase in interest-bearing debt | 31.10 | **(4,950)** | 768 | 106 | 238 |
| **Net cash (outflow)/inflow from financing activities** | | **(650)** | 793 | 24,194 | 238 |
| **Increase/(decrease) in cash and cash equivalents** | 31.11 | **774** | (113) | 229 | 36 |
| **Cash and cash equivalents at the beginning of the period** | | **379** | 492 | – | 471 |
| Consolidation of OtC | | | | 261 | |
| Currency adjustments | | **(28)** | – | 2 | – |
| **Cash and cash equivalents at the end of the period** | | **1,125** | 379 | 492 | 507 |

**Notes to the Group Financial Statements**

## 1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

### 1.1 Basis of preparation

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

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

With effect 14 May 2007, the issued ordinary shares and preference shares in Edgars Consolidated Stores Limited (the "Predecessor") were acquired by Edcon Acquisition (Proprietary) Limited whose sole shareholder is Edcon Holdings (Proprietary) Limited (the "Successor"). Edcon Acquisition (Proprietary) Limited is the legal successor to Edgars Consolidated Stores Limited and Edcon Holdings (Proprietary) Limited the parent of the Edcon Group.

As of 5 May 2007, all conditions precedent to the private equity transaction had been fulfilled and the new Group consisting of Edcon Holdings (Proprietary) Limited and all its subsidiaries has been consolidated as from 6 May 2007.

In preparing these Financial Statements, the same accounting principles and methods of computation are applied as in the Group Financial Statements of Edcon Holdings (Proprietary) Limited on 28 March 2009 and for the period then ended.

Financial information for the current and comparative periods has been provided on the following basis: For periods ending prior to 6 May 2007, the financial position and results of the Predecessor are included and presented. For periods ending after 6 May 2007, the financial position and results of the Successor are included and presented.

These Financial Statements should be read in conjunction with the audited Financial Statements as at and for the period ended 28 March 2009 as included in the 2009 audited Group Financial Statements of Edcon Holdings (Proprietary) Limited.

The Financial Statements are prepared in accordance with the historical cost basis except for land and buildings and financial instruments that have been measured at fair value.

The 2010 and 2009 financial period consisted of 53 weeks and 52 weeks respectively while, the 2008 financial period consisted of 47 weeks relating to the Successor and 5 weeks relating to the Predecessor.

### 1.2 Comparability

#### 1.2.1 Standards and interpretations issued

The Group has adopted all applicable Standards and Interpretations which have become effective during the current period which include:

***IFRS 8, Operating Segments***

This standard was issued in November 2006 and became effective for financial years on or after 1 January 2009. The standard specifies how an entity should report information about its operating segments in financial statements.

The effect of implementing this standard has impacted the identification of operating segments. Edgars and CNA are now considered to be two distinct operating segments, whereas previously they were combined and reported under the Department Stores Division. Additionally, information presented in note 2 introduces a management reporting approach to measuring the results of reportable operating segments and the amounts reported for each segment are consistent with internal management reports.

The comparative results in note 2 have been restated in accordance with IFRS 8 and the related disclosures presented.

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

**1.2 Comparability** *(continued)*

**1.2.1 Standards and interpretations issued** *(continued)*

***IAS 1, Presentation of Financial Statements***

IAS 1 was revised and became effective for financial periods beginning on or after 1 January 2009. The standard separates owner and non-owner changes in equity, introduces a Statement of Comprehensive Income to replace the Income Statement and what was previously termed the Balance Sheet is now known as the Statement of Financial Position.

As a result of implementing this standard, these audited Financial Statements present a Statement of Financial Position, a single statement of Comprehensive Income which, presents all items of income and expense recognised in profit or loss together with all other items of recognised income and expense and, a Statement of Changes in Equity which only includes details of transactions with owners.

The comparative periods have been appropriately restated and presented on the same basis.

***Other Standards and Interpretations adopted***

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

- IFRS 2, Share-based Payments – Vesting Conditions and Cancellations
- IAS 23, Borrowing Costs
- Amendment to IAS 32 and IAS 1, Puttable Financial Instruments
- IFRIC 13, Customer Loyalty Programmes
- IFRIC 16, Hedges of Net Investment and a Foreign Operation
- Amendments to IFRIC 9 and IAS 39, Embedded Derivatives
- Amendments to IFRS 7 Financial Instruments : Disclosures
- IFRIC 18, Transfers of Assets from Customers
- Annual Improvements, May 2008

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

**1.3 Basis of consolidation**

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

Subsidiaries, which are directly or indirectly controlled by the Group, are included in the Group Financial Statements as from the date of acquisition, where control is transferred to the Group, and cease to be consolidated from the date on which control no longer exists. Where there is a loss of control of a subsidiary, the Group Financial Statements include the results for the part of the reporting period during which the Group has control. The identifiable assets and liabilities of entities acquired are assessed and included in the Group statement of financial position at their fair values as at the dates of acquisition.

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

**1.3 Basis of consolidation** *(continued)*

New acquisitions are included in the Group Financial Statements using the purchase method whereby the assets and liabilities are measured at their fair value. The purchase consideration is allocated to the assets and liabilities on the basis of fair values at the date of acquisition.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the profit or loss and within equity in the Group statement of financial position, separately from Edcon Holdings (Proprietary) Limited's shareholders' equity.

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

In preparing the Financial Statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and the application of judgment are inherent in the formation of estimates. Significant estimates and judgments made relate to credit risk valuation adjustments in determining the fair value of derivative instruments to reflect non-performance risk (refer to note 1.9.1), an allowance for doubtful debts (refer to note 1.9.3), allowances for slow-moving inventory (refer to note 1.10), residual values, useful lives and depreciation methods (refer to note 1.12), pension fund and employee obligations (refer to note 1.19, 27.2.1 and 27.2.2), and intangible asset impairment tests (refer to note 5). Other judgments made relate to classifying financial assets and liabilities into categories.

The Group owns 40% of the shares in Edgars Zimbabwe Limited. Edgars Zimbabwe has not been equity accounted in the current or prior years as the effect is considered to be immaterial and no further disclosure is made in these Group Financial Statements.

**1.5 Foreign currency transactions**

The functional and presentation currency of the Group Financial Statements is the South African Rand. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency, being the South African Rand, at exchange rates ruling at the reporting date. Exchange differences arising on the settlement of transactions, at rates different from those at the date of the transaction, and unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognised in profit or loss.

**1.6 Foreign currency translations**

The functional currencies of the foreign subsidiaries are as follows:

- Pula – (Jet Supermarkets Botswana (Pty) Limited).
- Maloti – (Edgars Stores (Lesotho) (Pty) Limited and Easy Rider Clothing (Pty) Limited).
- Namibian Dollar – (Edgars Stores (Namibia) Limited).
- Lilangeni – (Edgars Stores Swaziland Limited, Central News Agency (Swaziland) (Pty) Limited and Swaziland News Agency (Pty) Limited).
- British Pound – (Bellfield Limited).

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

As at the reporting date, the assets and liabilities of these foreign subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the reporting

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

**1.6 Foreign currency translations** *(continued)*

date and their statements of comprehensive income are translated at the weighted average exchange rates for the period. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

**1.7 Goodwill**

Goodwill is initially measured at cost and represents the excess of the purchase consideration over the fair value of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. Impairment losses relating to goodwill are not reversed in future periods.

If on acquiring an entity, the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity exceed the purchase consideration, this excess/(discount) is recognised in profit or loss immediately.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the acquisition. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of, is included in the carrying amount of the operation when determining the gain or loss on disposal of that operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

**1.8 Other intangible assets**

Where payments are made for the acquisition of intangible assets with a finite useful life, the amounts are capitalised at cost and amortised on a straight-line basis over their anticipated useful lives. Intangible assets acquired through the acquisition of an entity are recognised at fair value. Currently the useful life of intangible assets with a finite life is estimated to be between five and fifteen years. Amortisation is charged on those assets with finite lives and the expense is taken to profit or loss and included in other operating costs. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each reporting date and assessed for indicators of impairment. Annually, intangible assets with an indefinite useful life are reviewed for impairment or changes in estimated future benefits, either individually or at the cash-generating unit level. Such intangibles are not amortised and the useful life is reviewed annually to determine whether indefinite life assessment continues to be appropriate. If not, the change from indefinite to finite will be made on a prospective basis. If such indications exist, an analysis is performed to assess whether the carrying amount of intangible assets is fully recoverable. An impairment is made if the carrying amount exceeds the recoverable amount. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

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

### 1.8 Other intangible assets *(continued)*

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

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

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

### 1.9 Financial instruments

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

The Group's financial assets include held-to-maturity investments, trade and other receivables and cash and cash equivalents which are classified as either loans and receivables, held to maturity investments, or as derivatives designated as hedging instruments in an effective hedge as appropriate. The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments and are classified as either loans and borrowings and derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets and financial liabilities at initial recognition.

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

#### 1.9.1 Derivative instruments

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

Derivative financial instruments are initially measured at their fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses from changes in fair value on

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

**1.9 Financial instruments** *(continued)*

**1.9.1 Derivative instruments** *(continued)*

derivatives are taken directly to profit or loss except for the effective portion of cash flow hedges, which is recognised in other comprehensive income. For hedge accounting purposes, derivative financial instruments are designated at inception as fair value, cash flow or net investment hedges if appropriate.

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

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

The credit risk valuation adjustments are calculated by determining the current net exposure of each derivative (excluding potential future exposure) and then discounting the estimated cash flows at a rate adjusted with each counterparty's credit spread to the applicable exposure.

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

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

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

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

For cash flow hedges, the gains or losses that are recognised in comprehensive income are transferred to profit or loss in the same period in which the hedged item affects the profit or loss, for example when interest payments are made.

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

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

**1.9 Financial instruments** *(continued)*

**1.9.1 Derivative instruments** *(continued)*

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

**1.9.2 Held-to-maturity investments**

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest rate method, less impairment. Interest received on loan and debt securities is included in profit or loss as interest received and is recognised on an accrual basis. The losses arising from any impairment are recognised in profit or loss in financing costs. The Group did not have any held-to-maturity investments during the periods ended 3 April 2010, 28 March 2009 and 29 March 2008.

**1.9.3 Trade and other receivables**

Subsequent to initial measurement, receivables are recognised at amortised cost less an allowance for doubtful debts. A provision for impairment is made when there is objective evidence (such as default or delinquency of interest and the principal) that the Group will not be able to collect all amounts due under the original terms of the trade receivable transactions. Bad debts incurred are recognised in profit or loss as incurred.

Delinquent accounts are impaired by applying the Group's impairment policy recognising both contractual and ages of accounts. Age refers to the number of months since a qualifying payment was received. The process for estimating impairment considers all credit exposures, not only those of low credit quality and estimated on the basis of historical loss experience, adjusted on the basis of current observable data, to reflect the effects of current conditions. The Group assesses whether objective evidence of impairment exists individually for receivables that are individually significant, and individually or collectively for receivables that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, the receivable is included in a group of receivables with similar credit risk characteristics and that group of receivables is collectively assessed for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

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

**1.9.4 Cash and cash equivalents**

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

**1.9.5 Impairment of financial assets**

At each reporting date an assessment of financial assets other than trade receivables (refer note 1.9.3) is made of whether there is any objective evidence of impairment of these

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

**1.9 Financial instruments** *(continued)*

**1.9.5 Impairment of financial assets** *(continued)*

financial assets. If there is evidence of defaults and current market conditions indicate that an impairment loss on these financial assets has been incurred, the impairment loss is measured as the difference between the assets' carrying amounts and the present value of the estimated future cash flows discounted at the financial assets' original effective interest rates. The loss is recognised in profit or loss.

**1.9.6 Financial liabilities**

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

**1.9.7 Derecognition of financial instruments**

Financial assets are derecognised where the Group transfers the rights to receive cash flows associated with the financial asset. Derecognition normally occurs when the financial asset is sold or all the cash flows associated with the financial asset are passed to an independent third party. Where the contractual rights to receive the cash flows of certain receivables are retained but a contractual obligation is assumed to pay those cash flows to a third party, those receivables are derecognised provided there is no obligation to pay amounts to the third party, unless equivalent amounts are collected from the original receivable.

The Group is prohibited from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows and, the Group has an obligation to remit any cash flows it collects on behalf of the third party without material delay and is not entitled to reinvest such cash flows except for investments in cash and cash equivalents during the short settlement period, from the collection date to the date of required remittance to the third party and the interest earned on such investments, is passed on to the third party.

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

**1.10 Inventories**

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

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

All store inventories are physically verified at least twice a year through the performance of inventory counts and shortages identified are written off immediately in profit or loss. Stores,

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

**1.10 Inventories** *(continued)*

which have a history of high inventory losses, are subject to more frequent inventory counts. An allowance is made, based on historical trends of inventory losses, for losses incurred between the last physical count and the reporting date.

**1.11 Leases**

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

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

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

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

**1.12 Properties, fixtures, equipment and vehicles**

**1.12.1 Properties**

Properties comprise of buildings held by the Group for use by employees. Properties are initially valued at cost and subsequently revalued by recognised professional valuers, to net realisable open-market value using the alternative or existing-use basis as appropriate, ensuring carrying amounts do not differ materially from those which would be determined using fair value at the reporting date. On revaluation, the cost, as well as the accumulated depreciation, is restated proportionately. Any revaluation surplus is credited to the asset revaluation reserve, net of deferred taxes, and included in shareholders' equity in the statement of financial position. Any revaluation deficit directly offsetting a previous surplus is directly offset against that surplus in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular property being sold is transferred to retained earnings.

Depreciation is provided on buildings over 50 years on a straight-line basis.

**1.12.2 Lease premiums and leasehold improvements**

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

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

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

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

**1.12.3 Fixtures, equipment and vehicles**

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

| | |
|---|---|
| Fixtures and fittings | 8 years |
| Computer equipment | 5 years |
| Computer software | 3 years |
| Machinery | 10 years |
| Vehicles | 5 years |

**1.12.4 Impairment of property, fixtures, equipment and vehicles**

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

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

**1.12.5 Derecognition of properties, fixtures, equipment and vehicles**

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

**1.12.6 Asset lives and residual values**

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

**1.13 Software costs**

Packaged software and the direct costs associated with the development and installation thereof are capitalised as computer software and are an integral part of computer hardware. The total cost is capitalised and depreciated in accordance with note 1.12.3.

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

### 1.14 Non-current assets held for sale and discontinued operations

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

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

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

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

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

### 1.15 Income taxes

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

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

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

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

**1.15 Income taxes** *(continued)*

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

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

Secondary tax on companies (STC), is provided for at a rate of 10% (12.5% to October 2007) on the amount by which dividends declared by the Group exceed dividends received. STC is charged to profit or loss at the applicable ruling rate and included in the taxation expense for the period.

**1.16 Financing costs**

Financing costs are recognised in the Group statement of comprehensive income in the period in which they are incurred.

**1.17 Joint ventures**

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

**1.18 Revenue recognition**

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

Revenue comprises retail sales of merchandise, manufacturing sales, club fees, financial services income, equity accounted earnings of joint ventures, dividends, interest and finance charges accrued to the Group. Revenue from all sales of merchandise, net of returns, is brought to account when delivery takes place to the customer. Revenue from manufacturing and other operations is recognised when the sale transactions giving rise to such revenue are concluded. Finance charges on arrear account balances are accrued on a time proportion basis, recognising the effective yield on the underlying assets. Dividends are recognised when the right to receive payment is established. Interest received is recognised using the effective interest rate method. Club fees are recognised as incurred.

**1.19 Employee benefits – post-retirement benefits**

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

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

**1.19 Employee benefits – post-retirement benefits** *(continued)*

The Group uses the projected unit credit actuarial method to determine the present value of its defined benefit plans and the related current service cost and, where applicable, past service costs. The portion of actuarial gains and losses recognised in profit or loss is the excess over the greater of 10% of the present value of the defined benefit obligation at the end of the previous reporting period, before deducting plan assets, and 10% of the fair value of any plan assets at the same date, divided by the expected average remaining working lives of the employees participating in the fund. Improved benefits in defined benefit funds are only granted if they can be financed from the actuarial surplus. Contribution rates to defined benefit plans are adjusted for any unfavourable experience adjustments. Favorable experience adjustments are retained within the funds.

Actuarial surpluses are only brought to account in the Group's Financial Statements when it is certain that economic benefits will be available to the Group.

**1.20 Share capitalisation awards and cash dividends**

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

**1.21 Treasury shares**

Shares held by the Staff Empowerment Trust are classified in the Group's shareholders' equity as treasury shares. These shares are treated as a deduction from the issued number of shares, and the cost price of the shares is deducted from share capital and premium, in the Group statement of financial position. Any dividends received on treasury shares are eliminated on consolidation.

**1.22 Future changes in accounting policies**

***IFRS 1, First-time Adoption of International Financial Reporting Standards***

Certain amendments and revisions have been made to IFRS 1 to make the standard more structured and provide exemptions for the accounting for the cost of an investment in a subsidiary, jointly controlled entity or associate and amendments to address the retrospective application of the standard in particular situations.

The revision and amendments to the standard will have no impact on the Group.

***IFRS 2, Share-based Payments – Group Cash-settled Share-based Payment Transactions***

IFRS 2 was amended in June 2009 and is effective for financial periods beginning on or after 1 January 2010. The amendment clarifies the scope of IFRS 2 and the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transaction. The amendments also incorporated the guidance in IFRIC 8, scope of IFRS 2 and IFRIC 11, Group and Treasury Share Transactions and therefore both IFRIC 8 and IFRIC 11 were withdrawn.

The Group has not entered into any share-based payment schemes and therefore having evaluated the effect of adopting this standard, has concluded it will not materially impact the Group.

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

**1.22 Future changes in accounting policies** *(continued)*

***IFRS 3, Business Combinations and IAS 27, Consolidated and Separate Financial Statements***

These standards were revised and reissued in January 2008 and become effective for financial periods beginning on or after 1 July 2009 with prospective application. IFRS 3 applies to all transactions and events that meet the definition of a business combination. IAS 27 was revised to require that a change in ownership interest of a subsidiary is accounted for as an equity transaction and the accounting for losses incurred by a subsidiary as well as the loss of control of a subsidiary was changed.

The Group has evaluated the effect of adopting these standards and has resolved that the standards will have a material effect on all future business combinations in future reporting periods on adoption of the standards.

***IFRS 9, Financial Instruments***

This standard was issued in November 2009 and becomes effective for financial periods beginning on or after 1 January 2013. It sets out the requirements for recognising and measuring financial assets, including some hybrid contracts. It requires all financial assets to be classified on the basis of an entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The standard requires all financial assets to initially be measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Financial assets are subsequently measured at amortised cost or fair value.

The Group is still evaluating the effect of adopting this standard but does not expect adoption thereof to have a material impact on the Group Financial Statements.

***IAS 24, Related Party Disclosures***

The revised standard was issued in November 2009 and becomes effective for financial periods beginning on or after 1 January 2011. The revision simplifies the definition of a related party and clarifies its intended meaning and eliminates inconsistencies from the definition. The revision of IAS 24 further provides a partial exemption from the disclosure requirements for government-related entities.

The Group has evaluated the effect of this revised statement and has assessed it will not result in a material impact on the Group Financial Statements.

***IAS 32, Financial Instruments: Presentation – Classification of Rights Issues***

An amendment was issued in October 2009 and becomes effective for financial periods beginning on or after 1 February 2010. The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer.

Previously such rights issues were accounted for as derivative liabilities. The amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

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

***IAS 39, Eligible Hedged Items***

This amendment was issued in July 2008 to clarify how principles that determine whether a hedged risk or portion of cash flows is eligible for designation and how this should be applied in certain situations. The amendment becomes effective for financial periods beginning on or after 1 July 2009.

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

**1.22 Future changes in accounting policies** *(continued)*

***IAS 39, Eligible Hedged Items*** *(continued)*
The Group has evaluated the effect of adopting this amendment and does not expect that adoption thereof will impact the Group Financial Statements.

***IFRIC 14, Prepayments of a Minimum Funding Requirements***

IFRIC 14 was amended in November 2009 and is effective for financial periods beginning on or after 1 January 2011. These amendments apply in limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset.

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

***IFRIC 17, Distributions of Non-cash Assets to Owners***

The IFRIC is effective for annual periods beginning on or after 1 July 2009 with prospective application. IFRIC 17 provides guidance on how an entity should account for the distribution of assets other than cash, as dividends to its owners, acting in their capacity as owners including prescribed disclosures.

The Group has evaluated the impact of adopting this interpretation and has concluded that IFRIC 17 will only impact the Group's Financial Statements where the Group distributes assets other than cash to its owners in terms of recognising any dividend payable, measurement of any dividend payable and applicable disclosures prescribed by this interpretation.

***IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments***

This interpretation was issued in November 2009, effective for financial periods beginning on or after 1 July 2010. This interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. It does not address the accounting by the creditor.

Equity instruments issued are recognised at fair value initially. The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished and the consideration paid, is recognised in profit or loss and, shall disclose the gain or loss recognised as a separate line item in profit or loss or in the notes.

The Group has evaluated the effect of adopting this interpretation and does not expect that adoption thereof, will impact the Group Financial Statements unless the Group enters into a debt for equity swap.

***Improvements to IFRS's (annual Improvements April 2009)***

The Standard deals with the amendments to standards and interpretation listed below and become effective for financial periods beginning on or after 1 January 2010 unless otherwise stated below:

- IFRS 2, Share-based Payment – effective periods beginning on or after 1 July 2009
- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations
- IFRS 8, Operating Segments
- IAS 1, Presentation of Financial Statements

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

**1.22 Future changes in accounting policies** *(continued)*

***Improvements to IFRS's (annual Improvements April 2009)*** *(continued)*

- IAS 7, Statement of Cash Flows
- IAS 17, Leases
- IAS 36, Impairment of Assets
- IAS 38, Intangible Assets – effective periods beginning on or after 1 July 2009
- IAS 39, Financial Instruments: Recognition and Measurement
- IFRIC 9, Reassessment of Embedded Derivatives
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation – effective periods beginning on or after 1 July 2009

The Group has evaluated the impact of all improvements and has concluded the improvements shall have no material impact on the Group's Financial Statements on adoption of these improvements.

**2. OPERATING SEGMENT REPORT**

For management purposes, the Group is organised into business units based on their target markets and product offering, and all retail business is structured under four reportable operating segments. The operating segments are as follow:

**Edgars division**

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

**CNA division**

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

**Discount division**

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

**Credit and Financial Services**

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

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

## 2. OPERATING SEGMENT REPORT *(continued)*

### Group Services

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

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

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

| | REVENUES | | | | REVENUE-RETAIL SALES | | | | SEGMENT RESULT-OPERATING PROFIT[3] | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Successor | | | Predecessor | Successor | | | Predecessor | Successor | | | Predecessor |
| | 2010 | 2009 | 2008 47 weeks to March | 2007 5 weeks to 5 May | 2010 | 2009 | 2008 47 weeks to March | 2007 5 weeks to 5 May | 2010 | 2009 | 2008 47 weeks to March | 2007 5 weeks to 5 May |
| | Rm | Rm | Rm | Rm | Rm | Rm | Rm | Rm | Rm | Rm | Rm | Rm |
| Edgars Division | **11,425** | 11,455 | 9,711 | 1,052 | **11,213** | 11,250 | 9,537 | 1,036 | **2,457** | 2,715 | 2,246 | 292 |
| CNA Division | **1,851** | 1,836 | 1,572 | 144 | **1,851** | 1,836 | 1,572 | 144 | **138** | 154 | 167 | 17 |
| Discount Division | **9,039** | 9,206 | 7,333 | 776 | **8,824** | 8,989 | 7,135 | 759 | **1,011** | 1,226 | 968 | 160 |
| Manufacturing Division | **46**[1] | 45[1] | 39[1] | 2[1] | | | | | **6** | 2 | (3) | 1 |
| Credit and Financial Services | **2,504** | 2,633 | 2,059 | 120 | | | | | **713**[4] | 848[4] | 665[4] | 33[4] |
| Group Services[2] | **11** | 20 | 236 | – | | | | | **(2,834)** | (2,857) | (3,273) | (155) |
| **Group** | **24,876** | 25,195 | 20,950 | 2,094 | **21,888** | 22,075 | 18,244 | 1,939 | **1,491** | 2,088 | 770 | 348 |
| South Africa | **23,533** | 23,915 | 20,015 | 2,010 | **20,688** | 20,946 | 17,420 | 1,855 | **1,123** | 1,687 | 485 | 317 |
| Other[7] | **1,343** | 1,280 | 935 | 84 | **1,200** | 1,129 | 824 | 84 | **368** | 401 | 285 | 31 |

| | DEPRECIATION AND AMORTISATION | | | | IMPAIRMENT OF INTANGIBLES[5] | | | | CAPITAL EXPENDITURE[6] | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Successor | | | Predecessor | Successor | | | Predecessor | Successor | | | Predecessor |
| | 2010 | 2009 | 2008 47 weeks to March | 2007 5 weeks to 5 May | 2010 | 2009 | 2008 47 weeks to March | 2007 5 weeks to 5 May | 2010 | 2009 | 2008 47 weeks to March | 2007 5 weeks to 5 May |
| | Rm | Rm | Rm | Rm | Rm | Rm | Rm | Rm | Rm | Rm | Rm | Rm |
| Edgars Division | **126** | 124 | 94 | 8 | **17** | 73 | | | **156** | 126 | 198 | 10 |
| CNA Division | **21** | 17 | 11 | 1 | **71** | 111 | | | **24** | 43 | 35 | – |
| Discount Division | **110** | 106 | 81 | 6 | **49** | 513 | | | **114** | 168 | 81 | 7 |
| Manufacturing Division | **2** | 2 | 1 | – | | | | | **1** | 1 | – | – |
| Credit and Financial Services | **5** | 4 | 4 | – | | | | | **1** | – | 2 | – |
| Group Services[2] | **961** | 846 | 599 | 12 | | | | | **177** | 231 | 208 | 30 |
| **Group** | **1,225** | 1,099 | 790 | 27 | **137** | 697 | | | **473** | 569 | 524 | 47 |
| South Africa | **1,214** | 1,088 | 780 | 26 | **137** | 697 | | | **467** | 562 | 518 | 46 |
| Other[7] | **11** | 11 | 10 | 1 | | | | | **6** | 7 | 6 | 1 |

**Notes**

1 Represents manufacturing sales to third parties. In deriving the revenue, inter-group manufacturing sales of R96 million (52 weeks to 28 March 2009 R145 million, 47 weeks to 29 March 2008, R153 million and 5 weeks to 5 May 2007 R13 million) have been eliminated.

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

3 The 2010 and 2009 segmental result is stated after impairment of intangibles.

4 Includes equity accounted earnings of joint ventures of R435 million (52 weeks to 29 March 2009 R349 million, 47 weeks to 29 March 2008 R264 million and 5 May 2007 R23 million).

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

6 Excludes proceeds on disposal of properties, fixtures, equipment and vehicles (note 31.4).

7 Comprising Botswana, Lesotho, Swaziland and Namibia.

8 2010 financial data is presented for 53 weeks, 2009 financial data is presented for 52 weeks and 2008 financial data is presented for the 47 weeks ended 29 March 2008 for the Successor. Comparative data of the Predecessor is for the 5 weeks ended 5 May 2007.

## 2. OPERATING SEGMENT REPORT *(continued)*

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

| | Edgars | CNA | Discount Division | Manufacturing | Credit and Financial Services | Group Services | Total |
|---|---|---|---|---|---|---|---|
| **53 weeks to 3 April 2010** | | | | | | | |
| Retail sales | 11,213 | 1,851 | 8,824 | | | | **21,888** |
| Club revenue | 212 | | 215 | | | | **427** |
| Manufacturing sales[1] | | | | 46 | | | **46** |
| Finance charges on trade receivables | | | | | 2,049 | | **2,049** |
| Equity accounted earnings of joint ventures | | | | | 435 | | **435** |
| Interest received | | | | | 20 | 11 | **31** |
| **Total revenue** | **11,425** | **1,851** | **9,039** | **46** | **2,504** | **11** | **24,876** |
| **52 weeks to 28 March 2009** | | | | | | | |
| Retail sales | 11,250 | 1,836 | 8,989 | | | | 22,075 |
| Club revenue | 205 | | 217 | | | | 422 |
| Manufacturing sales | | | | 45 | | | 45 |
| Finance charges on trade receivables | | | | | 2,271 | | 2,271 |
| Equity accounted earnings of joint ventures | | | | | 349 | | 349 |
| Interest received | | | | | 13 | 20 | 33 |
| **Total revenue** | 11,455 | 1,836 | 9,206 | 45 | 2,633 | 20 | 25,195 |
| **47 weeks to 29 March 2008** | | | | | | | |
| Retail sales | 9,537 | 1,572 | 7,135 | | | | 18,244 |
| Club revenue | 174 | | 198 | | | | 372 |
| Manufacturing sales[1] | | | | 39 | | | 39 |
| Finance charges on trade receivables | | | | | 1,779 | | 1,779 |
| Equity accounted earnings of joint ventures | | | | | 264 | | 264 |
| Preference dividend | | | | | 4 | | 4 |
| Interest received | | | | | 12 | 236 | 248 |
| **Total revenue** | 9,711 | 1,572 | 7,333 | 39 | 2,059 | 236 | 20,950 |
| **5 weeks to 5 May 2007** | | | | | | | |
| Retail sales | 1,036 | 144 | 759 | | | | 1,939 |
| Club revenue | 16 | | 17 | | | | 33 |
| Manufacturing sales[1] | | | | 2 | | | 2 |
| Finance charges on trade receivables | | | | | 93 | | 93 |
| Equity accounted earnings of joint ventures | | | | | 23 | | 23 |
| Preference dividend | | | | | 4 | | 4 |
| **Total revenue** | 1,052 | 144 | 776 | 2 | 120 | | 2,094 |

**Note**

[1] Represents manufacturing sales to third parties. In deriving the revenue, inter-group manufacturing sales of R96 million (52 weeks to 28 March 2009, R145 million, 47 weeks to 29 March 2008, R153 million and 5 weeks to 5 May 2007 R13 million) have been eliminated.

## 2. OPERATING SEGMENT REPORT *(continued)*

### 2.1 Information on products

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

| | Successor | | | Predecessor |
|---|---|---|---|---|
| | 2010 53 weeks to 3 April | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 weeks to 5 May |
| | Rm | Rm | Rm | Rm |
| Clothing | **10,197** | 9,974 | 8,403 | 971 |
| Footwear | **3,066** | 2,870 | 2,372 | 258 |
| Cosmetics | **2,370** | 2,448 | 1,847 | 152 |
| Homeware | **1,480** | 1,482 | 1,309 | 127 |
| Cellular | **1,531** | 1,968 | 1,744 | 196 |
| Stationery, books, magazines etc | **1,627** | 1,596 | 1,354 | 120 |
| Hardlines and FMCG | **1,617** | 1,737 | 1,215 | 115 |
| Total sales | **21,888** | 22,075 | 18,244 | 1,939 |

### 2.2 Information about major customers

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

| | 2010 3 April | 2009 28 March | 2008 29 March |
|---|---|---|---|
| Edgars division | **263** | 267 | 253 |
| CNA division | **203** | 211 | 200 |
| Discount division | **762** | 755 | 688 |
| **Group** | **1,228** | 1,233 | 1,141 |

### 2.3 Reportable operating segment assets and liabilities

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

| | TOTAL ASSETS | | | TOTAL LIABILITIES | | |
|---|---|---|---|---|---|---|
| | Successor | | | Successor | | |
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
| | Rm | Rm | Rm | Rm | Rm | Rm |
| Edgars Division | **2,181** | 2,348 | 1,670 | **327** | 377 | 459 |
| CNA Division | **420** | 392 | 323 | **58** | 50 | 52 |
| Discount Division | **1,879** | 1,887 | 1,303 | **242** | 219 | 281 |
| Manufacturing Division | **46** | 53 | 62 | **6** | 18 | 21 |
| Credit and Financial Services | **9,656**[1] | 9,619[1] | 8,758[1] | **4,457** | 162 | 146 |
| Group Services[2] | **19,586** | 23,041 | 28,502 | **30,267** | 36,940 | 38,269 |
| **Group** | **33,768** | 37,340 | 40,618 | **35,357** | 37,766 | 39,228 |
| South Africa | **33,086** | 36,652 | 39,987 | **35,326** | 37,673 | 39,163 |
| Other[3] | **682** | 688 | 631 | **31** | 93 | 65 |

**Notes**

1 Includes investment in joint ventures of Rnil million (2009 and 2008: R1 million and R11 million).

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

3 Compromising Botswana, Lesotho, Swaziland and Namibia.

## 3. PROPERTIES, FIXTURES, EQUIPMENT AND VEHICLES

| | Successor | | |
|---|---|---|---|
| | **2010 3 April** | **2009 28 March** | **2008 29 March** |
| | **Rm** | **Rm** | **Rm** |
| **Historic cost except for revalued land and buildings** | | | |
| Land and buildings | | | |
| Historic cost | **40** | 131 | 98 |
| Revaluation surplus | **1** | 35 | 35 |
| Leasehold improvements | **564** | 495 | 470 |
| Fixtures and fittings | **2,656** | 2,438 | 2,272 |
| Computer equipment and software | **1,122** | 952 | 642 |
| Machinery and vehicles | **170** | 169 | 156 |
| | **4,553** | 4,220 | 3,673 |
| **Accumulated depreciation** | | | |
| Buildings | **3** | 8 | 4 |
| Leasehold improvements | **254** | 155 | 58 |
| Fixtures and fittings | **1,018** | 595 | 206 |
| Computer equipment and software | **547** | 290 | 126 |
| Machinery and vehicles | **68** | 44 | 16 |
| | **1,890** | 1,092 | 410 |
| **Net carrying value** | **2,663** | 3,128 | 3,263 |
| Comprising: | | | |
| Land and buildings | **38** | 158 | 129 |
| Leasehold improvements | **310** | 340 | 412 |
| Fixtures and fittings | **1,638** | 1,843 | 2,066 |
| Computer equipment and software | **575** | 662 | 516 |
| Machinery and vehicles | **102** | 125 | 140 |
| | **2,663** | 3,128 | 3,263 |
| **Opening net carrying value** | **3,128** | 3,263 | – |
| **Movements for the year** | | | |
| Land and buildings – revaluation, cost less accumulated depreciation | | | 26 |
| **Capital expenditure** | | | |
| Buildings | **–** | – | – |
| Leasehold improvements | **68** | 65 | 64 |
| Fixtures and fittings | **230** | 233 | 257 |
| Computer equipment and software | **174** | 265 | 201 |
| Machinery and vehicles | **1** | 3 | 2 |
| | **473** | 566 | 524 |
| **Fair value of acquisitions** (note 31.12) | | | |
| Acquisition of the Edcon Group: | | | |
| Land and buildings | | | 105 |
| Leasehold Improvements | | | 409 |
| Fixtures and fittings | | | 1,973 |
| Computer equipment and software | | | 440 |
| Machinery and vehicles | | | 155 |
| Acquisition of Discom – fixtures and fittings | | | 39 |
| | | | 3,121 |
| **Other** | | | |
| Currency adjustments | **(4)** | (1) | 8 |
| Reclassification of assets | | – | |
| Buildings | | 33 | |
| Leasehold improvements | | (36) | |
| Fixtures and fittings | | (57) | |
| Computer equipment and software | | 50 | |
| Machinery and vehicles | | 10 | |
| | **469** | 565 | 3,679 |
| **Disposals** | | | |
| Land and buildings | **113** | – | – |
| Leasehold improvements | **3** | 4 | 1 |
| Fixtures and fittings | **11** | 10 | 5 |
| Computer equipment and software | | 5 | – |
| Machinery and vehicles | | – | – |
| | **127** | 19 | 6 |
| Depreciation (note 25.3) | **807** | 681 | 410 |
| **Closing net carrying value** | **2,663** | 3,128 | 3,263 |

**3. PROPERTIES, FIXTURES, EQUIPMENT AND VEHICLES** *(continued)*

The reclassifications on page F-45 arose as a result of finalising the take-on of the fixed assets fair value adjustment in the fixed asset register by asset as a result of the Edcon Group acquisition.

Land and buildings were revalued at 1 March 2008 to open market value based on the open market net rentals and current replacement cost of each property. Deferred taxation has been raised on the revaluation surplus. The independent valuations were carried out by professional valuers. No other categories of assets were revalued.

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

If the land and buildings were measured using the cost model the cost is R40 million (2009 and 2008: R156 million and R98 million) and the accumulated depreciation is R3 million (2009 and 2008: R8 million and R4 million).

At 3 April 2010 the properties, fixtures, equipment and vehicles have an estimated replacement cost and insurance value of R6,4 billion (2009 and 2008: R6,0 billion and R5,2 billion) which excludes input value added-tax where appropriate. The Group had no idle fixed assets. The gross cost of fully depreciated fixtures, equipment and vehicles is immaterial.

These assets are security in terms of the floating rate notes issued (note 18) and the revolving credit facility (note 19).

| | Successor | | |
|---|---|---|---|
| | **2010 3 April** | **2009 28 March** | **2008 29 March** |
| | **Rm** | **Rm** | **Rm** |
| **4. INTANGIBLE ASSETS** | | | |
| Goodwill represents the excess of the purchase consideration over the fair value of the identifiable assets at the date of acquisition purchased as part of a business combination. Other intangible assets represent registered rights to the exclusive use of certain trademarks and brand names. | | | |
| **Balance at the beginning of the period** | **18,997** | 20,112 | |
| **Current period movements** | | | |
| Goodwill on acquisition of Edcon Group (note 31.12.1) | | | 8,348 |
| Goodwill on acquisition of Discom (note 31.12.2) | | | 86 |
| Goodwill on consolidation of OtC (note 31.12.3) | | | 79 |
| Intangible assets on acquisition of the Edcon Group (note 31.12.1) | | | 11,906 |
| Intangible asset on acquisition of Discom (note 31.12.2) | | | 73 |
| **Amortisation of intangible assets:** | | | |
| Charge for the period (note 25.1) | **(418)** | (418) | (380) |
| Impairment of goodwill | **(71)** | (12) | |
| Impairment of indefinite life brands | **(66)** | (685) | |
| **Balance at the end of the period** | **18,442** | 18,997 | 20,112 |
| **Comprising:** | | | |
| Goodwill at cost | **8,513** | 8,513 | 8,513 |
| Intangible assets at cost | **11,979** | 11,979 | 11,979 |
| Impairment of intangibles | **(834)** | (697) | |
| Accumulated amortisation of intangible assets | **(1,216)** | (798) | (380) |
| | **18,442** | 18,997 | 20,112 |

| | Successor | | |
|---|---|---|---|
| | **2010 3 April** | **2009 28 March** | **2008 29 March** |
| | **Rm** | **Rm** | **Rm** |
| **4. INTANGIBLE ASSETS** *(continued)* | | | |
| **Intangible assets at cost:** | | | |
| Indefinite life brands | **8,492** | 8,492 | 8,492 |
| Finite life brands | **229** | 229 | 229 |
| Customer relationships | **1,974** | 1,974 | 1,974 |
| Trademarks recognised | **206** | 206 | 206 |
| Customer lists | **561** | 561 | 561 |
| Technology | **517** | 517 | 517 |
| | **11,979** | 11,979 | 11,979 |
| **Impairment of intangibles:** | | | |
| Indefinite life brands | **(751)** | (685) | |
| | **(751)** | (685) | |
| **Accumulated amortisation of intangible assets:** | | | |
| Finite life brands | **(64)** | (41) | (18) |
| Customer relationships | **(659)** | (433) | (207) |
| Trademarks recognised | **(60)** | (40) | (19) |
| Customer lists | **(217)** | (142) | (68) |
| Technology | **(216)** | (142) | (68) |
| | **(1,216)** | (798) | (380) |
| **Carrying value of intangible assets:** | | | |
| Indefinite life brands | **7,741** | 7,807 | 8,492 |
| Finite life brands | **165** | 188 | 211 |
| Customer relationships | **1,315** | 1,541 | 1,767 |
| Trademarks recognised | **146** | 166 | 187 |
| Customer lists | **344** | 419 | 493 |
| Technology | **301** | 375 | 449 |
| | **10,012** | 10,496 | 11,599 |

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

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

Goodwill is tested annually for impairment (refer to note 5).

## 5. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES

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

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

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

Impairment testing of this goodwill and intangibles with indefinite lives was undertaken on the following basis:

The recoverable amount of cash-generating units has been determined based on a value-in-use calculation. To calculate this, cash flow projections are based on financial budgets approved by senior management covering no more than a five-year period. The discount rate applied to the cash flow projections for Edgars, CNA and the Discount Division is 15% (2009 and 2008: 15%) and for the Credit and Financial Services division, 17% (2009 and 2008: 17%). The average growth rates used to extrapolate the cash flow projection of each cash-generating unit beyond the periods covered by the financial forecasts is 6% (2009 and 2008: 6% and 5% respectively) as future benefits are expected beyond the periods of the financial forecasts.

| Carrying amount of goodwill and intangibles with indefinite lives (Rm) | Edgars | CNA | Discount Division | Credit and Financial Services | Total |
|---|---|---|---|---|---|
| Carrying amount of goodwill | **1,753** | | **3,008** | **3,669** | **8,430** |
| Carrying amount of indefinite life intangibles | **4,535** | **546** | **2,660** | | **7,741** |

During the current period a total impairment of R66 million (2009: R685 million) has been recognised on the indefinite life brands due to economic trading conditions and a change in the mix of products sold by CNA and the Discount Division stores. As a result, forecast sales assumptions were based on estimated growths over the short-term, and the growth rates beyond the forecasted period were held constant at 6%.

The initial goodwill allocated to CNA of R83 million has been fully impaired at 3 April 2010, R71 million in the current period (2009: R12 million).

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

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

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

Gross margins are based on financial forecasts for the Edgars, CNA and the Discount Division. The gross margin of Edgars, CNA and the Discount Division is held constant over the financial forecast period.

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

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

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

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

## 6. HELD-TO-MATURITY INVESTMENTS

In November 2009, OtC II issued R78 million of three-year receivables-backed notes to Edcon (Proprietary) Limited. These notes mature on 31 October 2012 and accrue interest at applicable JIBAR plus a margin of 4.5% payable quarterly in arrears. These notes are eliminated on consolidation. Refer to note 18.3.

| | Successor | | |
|---|---|---|---|
| | **2010 3 April** | **2009 28 March** | **2008 29 March** |
| | **Rm** | **Rm** | **Rm** |
| **7. EQUITY ACCOUNTED INVESTMENT IN JOINT VENTURES** | | | |
| Hollard Insurance – 50% holding offering long and short-term insurance products to account holders | **–** | 1 | 11 |
| SA Eagle Legal (Pty) Ltd | **–** | – | – |
| | **–** | 1 | 11 |
| **7.1 Share of joint ventures' reserves** | | | |
| Balance at the beginning of the period | **1** | 11 | – |
| Acquisition of Edcon Group | | | 38 |
| Profit for the period | **435** | 349 | 264 |
| Administration fee | **(267)** | (129) | |
| Dividends received | **(169)** | (230) | (291) |
| Carrying value of joint ventures | **–** | 1 | 11 |
| **7.2 Share of joint ventures' net assets, revenue and profit** | | | |
| Current assets | **511** | 270 | 222 |
| Current liabilities | **60** | 56 | 23 |
| Revenue | **1,049** | 990 | 622 |
| Expenses | **527** | 515 | 210 |
| Profit after tax | **435** | 349 | 264 |
| **8. DERIVATIVE FINANCIAL INSTRUMENTS** | | | |
| **8.1 Non-current derivative assets** | | | |
| Foreign currency forward contracts[1] | | 232 | 942 |
| Currency swaps | | 2,161 | 4,487 |
| | | 2,393 | 5,429 |
| **8.2 Current derivative assets** | | | |
| Interest rate swaps[1] | | | 5 |
| Foreign currency forward contracts[1] | | 188 | 416 |
| | | 188 | 421 |
| **8.3 Non-current derivative liabilities** | | | |
| Interest rate swaps[1] | **91** | 503 | 379 |
| Foreign currency forward contracts[1] | **76** | 68 | |
| Currency swaps | **2,926** | 431 | |
| | **3,093** | 1,002 | 379 |
| **8.4 Current derivative liabilities** | | | |
| Interest rate swaps[1] | **487** | 454 | |
| Foreign currency forward contracts[1] | **330** | 60 | |
| | **817** | 514 | |
| **8.5 Total derivatives** | | | |
| Interest rate swap liability | **(578)** | (957) | (374) |
| Foreign currency forward contracts (liability)/asset | **(406)** | 292 | 1,358 |
| Currency swaps (liability)/asset | **(2,926)** | 1,730 | 4,487 |
| | **(3,910)** | 1,065 | 5,471 |

| | Successor | | |
|---|---|---|---|
| | 2010 3 April | 2009 28 March | 2008 29 March |
| | Rm | Rm | Rm |
| **8. DERIVATIVE FINANCIAL INSTRUMENTS** *(continued)* | | | |
| **8.5. Total derivatives** *(continued)* | | | |
| **Credit risk valuation adjustments**[2] | | | |
| Interest rate swaps | **(79)** | (240) | – |
| Foreign currency forward contracts | **(23)** | (18) | – |
| Currency swaps | **(561)** | (168) | – |
| | **(663)** | (426) | – |
| **Total derivatives before credit risk valuation adjustments** | | | |
| Interest rate swap liability | **(657)** | (1,197) | (374) |
| Foreign currency forward contracts (liability)/asset | **(429)** | 274 | 1,358 |
| Currency swaps (liability)/asset | **(3,487)** | 1,562 | 4,487 |
| | **(4,573)** | 639 | 5,471 |

[1] Refer to note 34.2 for details of hedging activities.
[2] Credit risk valuation adjustments are included in the total fair value of derivatives above.

The Group issued Euro denominated floating rate notes to the value of €1,810 million on the Irish Stock Exchange on 15 June 2007. The issue consisted of senior secured floating rate notes and senior floating rate notes of €1,180 million and €630 million respectively.

On 27 June 2008, the Group completed a notes repurchase of the senior floating rate notes with a nominal value of €252 million for €139 million being 55% of the face value.

In June 2008 we realised R1,793 million from certain derivatives used to hedge interest rate and foreign exchange exposures associated with the senior floating rate notes.

The remaining notes expose the Group to both interest rate risk and foreign exchange risk. The Group has executed the following hedging strategy:

- A series of interest rate swaps were entered at a swap rate of pay 4.529% fixed, receive three months EURIBOR, quarterly. Settlement dates match the quarterly payment dates for coupons on the floating rate notes up to 15 June 2011. The transaction hedges the interest rate risk on the cash flows occurring during the first four years of the senior floating rate notes and the senior secured floating rate notes (refer to note 18) and was designated as a cash flow hedge.
- A series of foreign currency forward contracts were entered to buy EUR and sell ZAR corresponding to the EUR scheduled payments on the fixed leg of the interest rate swap at each payment date. Settlement dates match the payment dates of the interest rate swap. These foreign currency forward contracts therefore economically hedge the EUR/ZAR currency risk on the combined cash flows of the interest rate swap and the first four years of anticipated interest payments on the floating rate notes and were designated as a cash flow hedge.
- A currency swap was entered to economically hedge the repayment of the €1,558 million (2009 and 2008: €1,558 million and €1,810 million respectively) principal on the senior and senior secured floating rate notes and matures on 15 June 2012.

| | Successor | | |
|---|---|---|---|
| | 2010 3 April | 2009 28 March | 2008 29 March |
| | Rm | Rm | Rm |
| **8. DERIVATIVE FINANCIAL INSTRUMENTS** *(continued)* | | | |
| **8.6 Derivative (losses)/gains** | | | |
| Derivative (losses)/gains | **(5,081)** | (1,184) | 4,612 |
| | **(5,081)** | (1,184) | 4,612 |
| Included in derivative (losses)/gains: | | | |
| Ineffective portion of cash flow hedges released from equity | **(39)** | 12 | |
| Included in profit before net financing costs, released from equity (note 14) | | 231 | (148) |
| Included in net financing costs released from equity (note 14) | **6** | 265 | |
| Derivative (losses)/gains released from equity | **(33)** | 508 | (148) |
| **8.8Maturity analysis of derivative financial instruments' cash flows** | | | |
| **Cash outflows** | | | |
| Due within one year | **2,282** | 2,205 | 1,663 |
| Total due within one year | **2,282** | 2,205 | 1,663 |
| After one year but within two years | **545** | 2,268 | 1,935 |
| After two years but within three years | **21,623** | 564 | 2,026 |
| After three years but within four years | | 21,623 | 504 |
| After four years but within five years | | | 23,054 |
| Total due after one year | **22,168** | 24,455 | 27,519 |
| Total | **24,450** | 26,660 | 29,182 |
| **Cash inflows** | | | |
| Due within one year | **1,337** | 1,738 | 2,116 |
| Total due within one year | **1,337** | 1,738 | 2,116 |
| After one year but within two years | **350** | 1,831 | 2,239 |
| After two years but within three years | **17,500** | 475 | 2,383 |
| After three years but within four years | | 23,617 | 623 |
| After four years but within five years | | | 29,933 |
| Total due after one year | **17,850** | 25,923 | 35,178 |
| Total | **19,187** | 27,661 | 37,294 |
| **Net cash (outflows)/inflows** | | | |
| Due within one year | **(945)** | (467) | 453 |
| Total due within one year | **(945)** | (467) | 453 |
| After one year but within two years | **(195)** | (437) | 304 |
| After two years but within three years | **(4,123)** | (89) | 357 |
| After three years but within four years | | 1,994 | 119 |
| After four years but within five years | | | 6,879 |
| Total due after one year | **(4,318)** | 1,468 | 7,659 |
| Total | **(5,263)** | 1,001 | 8,112 |

The maturity analysis of derivative financial instruments' cash flows reflects the expected cash outflows and inflows of the Group using undiscounted cash flows, settlement terms and expected movements in floating rates.

| | Successor | | | Predecessor |
|---|---|---|---|---|
| | **2010 3 April** | **2009 28 March** | **2008 29 March** | **2007 5 May** |
| | **Rm** | **Rm** | **Rm** | **Rm** |
| **9. DEFERRED TAXATION** | | | | |
| Balance at the beginning of the period | **(374)** | (1,851) | – | 82 |
| Deferred tax arising on acquisitions and consolidation of OtC (note 31.12) | | | (2,289) | – |
| Group profit or loss (note 29.1) | **515** | 1,193 | 718 | (5) |
| Deferred tax in other comprehensive income – currency forwards (note 29.2) | **121** | 279 | (280) | – |
| Deferred tax in other comprehensive income – interest rate swaps (note 29.2) | **(109)** | | | |
| Other | | 5 | | (77) |
| Balance at the end of the period | **153** | (374) | (1,851) | – |
| **Comprising:** | | | | |
| Appro sales | **14** | 20 | – | |
| Intangible assets | **1,543** | 1,669 | 1,881 | |
| Property, fixtures, equipment and vehicles | **359** | 431 | 430 | |
| Prepayments | **2** | 4 | 2 | |
| Revaluation reserve | | 3 | 3 | |
| Unearned finance income | **19** | – | – | |
| Fair value gain on interest rate swaps | | 2 | 20 | |
| Fair value gain on currency forwards | **114** | | | |
| Cash flow hedges in equity | | – | 401 | |
| Deferred STC raised | | 10 | 9 | |
| Other | **23** | 15 | 14 | |
| **Deferred tax liability** | **2,074** | 2,154 | 2,760 | |
| Doubtful debts | **282** | 244 | 175 | |
| Other payables | **132** | 129 | 75 | |
| Leave pay accrual | **38** | 34 | | |
| Operating lease adjustment | **113** | 112 | 118 | |
| Unearned finance income | | 19 | 15 | |
| Fair value loss on interest rate swaps | **167** | 270 | 125 | |
| Fair value loss on currency forwards | | 82 | | |
| Assessed loss | **1,487** | 890 | 401 | |
| Other | **8** | – | – | |
| **Deferred tax asset** | **2,227** | 1,780 | 909 | |
| **Net deferred tax asset/(liability)** | **153** | (374) | (1,851) | |

| | Successor | | |
|---|---|---|---|
| | **2010 3 April** | **2009 28 March** | **2008 29 March** |
| | **Rm** | **Rm** | **Rm** |
| **10. INVENTORIES** | | | |
| Merchandise | **2,385** | 2,515 | 2,119 |
| Raw materials | **12** | 20 | 22 |
| Work in progress | **5** | 9 | 7 |
| Total inventories on hand | **2,402** | 2,544 | 2,148 |
| Inventory write-downs included above | **99** | 85 | 95 |

| | | Successor | | |
|---|---|---|---|---|
| | | 2010 3 April | 2009 28 March | 2008 29 March |
| | | Rm | Rm | Rm |
| **11.** | **TRADE, OTHER RECEIVABLES AND PREPAYMENTS** | | | |
| | Trade accounts receivable – retail | **9,824** | 10,506 | 9,325 |
| | Trade accounts receivable – personal loans | **1** | 1 | 7 |
| | Allowance for doubtful debts | **(1,126)** | (1,045) | (827) |
| | Total trade receivables | **8,699** | 9,462 | 8,505 |
| | Other receivables | **271** | 224 | 190 |
| | Staff loans | **5** | 9 | 5 |
| | Total receivables | **8,975** | 9,695 | 8,700 |
| | Fair value gain on forward exchange contracts (note 34.4) | **–** | – | 29 |
| | Prepayments | **8** | 15 | 13 |
| | Net trade, other receivables and prepayments | **8,983** | 9,710 | 8,742 |

At 3 April 2010, all obligations under the OtC II receivables-backed notes issued (see note 18 and 19) are secured by pledge and cession of the eligible receivables that OtC II acquires from time to time. As at 3 April 2010 R6,041 million is designated as eligible receivables.
At 28 March 2009, all obligations under the borrowing base facility (see note 19) were secured by a first priority security interest over designated eligible receivables constituting the borrowing base for the borrowing base facility. As at 28 March 2009 R2,634 million (2008: R2,792 million) was designated as eligible receivables. All obligations under the OtC receivables backed facility (see note 19) were secured by a pledge and cession of the eligible receivables that OtC acquired from time to time. As at 28 March 2009 R4,157 million (2008: R4,017 million) was designated as eligible receivables. Subsequently the borrowing base facility and the OtC receivables backed facility were fully settled, cancelled and replaced with the OtC II receivable-backed notes (see note 18 and 19).

| | | | | |
|---|---|---|---|---|
| **11.1** | **Analysis of trade receivables past due but not impaired** | | | |
| | Overdue 30 days – 60 days | **1,049** | 1,691 | 1,105 |
| | Overdue 60 days – 90 days | **158** | 212 | 405 |
| | Overdue 90 days – 120 days | **86** | 105 | 194 |
| | Greater than 120 days | **265** | 260 | 324 |
| | | **1,558** | 2,268 | 2,028 |
| **11.2** | **Trade receivables provided for** | **1,126** | 1,045 | 827 |
| **11.3** | **Interest on impaired receivables** | | | |
| | Interest recognised on impaired receivables | **214** | 201 | 212 |
| | This interest is included in the finance charges in note 23. | | | |
| **11.4** | **Allowance for doubtful debts** | | | |
| | Balance at the beginning of the period | **1,045** | 827 | |
| | Acquisition of the Edcon Group | | | 548 |
| | Consolidation of OtC | | | 198 |
| | Increase in allowance | **81** | 218 | 88 |
| | Release of provision | | – | (7) |
| | Balance at the end of the period | **1,126** | 1,045 | 827 |
| | Amounts written off are disclosed in note 26.2. | | | |
| **12.** | **CASH AND CASH EQUIVALENTS** | | | |
| | Cash on hand | **1,071** | 233 | 382 |
| | Cash on deposit | **54** | 146 | 110 |
| | | **1,125** | 379 | 492 |

| | Successor | | |
|---|---|---|---|
| | **2010 3 April** | **2009 28 March** | **2008 29 March** |
| | **Rm** | **Rm** | **Rm** |
| **13. SHARE CAPITAL AND PREMIUM** | | | |
| **13.1 Authorised ordinary share capital** | | | |
| 1,000,000,000 "A "ordinary shares with a par value of 0.00001 cent each | **–** | – | – |
| 100,000,000 "B" ordinary shares with a par value of 0.00001 cent each | **–** | – | – |
| 1,000,000,000 "C" ordinary shares with a par value of 0.00001 cent each | **–** | – | – |
| 1,000,000,000 "D" ordinary shares with a par value of 0.00001 cent each | **–** | – | – |
| 1,000,000,000 "E" ordinary shares with a par value of 0.00001 cent each | **–** | – | – |
| | **–** | – | – |
| **13.2 Authorised preference share capital** | | | |
| 1,000,000,000 "A" preference shares of R0.00001 each | **–** | – | – |
| 1,000,000,000 "B" preference shares of R0.00001 each | **–** | | |
| | **–** | – | – |
| **13.3 Number of ordinary shares in issue** | | | |
| Number of shares at the beginning of the period | **610,438** | 610,438 | |
| "A" ordinary shares issued | | | 550,438 |
| "B" ordinary shares issued | | | 69,213 |
| "C" ordinary shares issued | | | 20,000 |
| "D" ordinary shares issued | | | 20,000 |
| "E" ordinary shares issued | | | 20,000 |
| Treasury Shares – Staff Empowerment Trust | | | (69,213) |
| "A" ordinary shares repurchased | **(50,305)** | | |
| Number of shares at the end of the period | **560,133** | 610,438 | 610,438 |
| **Number of ordinary shares in issue comprise:** | | | |
| "A" ordinary shares issued | **500,133** | 550,438 | 550,438 |
| "B" ordinary shares issued | **69,213** | 69,213 | 69,213 |
| "C" ordinary shares issued | **20,000** | 20,000 | 20,000 |
| "D" ordinary shares issued | **20,000** | 20,000 | 20,000 |
| "E" ordinary shares issued | **20,000** | 20,000 | 20,000 |
| Treasury shares – Staff Empowerment Trust | **(69,213)** | (69,213) | (69,213) |
| | **560,133** | 610,438 | 610,438 |
| **13.4 Number of preference share capital in issue** | | | |
| Number of shares at the beginning of the period | **200,866** | 200,866 | |
| "A" preference shares of R0.00001 each issued | | | 200,866 |
| "B" preference shares of R0.00001 each issued | **51,583** | | |
| Number of shares at the end of the period | **252,449** | 200,866 | 200,866 |
| **Number of preference shares in issue comprise:** | | | |
| "A" preference shares of R0.00001 each | **200,866** | 200,866 | 200,866 |
| "B" preference shares of R0.00001 each | **51,583** | | |
| | **252,449** | 200,866 | 200,866 |

| | Successor | | |
|---|---|---|---|
| | **2010 3 April** | **2009 28 March** | **2008 29 March** |
| | **Rm** | **Rm** | **Rm** |

## 13. SHARE CAPITAL AND PREMIUM *(continued)*

### 13.5 Voting rights of ordinary and preference shares

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

Each "A" preference share of the Successor shall not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of the company Edcon Holdings (Proprietary) Limited, save in the circumstances prescribed by the Companies Act.

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

Each "B" preference share of the Successor shall not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of the company Edcon Holdings (Proprietary) Limited, save in the circumstances prescribed by the Companies Act.

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

### 13.6 Issued shares and premium

| | | | |
|---|---|---|---|
| Balance at the beginning of the period | **2,143** | 2,143 | |
| Ordinary shares issued – share capital | | | – |
| Preference shares issued – share capital | **–** | | – |
| Ordinary shares issued – share premium | | | 2,756 |
| Preference shares issued – share premium | **180** | | 207 |
| Treasury shares – Staff Empowerment Trust | | | (820) |
| Ordinary shares repurchased – share capital | **–** | | |
| Ordinary shares repurchased – share premium | **(175)** | | |
| Balance at the end of the period | **2,148** | 2,143 | 2,143 |
| **Comprising:** | | | |
| Share capital | **–** | – | – |
| Share premium | **2,148** | 2,143 | 2,143 |
| Total | **2,148** | 2,143 | 2,143 |

During the current period the share capital structure changed through the repurchase of "A" ordinary shares and the issue of "B" preference shares.

R175 million of ordinary shares were issued through the capitalisation of a portion of the shareholder's loan at 29 March 2008.

| | Successor | | |
|---|---|---|---|
| | **2010 3 April** | 2009 28 March | 2008 29 March |
| | **Rm** | Rm | Rm |
| **14. OTHER RESERVES** *(continued)* | | | |
| **Balance at the beginning of the period comprising:** | | | |
| Revaluation reserve net of deferred taxation | **23** | 23 | |
| Foreign currency translation reserve | **28** | 31 | |
| Cash flow hedges net of tax | **(331)** | 782 | |
| | **(280)** | 836 | |
| **Movements** | | | |
| Net (decrease)/increase in revaluation reserve | **(20)** | – | 23 |
| Foreign currency translation reserve | **(48)** | (3) | 31 |
| Cash flow hedges recognised in equity | **(116)** | (2,054) | 1,234 |
| Cash flow hedges reclassified to profit or loss (note 8.6) | **33** | 508 | (148) |
| Tax impact of cash flow hedges (note 29.2) | **23** | 433 | (304) |
| Balance at the end of the period | **(408)** | (280) | 836 |
| **Comprising:** | | | |
| Revaluation reserve net of deferred taxation | **3** | 23 | 23 |
| Foreign currency translation reserve | **(20)** | 28 | 31 |
| Cash flow hedges net of tax | **(391)** | (331) | 782 |
| | **(408)** | (280) | 836 |
| **15. RETAINED (LOSS)/SURPLUS** | | | |
| **Comprising:** | | | |
| Holding company – Edcon Holdings (Proprietary) Limited | **2,062** | 2,039 | (454) |
| Consolidated subsidiaries | **(5,391)** | (4,328) | (1,136) |
| | **(3,329)** | (2,289) | (1,590) |
| Distributions by certain foreign subsidiaries will give rise to withholding taxes of R87 million (2009 and 2008: R68 million and R43 million). No deferred tax is raised until dividends are declared as the Group controls the timing of the reversal and it is probable that there will be no reversal in the foreseeable future. Deferred tax not raised was R206 million (2009 and 2008: R161 million and R109 million). | | | |
| **16. CONSOLIDATED SUBSIDIARIES (Annexure 1 : page F-87)** | | | |
| **16.1 Aggregate profits/(losses) of subsidiaries and joint venture** | | | |
| Profits | **355** | 254 | 25,382 |
| Losses | **(1,437)** | (3,415) | (26,906) |
| | **(1,082)** | (3,161) | (1,524) |

| | Successor | | |
|---|---|---|---|
| | **2010 3 April** | 2009 28 March | 2008 29 March |
| | **Rm** | Rm | Rm |
| **17. SHAREHOLDER'S LOAN** | | | |
| Loan by Edcon (BC) S.A.R.L. | **7,341** | 6,492 | 5,547 |
| **Comprising:** | | | |
| Principal at the beginning of the period | **5,729** | 5,057 | |
| Loan from Edcon (BC) S.A.R.L. | | | 5,057 |
| Interest capitalised during the period | **868** | 672 | |
| Principal at the end of the period | **6,597** | 5,729 | 5,057 |
| Interest accrued at the beginning of the period | **763** | 490 | |
| Interest accrued for the period (note 28.1) | **849** | 945 | 665 |
| Interest capitalised during the period | **(868)** | (672) | |
| Share capital issued | | | (175) |
| Interest accrued at the end of the period | **744** | 763 | 490 |
| The loan is denominated in South African Rands and accrues interest at the South African prime rate plus 2% p.a. on the principal up to and including the date of repayment. The principal is repayable by no later than May 2037. This shareholder's loan is regarded as capital for IAS 1 purposes (refer to note 33). | | | |
| **18. LONG TERM INTEREST BEARING DEBT** | | | |
| Senior secured floating rate notes issued | **11,259** | 11,259 | 11,259 |
| Foreign currency on senior secured floating rate notes | **331** | 3,832 | 3,863 |
| Fees capitalised on senior secured floating rate notes | **(193)** | (224) | (252) |
| **Senior secured floating rate notes** | **11,397** | 14,867 | 14,870 |
| Senior floating rate notes issued | **3,606** | 3,606 | 6,010 |
| Foreign currency on senior floating rate notes | **106** | 1,227 | 2,063 |
| Fees capitalised on senior floating rate notes | **(89)** | (100) | (182) |
| **Senior floating rate notes** | **3,623** | 4,733 | 7,891 |
| **Floating rate notes** | **15,020** | 19,600 | 22,761 |
| OtC II receivables-backed notes issued | **3,855** | | |
| Subordinated loan | | | 25 |
| | **18,875** | 19,600 | 22,786 |
| **18.1 Reconciliation of long-term interest bearing debt** | | | |
| Balance at the beginning of the period | **19,600** | 22,786 | |
| Subordinated loan issued | | | 25 |
| OtC II receivables-backed notes issued (notes 18.3) | **3,855** | | |
| Senior floating rate notes issued | | | 6,010 |
| Senior secured floating rate notes issued | | | 11,259 |
| Fees capitalised on senior floating rate notes | | | (194) |
| Fees capitalised on senior secured floating rate notes | | | (273) |
| Foreign currency movement on senior floating rate notes | **(1,121)** | (103) | 2,063 |
| Foreign currency movement on senior secured floating rate notes | **(3,501)** | (31) | 3,863 |
| Fees amortised on senior floating rate notes | **11** | 82 | 12 |
| Fees amortised on senior secured floating rate notes | **31** | 28 | 21 |
| Senior floating rate notes repurchased (note 18.2) | | (2,404) | |
| Foreign currency movement on notes repurchased | | (733) | |
| Subordinated loan repaid | | (25) | |
| Balance at the end of the period | **18,875** | 19,600 | 22,786 |
| Unrealised foreign exchange gain/(loss) on notes issued | **4,622** | 134 | (5,926) |
| Fees amortised recognised in financing costs (note 28.1) | **42** | 110 | 33 |

| | Successor | | |
|---|---|---|---|
| | 2010 3 April | 2009 28 March | 2008 29 March |
| | Rm | Rm | Rm |
| **18. LONG TERM INTEREST BEARING DEBT** *(continued)* | | | |
| **18.2 Buy-back of senior floating rate notes** *(continued)* | | | |
| Senior floating rate notes repurchased | | 2,404 | |
| Foreign currency movement on notes repurchased | | 733 | |
| Purchase price of senior floating rate notes | | (1,726) | |
| Fees paid and accrued on buy-back of senior floating rate notes | | (61) | |
| Gain on buy-back of the senior floating rate notes after fees incurred | | 1,350 | |

The senior secured floating rate notes of €1,180 million are issued by Edcon (Proprietary) Limited and guaranteed on a senior secured basis and are secured, along with the revolving credit facility, by security interests over substantially all the assets of Edcon Holdings (Proprietary) Limited and its restricted subsidiaries. Currently there are no unrestricted subsidiaries in the Group. Interest is payable quarterly in arrears at a rate of three-month EURIBOR, reset quarterly, plus 3,25%. The notes mature on 15 June 2014. There have been no defaults or breaches of the principal or interest during the period. The market value of the senior secured floating rate notes at 3 April 2010 was R8,750 million (2009 and 2008: R5,885 million and R10,132 million respectively).

The senior floating rate notes of €378 million (2009 and 2008: €378 million €630 million respectively) are issued by Edcon Holdings (Proprietary) Limited and guaranteed on a senior subordinated basis and secured by a third ranking pledge of the proceeds from the loan between Edcon Holdings (Proprietary) Limited and Edcon (Proprietary) Limited. Interest is payable quarterly in arrears at a rate of three-month EURIBOR, reset quarterly, plus 5,5%. The notes mature on 15 June 2015. There have been no defaults or breaches of principal or interest during the period. On 27 June 2008, the Group repurchased €252 million (R3,137 million) of the senior floating rate notes. The market value of the senior floating rate notes at 3 April 2010 was R2,450 million (2009 and 2008: R1,039 million and R3,714 million respectively).

**18.3 OtC II Receivable-backed notes**

During the 2010 financial period, both the borrowing base facility and the OtC receivables backed facility were fully settled and the facilities cancelled. Both of these facilities were maturing in June 2010. As part of the refinancing transaction, R4,300 million was raised through the issuance of a combination of one year R445 million, see note 19) and three-year (R555 million) receivables-backed notes listed on the Bond Exchange of South Africa in August 2009. A further R3,300 million was raised in November 2009 through the issuance of unlisted three-year receivables-backed notes, excluding R78 million issued to Edcon (Proprietary) Limited (see note 6) which mature in October 2012. In March 2010, R750 million of the unlisted receivables-backed notes were refinanced and listed on the Bond Exchange of South Africa.

## 18. LONG TERM INTEREST BEARING DEBT *(continued)*

### 18.3 OtC II Receivable-backed notes *(continued)*

Interest on the OtC II receivables-backed notes is payable quarterly in arrears and the applicable interest rate and margin, maturity date and fair value of listed receivables-backed notes is indicated below:

| OtC II receivables-backed notes | Amount | Fair value at 3 April 2010 | Maturity Date | Applicable interest | Margin |
|---|---|---|---|---|---|
| | Rm | Rm | | | % |
| **Current** | | | | | |
| Listed | **275** | 275 | July 2010 | 3m Jibar | 1,9 |
| Listed | **170** | 170 | July 2010 | Fixed 9.1% | |
| **Total current** | **445** | 445 | | | |
| **Non Current** | | | | | |
| Listed | **555** | 555 | July 2012 | 3m Jibar | 2,5 |
| Listed | **427** | 427 | April 2013 | 3m Jibar | 2,3 |
| Listed | **323** | 323 | April 2014 | 3m Jibar | 2,5 |
| Unlisted | **2,500** | 2,500 | October 2012 | 3m Jibar | 2,5 |
| Unlisted | **50** | 50 | October 2012 | 3m Jibar | 4,5 |
| **Total non-current** | **3,855** | 3,855 | | | |
| **Total receivables-backed notes** | **4,300** | 4,300 | | | |

| | Successor | | |
|---|---|---|---|
| | 2010 3 April | 2009 28 March | 2008 29 March |
| | Rm | Rm | Rm |
| **19. SHORT-TERM INTEREST BEARING DEBT** | | | |
| Revolving credit facility | **350** | 1,825 | 611 |
| OtC II receivables-backed notes (note 18.3) | **445** | | |
| Borrowing base facility | | 816 | 1,315 |
| OtC receivables backed facility | | 2,599 | 2,581 |
| OtC liquidity facility | | 60 | |
| | **795** | 5,300 | 4,507 |

The revolving credit facility provides senior secured financing of up to R3,500 million (2009 and 2008: R3,500 million) for general corporate and working capital purposes. All obligations under the facility are secured by substantially all the assets of Edcon Holdings (Proprietary) Limited and its restricted subsidiaries. Currently there are no unrestricted subsidiaries in the Group. The revolving credit facility accrues interest at applicable JIBAR plus a margin of 2,5% payable monthly in arrears. The facility includes R2,225 million (2009 and 2008: R2,225 million and R2,225 million) borrowing capacity available for bank guarantees, letters of credit, forward exchange contracts and for borrowings under bilateral ancillary facilities. These ancillary facilities accrue interest at ruling over-night market related lending rates.

The OtC II liquidity facility with FirstRand Bank Limited accrues interest at a rate equal to the SAFEX call rate from time to time plus 1,85% calculated from the date of any particular drawdown is made up to and including the date immediately prior to the date on which the drawdown is repaid and is capitalised monthly in arrears. The total liquidity facility granted is R145 million expiring in 30 April 2014.

The borrowing base facility provided secured financing of up to R3,900 million in both 2009 and 2008. All obligations under that facility were secured by a first priority security interest over designated eligible receivables (see note 11) constituting the borrowing base for the facility. The facility accrued interest at applicable JIBAR plus a margin of 2,6% in 2009 and 2,1% in 2008 that was payable monthly in arrears. The facility was settled and subsequently cancelled during the 2010 financial period (note 18.3).

**19. SHORT-TERM INTEREST BEARING DEBT** *(continued)*

The OtC receivables backed facility provided secured financing of up to R2,600 million in both 2009 and 2008. All obligations under the facility were secured by a pledge and a cession of the eligible receivables that OtC acquires from time to time (see note 11). The facility accrued interest at applicable JIBAR plus a margin of 2,6% in 2009 and 2,1% in 2008 that was payable monthly in arrears. The facility was settled and subsequently cancelled during the 2010 financial period (note 18.3).

The OtC liquidity facility with FirstRand Bank Limited accrues interest at a rate equal to the SAFEX call rate from time to time plus 1,45% calculated from the date of any particular drawdown is made up to and including to the date immediately prior to the date on which the drawdown is repaid and capitalised monthly in arrears. The total liquidity facility granted is R200 million expiring in June 2010.

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

| | Successor | | |
|---|---|---|---|
| | 2010 3 April | 2009 28 March | 2008 29 March |
| | Rm | Rm | Rm |
| **20. TRADE AND OTHER PAYABLES** | | | |
| Trade accounts payable | **2,577** | 2,150 | 2,289 |
| Sundry accounts payable and accrued expenses | **876** | 1,111 | 909 |
| Lease equalisation | **17** | 30 | 23 |
| Leave pay accrual | **137** | 126 | 122 |
| Value added taxation payable | **33** | 46 | 59 |
| Interest accrued on Senior floating rate notes | **13** | 15 | 33 |
| Interest accrued on Senior secured floating rate notes | **26** | 32 | 49 |
| Commitment fee accrued | **10** | 15 | 17 |
| Fair value change on forward exchange contracts (notes 34.4) | **11** | 8 | |
| | **3,700** | 3,533 | 3,501 |

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

**21. FUTURE CAPITAL EXPENDITURE**

| | | | |
|---|---|---|---|
| **Contracted:** | | | |
| Properties, fixtures, equipment and vehicles | **138** | 214 | 395 |
| **Authorised by the directors but not yet contracted:** | | | |
| Properties, fixtures, equipment and vehicles | **319** | 258 | 373 |
| | **457** | 472 | 768 |

All the expenditure will be incurred during the next financial period and is to be financed from free cash flows.

| | Successor | | |
|---|---|---|---|
| | 2010 3 April | 2009 28 March | 2008 29 March |
| | Rm | Rm | Rm |
| **22. LEASES** | | | |
| The Group leases the majority of its properties and computer equipment under operating leases whereas other operating assets are generally owned. The lease agreements of certain of the Group's store premises provide for a minimum annual rental payment and additional payments determined on the basis of turnover. Lease agreements have an option of renewal in terms of the lease agreement ranging between 5 to 10 years. | | | |
| The future minimum property operating lease commitments are due as follows: | **6,260** | 5,667 | 5,439 |
| Within one year | **1,195** | 1,069 | 941 |
| Between two and five years | **3,607** | 3,218 | 3,064 |
| In more than five years | **1,458** | 1,380 | 1,434 |
| The future revenue expected from sub-leases is estimated to be R18 million (2009 and 2008: R17 million and R15 million respectively). | | | |
| The Group also leases certain computer equipment. The agreements provide for minimum annual rental payments and additional payments depending on usage. | | | |
| The future minimum computer equipment operating lease commitments are due as follows: | **249** | 412 | 480 |
| Within one year | **152** | 167 | 183 |
| Between two and five years | **97** | 245 | 297 |

| | Successor | | | Predecessor |
|---|---|---|---|---|
| | 2010 53 weeks to 3 April | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 weeks to 5 May |
| | Rm | Rm | Rm | Rm |
| **23. REVENUES** | | | | |
| Retail sales | **21,888** | 22,075 | 18,244 | 1,939 |
| Club fees | **427** | 422 | 372 | 33 |
| Preference dividend (note 30) | | | 4 | 4 |
| Finance charges on trade receivables (note 30) | **2,049** | 2,271 | 1,779 | 93 |
| Equity accounted earnings of joint ventures | **435** | 349 | 264 | 23 |
| Interest received (note 28.2) | **31** | 33 | 248 | – |
| Manufacturing sales to third parties | **46** | 45 | 39 | 2 |
| | **24,876** | 25,195 | 20,950 | 2,094 |
| **24. OTHER INCOME** | | | | |
| Club fees | **427** | 422 | 372 | 33 |
| Manufacturing sales to third parties | **46** | 45 | 39 | 2 |
| | **473** | 467 | 411 | 35 |
| **25. OTHER OPERATING COSTS** | | | | |
| Trading profit is stated after taking account of the following items: | | | | |
| **25.1 Amortisation of trademarks** | | | | |
| Charge for the year | **418** | 418 | 380 | – |

| | Successor | | | Predecessor |
|---|---|---|---|---|
| | **2010 53 weeks to 3 April** | **2009 52 weeks to 28 March** | **2008 47 weeks to 29 March** | **2007 5 weeks to 5 May** |
| | **Rm** | **Rm** | **Rm** | **Rm** |
| **OTHER OPERATING COSTS** | | | | |
| **25.** *(continued)* | | | | |
| **25.2 Auditors' remuneration** | | | | |
| Audit fees – current year | **11** | 10 | 11 | – |
| Audit fees – prior year | | 1 | | |
| Fees for consulting and other services | **3** | 2 | 5 | – |
| | **14** | 13 | 16 | – |
| **25.3 Depreciation of properties, fixtures, equipment and vehicles** | | | | |
| Buildings | **4** | 4 | 4 | – |
| Leasehold improvements | **99** | 96 | 58 | 3 |
| Fixtures and fittings | **423** | 389 | 206 | 13 |
| Computer equipment and software | **257** | 164 | 126 | 10 |
| Machinery and vehicles | **24** | 28 | 16 | 1 |
| | **807** | 681 | 410 | 27 |
| **25.4 Fees payable** | | | | |
| Managerial, technical, administrative and secretarial fees paid outside the Group | **139** | 212 | 176 | 10 |
| Outsourcing of IT function | **298** | 354 | 233 | 22 |
| | **437** | 566 | 409 | 32 |
| **25.5 Operating lease expenses** | | | | |
| Properties: | | | | |
| Minimum lease payments | 1,193 | 1,061 | 841 | 71 |
| Turnover clause payments ..... | 23 | 35 | 33 | 7 |
| Operating lease adjustment ..... | 4 | (23) | (22) | (2) |
| Sublease rental income | **(18)** | (17) | (14) | (1) |
| Equipment and vehicles | **223** | 213 | 192 | 26 |
| | **1,425** | 1,269 | 1,030 | 101 |
| **25.6 Net loss on disposal of properties, fixtures, equipment and vehicles** | **(23)** | (18) | (5) | (4) |
| **25.7 Cost of share based payments** | | | | |
| Acceleration of share options | | | | 103 |
| Staff share incentive scheme | | | | 3 |
| Staff empowerment transaction | | | | 1 |
| | | | | 107 |
| Subsequent to 31 March 2007, the vesting dates for all options which were previously issued by the Predecessor were accelerated. An amount of R103 million was recognised in profit by the Predecessor on acceleration. | | | | |
| **25.8 Cost of inventories expensed** | **13,361** | 13,325 | 10,797 | 1,117 |
| **25.9 VAT expense** | | 90 | | |
| As a result of legislative interpretation in terms of Value Added Tax (VAT) the Group incurred a R90 million charge in the 2009 financial period which related to transactions incurred in prior periods. | | | | |

| | Successor | | | Predecessor |
|---|---|---|---|---|
| | 2010 53 weeks to 3 April | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 weeks to 5 May |
| | Rm | Rm | Rm | Rm |
| **26. CREDIT INCOME AND EXPENSE** | | | | |
| **26 .1 Income from credit** | | | | |
| Preference dividend | | | 4 | 4 |
| Finance charges on trade receivables | **2,049** | 2,271 | 1,779 | 93 |
| Subordinated loan / credit default swap | | | | 5 |
| | **2,049** | 2,271 | 1,783 | 102 |
| **26 .2 Expenses from credit** | | | | |
| Bad debt recoveries | **264** | 221 | 198 | 12 |
| Bad debt incurred | **(1,419)** | (1,226) | (1,074) | (68) |
| Net increase in doubtful debt provision | **(81)** | (218) | (81) | (4) |
| Administration and other costs | **(535)** | (549) | (425) | (32) |
| | **(1,771)** | (1,772) | (1,382) | (92) |
| **26 .3 Net credit income** | **278** | 499 | 401 | 10 |
| **27. DIRECTORS AND EMPLOYEES** | | | | |
| **27 .1 Employees** | | | | |
| The aggregate remuneration and associated cost of permanent and casual employees including directors was: | | | | |
| Salaries and wages | **2,209** | 2,287 | 1,977 | 159 |
| Retirement benefit costs | **235** | 217 | 177 | 14 |
| Medical aid contributions: | | | | |
| Current | **58** | 53 | 48 | 5 |
| Post-retirement | **6** | 1 | – | – |
| | **2,508** | 2,558 | 2,202 | 178 |
| **Edcon Pension Fund** | | | | |
| Actuarially determined: | | | | |
| Current service cost | **(1)** | (1) | (1) | (1) |
| Interest cost | **(38)** | (33) | (38) | (25) |
| Unrecognised loss (paragraph 58 limit) | **(33)** | (129) | (41) | (10) |
| Expected return on assets | **71** | 76 | 79 | 35 |
| Net loss | **(1)** | (87) | (1) | (1) |
| Company contributions | **1** | 1 | 1 | 1 |
| Actual return on pension fund assets | **137** | 101 | 80 | 103 |
| The contribution for the 2011 financial period is estimated to be approximately R1 million. | | | | |
| **Edcon Medical Aid** | | | | |
| Actuarially determined: | | | | |
| Current service cost | **3** | 3 | 3 | 3 |
| Interest cost | **10** | 10 | 11 | 8 |
| Actuarial (loss)/gain | **(5)** | (15) | (12) | 3 |
| Post-retirement medical aid expense | **8** | (2) | 2 | 14 |

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

A statutory valuation of the Edcon Pension Fund, a defined benefit plan, was carried out by an independent firm of consulting actuaries on 31 December 2002 using the attained age

**27. DIRECTORS AND EMPLOYEES** *(continued)*

**27.1 Employees** *(continued)*

method of valuation. The actuarial value of liabilities for all pensioners and members, including a stabilisation reserve, was determined at R328 million. The fair value of assets calculated by reference to the market value was R644 million. The fund was accordingly fully funded. The actuarial valuation was based on the principal assumptions that the fund will earn 10% per annum after taxation, that salary increases will be 7,3% per annum plus merit increases and a post-retirement interest rate of 4,5% per annum.

As a result of a change in the requirements of the regulators it was necessary to re-perform the valuation on the "best estimate basis" as prescribed by Pension Fund Circular 117 issued by the Financial Services Board in the prior period. Under the best estimate basis the actuarial value of liabilities for all pensioners and members including a solvency reserve, was determined at R426 million. The fair value of assets calculated by reference to the market value remained at R644 million. The fund therefore remains fully funded.

In the current period an actuarial estimate was performed using the projected unit credit method, and the fair value of the assets and liabilities is reflected on page F-68. The actuarial estimate was based on the principle assumptions as set out in note 27.2.1.

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

Initially approval was received from the FSB to transfer active members and pensioners to alternative arrangements and annuity policies. These members' and pensioners' accrued actuarial liabilities were enhanced by 25%. The surplus detailed in note 27.5 is adequate to cover the estimated consequence of this transaction which is estimated to be R59 million and the balance of the surplus will be transferred to the Edcon Provident Fund. Subsequently, however, the FSB reneged on their approval and requested a determination of the surplus available for distribution to former members prior to the utilisation of the surplus for current members.

The consequence for the Edcon Pension Fund is that prior to being permitted to distribute the enhancements to the members and pensioners, a formal surplus apportionment scheme must be prepared as envisaged by Section 15B of the Pension Fund Act.

The appointed valuator to the fund has performed interim valuations to ensure the solvency levels have been maintained. These were not statutory valuations. The advice from the valuator was that the assets exceeded the liabilities such that sufficient surplus exists to meet the requirements of the surplus legislation in addition to the medical aid obligations. The Trustees of the Edcon Pension Fund have finalised a scheme of apportionment which will be submitted to the Financial Services Board for consideration during the next financial period.

The Trustees of the Edcon Pension Fund have amended the investment strategy of the Fund with regards to the management of the assets backing the pensioner liabilities. The pension assets have been utilised to purchase a policy of insurance with Metropolitan which effectively guarantees the monthly pensions payable to pensioners and protects the Fund against the adverse effects of longevity risk. The surplus assets have been invested in various portfolios over time, all of which had mandates protecting the capital value of the surplus assets. The surplus assets are currently invested in interest bearing money market instruments.

Contributions to the Group's significant defined contribution funds are at a rate of 17,5% of benefit salary and where funds are contributory, members pay a maximum of 7,5%. The employer's portion is charged against profits.

## 27. DIRECTORS AND EMPLOYEES *(continued)*

### 27.1 Employees *(continued)*

| | Pensioners | Members | Contributions |
|---|---|---|---|
| | Number | Number | Rm |
| Membership of, and employer contributions to each of the funds were: | | | |
| **2010 Successor at 3 April** | | | |
| Edcon Pension Fund | **1,130** | **22** | **1** |
| Edcon Provident Fund | | **15,037** | **209** |
| Edcon Namibia Retirement Fund | **13** | **210** | **1** |
| Botswana Retirement Fund | | **192** | **1** |
| SACCAWU National Provident Fund | | **1,007** | **6** |
| FEDCRAW Provident Fund | | **390** | **3** |
| | **1,143** | **16,858** | **221** |
| 2009 Successor at 28 March | | | |
| Edcon Pension Fund | 1,020 | 27 | 1 |
| Edcon Provident Fund | | 15,597 | 195 |
| Edcon Namibia Retirement Fund | 13 | 224 | 1 |
| Botswana Retirement Fund | | 220 | 1 |
| SACCAWU National Provident Fund | | 1,090 | 6 |
| FEDCRAW Provident Fund | | 463 | 3 |
| | 1,033 | 17,621 | 207 |
| 2008 Successor at 29 March | | | |
| Edcon Pension Fund | 1,181 | 29 | 1 |
| Edcon Provident Fund | | 16,436 | 183 |
| Edcon Namibia Retirement Fund | 13 | 252 | 1 |
| Topics Namibia Retirement Fund | | 11 | – |
| Botswana Retirement Fund | | 218 | 1 |
| SACCAWU National Provident Fund | | 1,280 | 6 |
| FEDCRAW Provident Fund | | 504 | 3 |
| | 1,194 | 18,730 | 195 |

All funds are subject to the Pension Funds Acts of the various countries and, where required by law, actuarial valuations are conducted every three years. The market value of investments of the various Edcon funds as at 3 April 2010 was R2,863 million (2009 and 2008: R2,690 million and R2,851 million).

**Medical aid fund**

The Successor operates a defined benefit medical aid scheme for the benefit of permanent employees. The costs of the short-term benefit for current employees are charged against income as incurred and amounted to R58 million for the period ending 3 April 2010 (2009 and 2008: R53 million and R48 million). Membership of the medical aid scheme is voluntary for all employees. Total membership currently stands at 4,654 principal members. In terms of employment contracts and the rules of the schemes, certain post-retirement medical benefits are provided to 1,446 current and past employees by subsidising a portion of the medical aid contribution of members, after retirement. The medical aid contributions for 2011 are estimated to be approximately R6 million. The actuarial valuation was based on the main assumptions set out in note 27.2.2.

## 27. DIRECTORS AND EMPLOYEES *(continued)*

### 27.1 Employees *(continued)*

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

| | 2010 3 April | 2009 28 March | 2008 29 March |
|---|---|---|---|
| | Rm | Rm | Rm |
| Recognised employee benefit liability | **114** | 112 | 120 |
| **Reconciliation of employee benefit liability** | | | |
| Balance at the beginning of the period | **112** | 120 | 123 |
| Current service cost | **3** | 3 | 3 |
| Interest cost | **10** | 10 | 11 |
| Actuarial gain | **(5)** | (15) | (12) |
| Employee benefit payments | **(6)** | (6) | (5) |
| | **114** | 112 | 120 |

### 27.2 Valuation Assumptions

#### 27.2.1 Defined Benefit Pension Fund Valuation Assumptions

The valuation is based on assumptions which include a discount rate of 9.3% (2009 and 2008: 9.0% and 8,8%) per annum, an inflation rate and pension increase rate of 5,5% (2009 and 2008: 5,3% and 5,5%) per annum, a salary increase rate of 6,5% (2009 and 2008: 6,3% and 6,5%) per annum, and an expected return on assets of 8.0% per annum. The discount rate is determined with reference to market yields at the reporting date. The market yield is determined with reference to the yield curve for South African government bonds. The inflation rate is in line with the Government Monetary Policy target of 3% to 6% (2009 and 2008: 3% to 6%). The inflation rate assumed is used to determine both the salary and pension rate increases. The salary increase is based on the assumption that the increase will be 1% above inflation. The Fund adopts a pension increase policy that targets 100% of inflation and, as a result, a pension increase of 5,5% is used in the valuation. The expected rate of return on assets has been based on long-term returns on equities, cash and bonds. An adjustment is made to reflect the effects of retirement fund's tax.

#### 27.2.2 Employee Benefit Liability Valuation Assumptions and Sensitivity

The valuation is based on assumptions which include a discount rate of 9.3% (2009 and 2008: 9,0% and 8,8%) per annum, inflation rate of 5.5% (2009 and 2008: 5,3% and 5,5%) per annum, income at retirement would increase by 7% per annum, demographic assumptions based on a standard set of best estimate demographic assumptions, membership continuation and expected retirement age. The discount rate is determined with reference to market yields at the financial position statement date. The market yield is determined with reference to the yield curve for South African government bonds. The inflation rate is in line with the Government Monetary Policy target of 3% to 6% (2009 and 2008: 3% to 6%). It was assumed that health care cost inflation would be the same as CPI inflation and that remuneration increases, including promotional increases would exceed inflation by 1,5% over the long-term and that income at retirement would be 60% of final salary. It was further assumed that no current in-service members eligible for benefits would discontinue membership upon reaching retirement with Edcon and that they would retire on their current medical scheme option and no changes would occur on retirement. An expected retirement age of 63 was used in the valuation with assumed rates of early retirement.

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

## 27. DIRECTORS AND EMPLOYEES *(continued)*

### 27.2.2 Employee Benefit Liability Valuation Assumptions and Sensitivity *(continued)*

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

| | Central Assumption | | | Decrease 1% | | | Increase 1% | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2010** | **2009** | **2008** | **2010** | **2009** | **2008** | **2010** | **2009** | **2008** |
| **Inflation (CPI and health care costs) sensitivity** | **5.5%** | 5.3% | 5.5% | | | | | | |
| Accrued liability – Rm | **114** | 112 | 120 | **101** | 99 | 106 | **130** | 129 | 138 |
| Accrued liability – % change | | | | **(11)** | (12) | (12) | **14** | 15 | 15 |
| Current service and interest cost – Rm | **13** | 13 | 14 | **11** | 11 | 12 | **15** | 15 | 16 |
| Current service and interest cost – % change | | | | **(15)** | (15) | (14) | **15** | 15 | 17 |
| **Retirement age sensitivity** | | **63 years** | | | **One year younger** | | | **One year older** | |
| Accrued liability – Rm | **114** | 112 | 120 | **119** | 116 | 125 | **110** | 109 | 116 |
| Accrued liability – % change | | | | **4** | 4 | 4 | **(4)** | (3) | (3) |
| Discount rate | **9.3%** | 9.0% | 8.8% | | **Decrease 1%** | | | **Increase 1%** | |
| Accrued liability – Rm | **114** | 112 | 120 | **130** | 128 | 138 | **101** | 100 | 106 |
| Accrued liability – % change | | | | **14** | 14 | 15 | **(11)** | (11) | (12) |
| **Post employment mortality tables** | | **PA (90) ult rated down 1 year to 0.75% improvement p.a from 2006** | | | **PA (90) ult rated down 2 years with 1% improvement p.a from 2006** | | | | |
| Accrued liability – Rm | **114** | 112 | 120 | **119** | 117 | 126 | | | |
| Accrued liability – % change | | | | **4** | 4 | 5 | | | |

| | **2010 3 April** | **2009 28 March** | **2008 29 March** |
|---|---|---|---|
| | **Rm** | **Rm** | **Rm** |
| **27.3 Reconciliation of defined benefit obligation – pension fund** | | | |
| Balance at the beginning of the period | **440** | 400 | 395 |
| Service cost | **1** | 1 | 1 |
| Interest cost | **38** | 33 | 38 |
| Actuarial loss | **58** | 43 | 2 |
| Benefits paid | **(47)** | (37) | (36) |
| Balance at the end of the period | **490** | 440 | 400 |
| **27.4 Reconciliation of fair value plan assets – pension fund** | | | |
| Balance at the beginning of the period | **850** | 786 | 740 |
| Expected return on assets | **71** | 76 | 79 |
| Employer contributions | **1** | 1 | 1 |
| Benefits paid | **(47)** | (37) | (35) |
| Actuarial gain | **66** | 24 | 1 |
| Balance at the end of the period | **941** | 850 | 786 |
| **Composition and percentage of the portfolio:** | **%** | % | % |
| Cash | **35** | 48 | 19 |
| Equity | **13** | 4 | 11 |
| Bonds | **–** | – | 1 |
| International | **1** | – | 13 |
| Property and other | **51** | 48 | 56 |
| | **100** | 100 | 100 |

## 27. DIRECTORS AND EMPLOYEES *(continued)*

| | Successor | | | Predecessor | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| **27 .5 Analysis of defined benefit obligation and the fair value of plan assets – pension fund (Rm)** | | | | | |
| Defined benefit obligation | **(490)** | (440) | (400) | (395) | (332) |
| Fair value of plan assets | **941** | 850 | 786 | 740 | 649 |
| Unrecognised actuarial (gains) / losses | **(65)** | (64) | (84) | (84) | 143 |
| Unrecognised net asset (paragraph 58 limit) | **386** | 346 | 302 | 261 | 460 |
| **27.6 Analysis of employee benefit liability (Rm)** | | | | | |
| Accrued liability for post retirement medical aid | **114** | 112 | 120 | 123 | 113 |

| | Successor | | | Predecessor |
|---|---|---|---|---|
| | 2010 53 weeks to 3 April | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 week to 5 May |
| | R 000 | R 000 | R 000 | R 000 |
| **27 .7 Directors' emoluments** | | | | |
| **Non-executive directors:** | | | | |
| Fees | **295** | 295 | 221 | 565 |
| | **295** | 295 | 221 | 565 |
| **Executive directors:** | | | | |
| Remuneration | **11,645** | 10,651 | 9,092 | 827 |
| Retirement, medical, accidental and death benefits | **480** | 446 | 302 | 27 |
| Performance bonus | | 350 | | |
| Loyalty bonus | **350** | 423 | 350 | |
| Other benefits | **82** | – | 439 | |
| Options realised | | | 167,080 | |
| | **12,557** | 11,870 | 177,263 | 854 |
| Retired ex directors | **72** | 69 | 84 | 18 |
| Total | **12,924** | 12,234 | 177,568 | 1,437 |

| | Successor | | | Predecessor |
|---|---|---|---|---|
| | 2010 53 weeks to 3 April | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 week to 5 May |
| | Rm | Rm | Rm | Rm |
| **28. FINANCING COSTS AND INTEREST RECEIVED** | | | | |
| **28.1 Financing costs** | | | | |
| Interest paid to independent third parties | **628** | 769 | 1,167 | 7 |
| Interest accrued on shareholder's loan (note 17) | **849** | 945 | 665 | |
| Fees amortised on senior floating rate notes (note 18.1) | **11** | 82 | 12 | |
| Fees amortised on senior secured floating rate notes (note 18.1) | **31** | 28 | 21 | |
| Interest on senior notes | **427** | 470 | 482 | |
| Interest on senior secured notes | **992** | 956 | 753 | |
| Foreign currency losses | **6** | | | 1 |
| Forward exchange contracts | **2** | 38 | | – |
| | **2,946** | 3,288 | 3,100 | 8 |

| | Successor | | | Predecessor |
|---|---|---|---|---|
| | 2010 53 weeks to 3 April | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 week to 5 May |
| | Rm | Rm | Rm | Rm |
| **28. FINANCING COSTS AND INTEREST RECEIVED** *(continued)* | | | | |
| **28.2 Interest received** | | | | |
| Interest received from independent third parties | **31** | 18 | 221 | – |
| Foreign currency gain | | 15 | – | |
| Forward exchange contracts | | | 27 | |
| | **31** | 33 | 248 | – |
| **28.3 Net financing costs** | **2,915** | 3,255 | 2,852 | 8 |

| | | Successor | | | Predecessor |
|---|---|---|---|---|---|
| | | 2010 53 weeks to 3 April | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 weeks to 5 May |
| | | Rm | Rm | Rm | Rm |
| **29. TAXATION** | | | | | |
| **29.1 Taxation charge** | | | | | |
| Current taxation | – this year | **124** | 696 | 135 | 90 |
| | – prior year | **21** | 25 | 5 | |
| Secondary taxation on companies | | | | | |
| | – this year | **9** | | | |
| | – deemed | | | 54 | |
| | – prior year | | | 1 | |
| Withholding taxes | – prior year | **(9)** | | 1 | |
| Total current taxation | | **145** | 721 | 196 | 90 |
| Deferred taxation | – this year | **(502)** | (1,193) | (650) | 5 |
| | – acquisitions | | | – | |
| | – rate change | | | (57) | |
| | – prior years | **(13)** | | (11) | |
| Total deferred taxation credit | | **(515)** | (1,193) | (718) | 5 |
| Total | | **(370)** | (472) | (522) | 95 |
| **Comprising:** | | | | | |
| South African normal taxation | | **(370)** | (472) | (638) | 95 |
| Secondary taxation on companies | | **9** | | 55 | |
| Withholding taxes | | **(9)** | | 1 | |
| Foreign taxes | | | | 60 | |
| | | **(370)** | (472) | (522) | 95 |
| **29.2 Taxation charge to other comprehensive income** | | | | | |
| **Current income tax related to items charged or credited directly to other comprehensive income:** | | | | | |
| Unrealised gain on cash flow hedges | | **(11)** | (154) | 28 | |
| **Deferred income tax related to items charged or credited directly to other comprehensive income:** | | | | | |
| Unrealised gain on cash flow hedges | | **(12)** | (279) | 276 | |
| Gain on revaluation of properties | | | | 4 | |
| Income tax expense reported in equity | | **(23)** | (433) | 308 | |

| | Successor | | | Predecessor |
|---|---|---|---|---|
| | **2010 53 weeks to 3 April** | **2009 52 weeks to 28 March** | **2008 47 weeks to 29 March** | **2007 5 weeks to 5 May** |
| | **Rm** | **Rm** | **Rm** | **Rm** |
| **29. TAXATION** *(continued)* | | | | |
| **29.3 Deferred income tax comprises:** | | | | |
| **Arising on deferred tax assets (note 9)** | | | | |
| Doubtful debts | **(38)** | (69) | (97) | |
| Other payables | **(3)** | (54) | (27) | |
| Leave pay accrual | **(4)** | (34) | (2) | |
| Operating lease adjustment | **(1)** | 6 | 7 | |
| Unearned finance income | **19** | (4) | – | |
| Interest rate swaps | **(6)** | – | 20 | |
| Assessed loss | **(584)** | (851) | (401) | |
| Other | **(8)** | – | – | |
| **Arising on deferred tax liabilities (note 9)** | | | | |
| Appro sales | **(6)** | 20 | (53) | |
| Property, fixtures, equipment and vehicles | **(72)** | 1 | – | |
| Intangible assets | **(126)** | (212) | (97) | |
| Capital expenditure | | – | – | |
| Prepayments | **(2)** | 2 | (1) | |
| Unearned finance income | **19** | | | |
| Interest rate swaps | **(2)** | | | |
| Currency forwards | **317** | | | |
| Revaluation reserve | **(3)** | | | |
| Deferred STC raised | **(10)** | 1 | 9 | |
| Other | **8** | 1 | (8) | 5 |
| | **(502)** | (1,193) | (650) | 5 |
| Rate exchange | | | (57) | |
| Prior year adjustment | **(13)** | | (11) | |
| Net deferred tax expense | **(515)** | (1,193) | (718) | 5 |
| **29.4 Reconciliation of rate of taxation (%)** | | | | |
| Standard rate – South Africa | **(28)** | (28) | (29) | 29 |
| Adjusted for: | | | | |
| Equity accounted earnings of joint venture | **1** | – | (4) | (2) |
| Disallowable expenditure | **(1)** | (47) | 8 | 1 |
| Secondary taxation on companies | **1** | – | 3 | – |
| Prior year charges | **1** | 5 | – | – |
| Rate changes | | | (3) | |
| Capital profits and assessed loss utilised | **–** | 43 | – | – |
| Effective tax rate | **(26)** | (27) | (25) | 28 |

**29.5 Change in tax rate**

The statutory taxation rate in South Africa in 28% for the financial period. In the prior financial period the taxation rate changed from 29% to 28%. Normal taxation had therefore been calculated using a rate of 28% for the 2010 financial period (2009: 28% and 2008: 29%). As the change rate was substantively enacted before the end of the 2008 financial period, deferred taxation in 2008 was calculated using a rate of 28%.

| | Successor | | | Predecessor |
|---|---|---|---|---|
| | **2010 53 weeks to 3 April** | **2009 52 weeks to 28 March** | **2008 47 weeks to 29 March** | **2007 5 weeks to 5 May** |
| | **Rm** | **Rm** | **Rm** | **Rm** |
| **30. INCOME, EXPENSE, GAINS AND LOSSES FROM FINANCIAL ASSETS AND LIABILITIES** | | | | |
| Held-to-maturity investments – preference dividends (note 23) | | | 4 | 4 |
| Finance charges on trade receivables (note 23) | **2,057** | 2,271 | 1,779 | 93 |
| Interest on cash deposits (note 28.2) | **31** | 18 | 221 | – |
| Interest on financial liabilities carried at amortised cost (note 28.1) | **(2,938)** | (3,250) | (3,100) | (7) |
| (Loss)/gain recognised on forward exchange contracts at fair value (note 28.1 and 28.2) | **(2)** | (38) | 27 | – |
| Foreign currency (loss)/gain recognised on financial assets (note 28.1 and 28.2) | **(6)** | 15 | – | (1) |
| Income recognised on credit default swap | | | | 5 |
| Interest settlement on Usury/Usury star swap | | | | (1) |
| Derivative (losses)/gains (note 8.6) | **(5,081)** | (1,184) | 4,612 | |
| Unrealised foreign exchange gain/(loss) on notes issued (note 18.1) | **4,622** | 134 | (5,926) | |
| | **(1,317)** | (2,034) | (2,383) | 93 |

| | Successor | | | Predecessor |
|---|---|---|---|---|
| | **2010 53 weeks to 3 April** | **2009 52 weeks to 28 March** | **2008 47 weeks to 29 March** | **2007 5 weeks to 5 May** |
| | **Rm** | **Rm** | **Rm** | **Rm** |
| **31. CASH FLOW** | | | | |
| **31.1 Other non-cash items** | | | | |
| Net loss on disposal of properties, fixtures, equipment and vehicles (note 25.6) paid in the current period. | **23** | 18 | 5 | 4 |
| Cost of share-based payments | | | | 4 |
| Equity accounted investment in joint ventures | **1** | 10 | 31 | (22) |
| Vat expense | **2** | 130[1] | | |
| Operating lease adjustment | **4** | (23) | (22) | (2) |
| Other non-cash items | **10** | (4) | | |
| | **40** | 131 | 14 | (16) |

[1] Includes R90 million relating to prior periods for the 52 weeks to 28 March 2009 (note 25.9) and R40 million for the 2009 period included in expenses from credit (note 26.2). These were paid in the current period.

| | | | | |
|---|---|---|---|---|
| **31.2 Working capital movement** | | | | |
| Decrease/(increase) in inventories | **138** | (397) | (95) | 45 |
| Decrease/(increase) in trade accounts receivable | **731** | (988) | (287) | (59) |
| Increase in other receivables | **(36)** | (11) | (26) | (12) |
| Increase/(decrease) in trade and other payables | **119** | (157) | 573 | (480) |
| | **952** | (1,553) | 165 | (506) |

| | Successor | | | Predecessor |
|---|---|---|---|---|
| | **2010 53 weeks to 3 April** | **2009 52 weeks to 28 March** | **2008 47 weeks to 29 March** | **2007 5 weeks to 5 May** |
| | **Rm** | **Rm** | **Rm** | **Rm** |
| **31. CASH FLOW** *(continued)* | | | | |
| **31.3 Taxation paid** | | | | |
| Taxation liability at the beginning of the period | **(470)** | (138) | – | (64) |
| Acquisition of the Edcon Group and consolidation of OtC | | | (160) | |
| Current taxation recognised in profit or loss (note 29.1) | **(145)** | (721) | (196) | (90) |
| Current taxation recognised in other comprehensive income (note 29.2) | **11** | 154 | (28) | |
| Taxation liability disposed of | | | – | 154 |
| Taxation liability at the end of the period | **236** | 470 | 138 | – |
| | **(368)** | (235) | (246) | – |
| **31.4 Investment to maintain operations** | | | | |
| Replacement of properties, fixtures, equipment and vehicles | **(384)** | (420) | (332) | (26) |
| Proceeds on disposal of properties, fixtures, equipment and vehicles | **120** | 1 | – | – |
| | **(264)** | (419) | (332) | (26) |
| **31.5 Investment to expand operations** | | | | |
| Additions to leased premises | **(21)** | (65) | (64) | (15) |
| Additions to properties, fixtures, equipment and vehicles | **(68)** | (84) | (128) | (6) |
| Net investment in subsidiaries and other assets (note 31.12.4) | | | (24,198) | |
| | **(89)** | (149) | (24,390) | (21) |
| **31.6 Increase in shareholder funding** | | | | |
| Increase in shareholder's loan | | | 5,057 | |
| Ordinary share capital issued | | | 1,761 | |
| Preference share capital issued | | | 207 | |
| Net movement in treasury shares | | | | |
| | | | 7,025 | |
| **31.7 Notes issued** | | | | |
| Senior floating rate notes | | | 6,102 | |
| Senior secured floating rate notes | | | 11,428 | |
| Fees paid on notes issued | | | (467) | |
| | | | 17,063 | |
| **31.8 Buy-back of senior floating rate notes** | | | | |
| Senior floating rate notes repurchased (note 18.2) | | (3,137) | | |
| Fees paid on buy-back of senior floating rate notes | | (42) | | |
| Gain before fees paid and accrued on buy-back of senior floating rate notes (note 18.2) | | 1,411 | | |
| | | (1,768) | | |
| **31.9 Proceeds from receivables-backed notes issued** | | | | |
| Receivables-backed notes issued (note 18 and 19) | **4,300** | | | |
| | **4,300** | | | |

**31. CASH FLOW** *(continued)*

| | Successor | | | Predecessor |
|---|---|---|---|---|
| | 2010 53 weeks to 3 April | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 weeks to 5 May |
| | Rm | Rm | Rm | Rm |
| **31.10 (Decrease)/increase in interest bearing debt** | | | | |
| Net (decrease)/increase in short-term debt | **(4,950)** | 793 | 106 | 238 |
| Net decrease in long-term debt | | (25) | | |
| | **(4,950)** | 768 | 106 | 238 |
| **31.11 Increase/(decrease) in cash and cash equivalents** | | | | |
| Cash on hand | **838** | (149) | 384 | 85 |
| Cash on deposit | **(92)** | 36 | 108 | (49) |
| Consolidation of OtC (note 31.12.3) | | | (261) | |
| Currency adjustments | **28** | – | (2) | – |
| | **774** | (113) | 229 | 36 |

| | Successor 2008 29 March Fair value | Carrying value |
|---|---|---|
| | Rm | Rm |
| **31.12.1 Acquisition of the Edcon Group** | | |
| The Group acquired 100% of the shares of Edgars Consolidated Stores Limited, a clothing retailer effective 5 May 2007 as determined by IFRS 3. The fair value of the net assets acquired at the effective date of acquisition was as follows: | | |
| **Non-current assets** | | |
| Properties, fixtures, equipment and vehicles | 3,082 | 1,575 |
| Intangible assets | 11,906 | 77 |
| Deferred tax asset | – | 77 |
| Other financial assets | 742 | 742 |
| | 15,730 | 2,471 |
| **Current assets** | | |
| Inventories | 1,901 | 1,915 |
| Trade, other receivables and prepayments | 5,356 | 5,442 |
| Cash and cash equivalents | 507 | 507 |
| | 7,764 | 7,864 |
| **Non-current liabilities** | | |
| Deferred tax liability | (2,335) | – |
| **Current liabilities** | | |
| Interest-bearing debt | (951) | (951) |
| Trade and other payables | (3,442) | (3,442) |
| | (4,393) | (4,393) |
| **Total identifiable assets acquired and liabilities assumed** | 16,766 | 5,942 |
| Goodwill on acquisition | 8,348 | |
| Cost of the business combination | 25,114 | |
| Settled by way of cash | 25,114 | |
| Less: cash and cash equivalents acquired | (507) | |
| Less: cash received from employees | (727) | |
| **Net cash outflow on acquisition** | 23,880 | |
| The total cost of the business combination comprised of the following: | | |
| Cash paid | 25,002 | |
| Directly attributable acquisition costs | 112 | |
| **Total cost of acquisition** | 25,114 | |

**31. CASH FLOW** *(continued)*

**31.12.1 Acquisition of the Edcon Group** *(continued)*

The acquired business contributed revenues and net profit as presented for the 11 month period to 29 March 2008. Had this business combination been effected on 1 April 2007, Group revenue would have been R2,094 million higher and the loss reported would have reduced by R245 million as reported in the 5 weeks to 5 May 2007 of the Predecessor.

The goodwill recognised of R8,348 million is attributed to the benefits expected to be derived from combining the assets and activities with those of the Group including, expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

| | Successor | |
|---|---|---|
| | 2008 29 March Fair value | Carrying value |
| | Rm | Rm |

**31.12.2 Acquisition of Discom**

On 17 September 2007, the Group acquired certain Discom stores net assets from New Clicks. The fair value of the net assets acquired was as follows:

| | | |
|---|---|---|
| **Non-current assets** | | |
| Fixtures, equipment and vehicles | 39 | 45 |
| Intangible asset | 73 | – |
| | 112 | 45 |
| **Current assets** | | |
| Inventories | 148 | 148 |
| | 148 | 148 |
| **Non-current liabilities** | | |
| Deferred taxation | (20) | – |
| | (20) | – |
| **Current liabilities** | | |
| Other payables | (8) | (8) |
| | (8) | (8) |
| **Total identifiable assets acquired and liabilities assumed** | 232 | 185 |
| Goodwill on acquisition | 86 | |
| Cost of the business combination | 318 | |
| Settled by way of cash | 318 | |
| The total cost of the business combination comprised of the following: | | |
| Cash paid | 316 | |
| Directly attributable acquisition cost | 2 | |
| Total cost of acquisition | 318 | |

The acquired Discom stores contributed revenues of R491 million and a net loss of R30 million for the period from 17 September 2007 to 29 March 2008. Had the business combination been effected on 6 May 2007 on formation of the Successor, it is estimated that the Group revenue would have been R486 million higher. The Group cannot reliably measure the impact on net loss reported had the business combination been effected on 6 May 2007.

The goodwill recognised is attributed to the benefits expected to be derived from combining the assets and activities of the Discom stores with those of the Group.

**31. CASH FLOW** *(continued)*

**31.12 Net investment in subsidiaries and other assets** *(continued)*

| | Successor |
|---|---|
| | 2008 29 March Fair value |
| | Rm |
| **32.12.3 Consolidation of OntheCards Investments Limited** | |
| The fair value of net assets consolidated at 6 May 2007 was as follows: | |
| **Non-current assets** | |
| Deferred taxation | 66 |
| | 66 |
| **Current assets** | |
| Trade, other receivables and prepayments | 3,783 |
| Cash and cash equivalents | 261 |
| | 4,044 |
| **Non-current liabilities** | |
| Notes issued | 3,475 |
| | 3,475 |
| **Current liabilities** | |
| Trade and other payables | 714 |
| | 714 |
| **Net liabilities at fair value consolidated** | (79) |
| Goodwill arising on consolidation | 79 |
| Consideration | – |

| | Successor | | |
|---|---|---|---|
| | 2010 53 weeks to 3 April | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March |
| | Rm | Rm | Rm |
| **31.12.4 Cash utilised:** | | | |
| Acquisition of the Edcon Group (note 31.12.1) | | | 23,880 |
| Discom acquisition (note 31.12.2) | | | 318 |
| Consolidation of OntheCards (note 31.12.3) | | | – |
| Cash utilised in investment activities (note 31.5) | | | 24,198 |

| | 2010 3 April | 2009 28 March | 2008 29 March |
|---|---|---|---|
| | Rm | Rm | Rm |
| **32. MATURITY ANALYSIS FOR NOTES ISSUED, SHAREHOLDER'S LOAN, SUBORDINATED LOAN, SHORT-TERM INTEREST-BEARING DEBT AND TRADE AND OTHER PAYABLES** | | | |
| Trade and other payables (note 20) | **3,513** | 3,331 | 3,297 |
| Short-term interest bearing debt (note 19) | **795** | 5,300 | 4,507 |
| Total due within one year | **4,308** | 8,631 | 7,804 |
| After one year but within two years | | | |
| After two years but within three years (note 18.3) | **3,105** | | 25 |
| After three years but within four years (note 18.3) | **427** | | |
| After four years but within five years | **11,719** | | |
| After five years | **10,964** | 26,092 | 28,308 |
| Total due after one year | **26,215** | 26,092 | 28,333 |
| **Total debt** | **30,523** | 34,723 | 36,137 |

Refer to note 8.8 for maturity details relating to derivatives.

## 33. MANAGEMENT OF CAPITAL

The Group considers share capital including ordinary and preference shares, share premium, the shareholder's loan, reserves and interest-bearing debt as capital.

The shareholder's loan is considered to be capital as the amount is repayable in May 2037 and all interest is capitalised. The "A" and "B" preference shares are cumulative and redeemable at the option of the issuer and are therefore regarded as capital. The long-term interest bearing debt primarily consists of the senior secured floating rate notes and the senior floating rate notes which have a maturity of June 2014 and June 2015 respectively, and the OtC II receivables-backed notes, which mature between July 2010 and April 2014. The senior secured floating rate notes and the senior floating rate notes were issued to finance the purchase of Edgars Consolidated Stores Limited and as such are regarded as permanent capital. These floating rate notes expose the Group to both interest rate risk and foreign exchange risk therefore the Group has hedged these risks by entering a series of interest rate swaps, foreign currency forward contracts and currency swaps (note 8.5).

The objectives in managing this capital are to:

- Ensure appropriate access to equity debt markets.
- Ensure sufficient resilience against economic turmoil.
- Safeguard the Group's ability to continue as a going concern, be flexible and take advantage of opportunities that are expected to provide an adequate return to shareholders.
- Optimise weighted average cost of capital, given inherent constraints.

The Group manages its capital and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the current period.

The notes and banking facilities contain substantially the same covenants and events of default. These are set out in the Offering Memorandum for the notes dated 8 June 2007 and the OtC II Programme Memorandum dated 3 August 2009. During the period there have been no defaults.

The Group takes cognisance of select rating agency ratios that evaluate the ability of the capital to absorb losses and the flexibility that a combination of capital instruments provide. The value placed on the corporate rating is important as the Group has issued notes on the Irish Stock Exchange and to facilitate the funding of OtC and OtC II where certain notes are issued on the Bond Exchange of South Africa.

## 34. FINANCIAL RISK MANAGEMENT

### 34.1 Treasury risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to moderate certain risk exposures.

A treasury workgroup consisting of senior executives meets on a regular basis to update treasury policies and objectives, analyse currency and interest rate exposures and re-evaluate treasury management strategies against revised economic forecasts. Compliance with Group Treasury policies and objectives of the Board and exposure limits is reviewed at meetings of the Risk Management Workgroup.

## 34. FINANCIAL RISK MANAGEMENT *(continued)*

### 34.2 Cash flow hedges

The Group's cash flow hedges relate to the floating rate notes and consist of (i) interest rate swaps that are used to protect against variability in future interest cash flows on liabilities which bear interest at variable rates or which are expected to be refunded or reinvested in the future and (ii) foreign currency forward contracts that are used to protect against variability in future cash flows that are subject to fluctuations based on foreign exchange rates.

Gains and losses on derivatives are initially recognised directly in other comprehensive income, in the cash flow hedging reserve, and are transferred to the Group profit or loss when the forecast transactions affect the Group profit or loss. On a quarterly basis amounts are transferred from equity to profit or loss on both the interest rate swap and forward exchange contracts as interest payments on the notes are incurred.

The cash flow hedge forecast transactions are expected to occur until June 2011 in line with the maturity dates of the hedging instruments and will affect profit or loss over the same period.

### 34.3 Sensitivity analysis of derivatives

The Group recognises that movements in certain risk variables (such as interest rates or foreign exchange rates) might impact the value of its derivatives and also the amounts recorded in its equity and its profit or loss for the period. Therefore the Group has assessed:

(a) what would be reasonably possible changes in the risk variables at the reporting date and

(b) the effects on profit or loss and equity if such changes in the risk variables were to occur.

The sensitivity analysis takes into account the incremental change in value arising from a parallel fall or rise in the yield curve and the exchange rate.

The following table assumes all designated hedges will change in fair value through equity (100% effective), and considers sensitivities to forward interest rate curves, of +/-50 and +/-100 basis points respectively. If these sensitivities were to occur, the impact on the consolidated profit or loss, and equity for each category of financial instrument held at the reporting date is shown below:

| | | | Successor | | |
|---|---|---|---|---|---|
| | Index | Sensitivity | Derivative asset / (liability) | Equity | Profit or loss effect |
| | | | Rm | Rm | Rm |
| **Interest rate swaps** | **EURIBOR** | **-100bps** | **171** | **(171)** | **–** |
| | **EURIBOR** | **-50bps** | **80** | **(80)** | **–** |
| | **EURIBOR** | **+50bps** | **(78)** | **78** | **–** |
| | **EURIBOR** | **+100bps** | **(155)** | **155** | **–** |
| **Foreign currency forward contracts and currency swaps** | **EUR-ZAR** | **-10%** | **1,394** | **–** | **(1,394)** |
| | **EUR-ZAR** | **-5%** | **697** | **–** | **(697)** |
| | **EUR-ZAR** | **5%** | **(697)** | **–** | **697** |
| | **EUR-ZAR** | **10%** | **(1,394)** | **–** | **1,394** |

### 34.4 Foreign currency management

Material forward exchange contracts at 3 April 2010 are summarised below. The writing of option contracts is restricted, thus currency options may only be purchased as a cost-effective alternative to forward exchange contracts. No currency options are currently in place.

## 34. FINANCIAL RISK MANAGEMENT *(continued)*

### 34.4 Foreign currency management *(continued)*

| | Successor | | | |
|---|---|---|---|---|
| | Foreign currency | Derivative fair value | Contract equivalent | Average rate |
| | m | Rm | Rm | |
| **Foreign currency exposure against Rand economically hedged import forward orders** | | | | |
| **2010 US dollar** | **40** | **(11)** | **303** | **7.66** |
| 2009 US dollar | 26 | (8) | 260 | 10.12 |
| 2008 US dollar | 28 | 29 | 201 | 7.18 |
| **Foreign currency exposure against Rand economically hedged floating rate notes exposure** | | | | |
| **2010 Euro** | **1,723** | **(3,332)** | **23,762** | **13.79** |
| 2009 Euro | 1,854 | 2,022 | 25,370 | 13.68 |
| 2008 Euro | 2,321 | 5,845 | 28,749 | 12.39 |

The Group, in terms of approved policy limits, manages short-term foreign currency exposures relating to trade imports and exports. Net uncovered Rand transaction exposures to the US dollar at 3 April 2010 amounted to R2 million, being 0.7% of the total import exposure (2009 and 2008: R27 million and R21 million). The Group policy is to restrict the net aggregate cover to between 80% and 125% of total foreign order exposure.

At 3 April 2010, in respect of future import commitments, if the South African Rand had weakened 5% against the US dollar, with all other variables held constant, attributable earnings for the period would have increased by R16 million from revaluation of forward exchange contracts (2009 and 2008: R14 million and R12 million). Conversely at 3 April 2010, in respect of future import commitments, if the South African Rand had strengthened by 5% against the US dollar, with all other variables held constant, profit or loss for the period would have decrease by R16 million from revaluation of forward exchange contracts (2009 and 2008: R14 million and R12 million). Changes in the Rand/US dollar exchange rates of foreign currency creditors are largely offset by fair value changes on the forward exchange contracts.

The nominal principal floating rate notes amounts, totalling EUR1,558 million, have been hedged economically through a foreign currency swap (refer to note 8). The interest cash flows payable quarterly have been hedged to 15 June 2011 (Refer to note 8 and 34.2). Foreign exchange gains and losses on the foreign currency swap will be largely offset by gains and losses on translation of the floating rate notes. At 3 April 2010, in respect of the floating rate notes exposures, if the South African Rand had weakened 5% against the Euro, with all other variables held constant, attributable earnings for the period would have decreased by R765 million (2009 and 2008: R996 million and R1,160 million respectively). Conversely, at 3 April 2010, in respect of the floating rate notes exposures, if the South African Rand had strengthened 5% against other currencies, with all other variables held constant, attributable earnings for the period would have increased by R765 million (2009 and 2008: R996 million and R1,160 million respectively).

## 34. FINANCIAL RISK MANAGEMENT *(continued)*

### 34.5 Interest rate management

As part of the process of managing the Group's fixed and floating rate interest bearing debt and cash and cash equivalents mix, the interest rate characteristics of new and the refinancing of existing loans are positioned according to expected movements in interest rates. The maximum interest rate exposure and the repricing profile at 3 April 2010 is summarised as follows:

| | Successor | | |
|---|---|---|---|
| | Floating Rate short-term | Floating rate | |
| | | Short-term | Long-term |
| | Rm | % | Rm |
| **2010** | | | |
| **Interest-bearing debt – Rm** | **170** | **625** | **18,875** |
| **Rate %** | **9.1%** | **Refer to note 19** | **Refer to note 18** |
| 2009 | | | |
| Interest-bearing debt – Rm | | 5,300 | 19,600 |
| Rate % | | Refer to note 19 | Refer to note 18 |
| 2008 | | | |
| Interest-bearing debt – Rm | | 4,507 | 22,786 |
| Rate % | | Refer to note 19 | Refer to note 18 |

At 3 April 2010, if all interest rates on local borrowings had been 100 basis points lower, with all other variables held constant, attributable earnings would have been R62 million (2009 and 2008: R52 million and R103 million) higher. Conversely, at 3 April 2010, if all interest rates on local borrowings had been 100 basis points higher with all other variables held constant, attributable earnings would have been R62 million (2009 and 2008: R52 million and R103 million) lower.

| | Successor | |
|---|---|---|
| | Total | Floating rate |
| | R | R |
| **2010** | | |
| **Cash on deposit and investments by currency** | | |
| **US dollar** | **36** | **36** |
| **Sterling** | **5** | **5** |
| **Botswana Pula** | **14** | **14** |
| **South African Rand** | **1,070** | **1,070** |
| 2009 | | |
| Cash on deposit and investments by currency | | |
| US dollar | 108 | 108 |
| Sterling | 3 | 3 |
| Botswana Pula | 21 | 21 |
| South African Rand | 247 | 247 |
| 2008 | | |
| Cash on deposit and investments by currency | | |
| US dollar | 57 | 57 |
| Sterling | 6 | 6 |
| Botswana Pula | 14 | 14 |
| South African Rand | 415 | 415 |

## 34. FINANCIAL RISK MANAGEMENT *(continued)*

### 34.5 Interest rate management *(continued)*

| | Successor | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Notional amount EUR million | | | Fixed interest % payable | | | Fair value of the interest rate swaps R million | | |
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
| **Interest rate swaps (Rm)** | | | | | | | | | |
| Pay fixed / receive floating | | | | | | | | | |
| Interest rate swaps > 1 year-Senior floating rate note | **378**[1] | 378[1] | 630[1] | **10.03** | 10.03 | 10.03 | **140** | 232 | 130 |
| Interest rate swaps > 1 year-Senior Secured floating rate note | **1,180**[1] | 1,180[1] | 1,180[1] | **7.78** | 7.78 | 7.78 | **438** | 725 | 244 |

[1]*The Group entered into interest rate swaps to swap interest payable on the notes issued from floating, being 3 months EURIBOR, to a fixed rate of pay 4,529%.*

### 34.6 Credit risk management

Maximum exposure to credit risk is represented by the carrying amounts of derivative assets, trade accounts receivable and short-term cash investments in the Group statement of financial position. The Group only deposits short-term cash surpluses with financial institutions of high-quality credit standing. Credit limits per financial institution are established at the treasury meeting and are approved at the Audit and Risk Workgroup. Trade accounts receivable comprise a large, widespread customer base and risk exists on delinquent accounts and possible defaults by customers. The Group performs ongoing credit evaluations of the financial condition of customers. The granting of credit is controlled by application and behavioural scoring models, and the assumptions therein are reviewed and updated on an ongoing basis. At 3 April 2010, the Group did not consider there to be any concentration of credit risk.

At 3 April 2010, if all interest rates on interest-bearing trade receivables and short-term cash investments at that date had been 100 basis points lower, with all other variables held constant, attributable earnings would have been R103 million (2009 and 2008: R85 million and R76 million) lower. Conversely, at 3 April 2010, if all interest rates at that date had been 100 basis points higher, with all other variables held constant, the attributable earnings would have been R103 million (2009 and 2008: R85 million and R76 million) higher. This sensitivity is due to the high value of trade receivables attracting the Usury rate interest income.

The derivatives are held with four counterparties of high credit worthiness. The credit worthiness is assessed on a regular basis. At period end all counterparties were classified as investment grade.

## 34. FINANCIAL RISK MANAGEMENT *(continued)*

### 34.7 Liquidity risk

| | Successor | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | Rm | Rm | Rm |
| The Group has minimised risk of illiquidity as shown by its substantial banking facilities and reserve borrowing capacity. | | | |
| Total banking and loan facilities | **7,988** | 10,200 | 10,200 |
| Actual interest-bearing debt (note 19) | **(4,650)** | (5,300) | (4,507) |
| Unutilised borrowing facilities | **3,338** | 4,900 | 5,693 |
| Total banking and loan facilities of the Group including OtC and OtC II comprise: | | | |
| Revolving credit facility | **3,500**[1] | 3,500[1] | 3,500[1] |
| Borrowing base facility | | 3,900 | 3,900 |
| OtC receivable backed facility | | 2,600 | 2,600 |
| OtC II receivables-backed notes | **4,300** | | |
| Receivable purchase facility | **43** | | |
| OtC liquidity facility | | 200 | 200 |
| OtC II liquidity facility | **145** | | |
| | **7,988** | 10,200 | 10,200 |

[1]Includes R2,225 million ancillary facilities.

These facilities are committed facilities and are therefore subject to commitment fees as follows:

- Revolving credit facilities at 0.625% p.a.
- OtC receivables backed facility 0.5% p.a.
- Receivable purchase facility at 0.8% p.a.
- OtC II liquidity facility at 0.48% p.a.
- OtC liquidity facility at 0.8% p.a.

The maturity dates of the facilities are:

| | | | |
|---|---|---|---|
| • Revolving credit facility | June 2012 | June 2012 | June 2012 |
| • Revolving credit Ancillary facilities | Reviewed annually | Reviewed annually | Reviewed annually |
| • Borrowing base facility | | June 2010 | June 2010 |
| • OtC receivable backed facility | | June 2010 | June 2010 |
| • Receivable purchase facility | April 2014 | | |
| • OtC II receivables-backed notes (note 18.3) | July 2010 to April 2014 | | |
| • OtC II liquidity facility | April 2014 | | |
| • OtC liquidity facility | | June 2010 | June 2010 |

### 34.8 Fair value of financial instruments

The Group uses a three-level hierarchy to prioritise the inputs used in measuring fair value. The levels within the hierarchy are described in the table in page F-82 with level 1 having the highest priority and level 3 having the lowest. Fair value is principally applied to financial assets and financial liabilities. These are measured at fair value on a recurring basis as of 3 April 2010, aggregated by the level in the fair value hierarchy within which these measurements fall.

**34. FINANCIAL RISK MANAGEMENT** *(continued)*

**34.8 Fair value of financial instruments** *(continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at 3 April 2010:

| | | Fair value measurement using | | |
|---|---|---|---|---|
| | Total | Level 1 (a) | Level 2 (b) | Level 3 (c) |
| | Rm | Rm | Rm | Rm |
| **3 April 2010** | | | | |
| **Financial assets** | | | | |
| Interest rate swaps | | | | |
| Foreign exchange forwards and swaps | | | | |
| **Total financial assets** | | | | |
| **Financial liabilities** | | | | |
| Interest rate swaps | **578** | | **578** | |
| Foreign exchange forwards and swaps | **3,332** | | **3,332** | |
| **Total financial liabilities** | **3,910** | | **3,910** | |
| **28 March 2009** | | | | |
| **Financial assets** | | | | |
| Interest rate swaps | | | | |
| Foreign exchange forwards and swaps | 2,581 | | 2,581 | |
| **Total financial assets** | 2,581 | | 2,581 | |
| **Financial liabilities** | | | | |
| Interest rate swaps | 957 | | 957 | |
| Foreign exchange forwards and swaps | 559 | | 559 | |
| **Total financial liabilities** | 1,516 | | 1,516 | |
| **29 March 2008** | | | | |
| **Financial assets** | | | | |
| Interest rate swaps | 5 | | 5 | |
| Foreign exchange forwards and swaps | 5,845 | | 5,845 | |
| **Total financial assets** | 5,850 | | 5,850 | |
| **Financial liabilities** | | | | |
| Interest rate swaps | | | | |
| Foreign exchange forwards and swaps | 379 | | 379 | |
| **Total financial liabilities** | 379 | | 379 | |

(a) Level 1 – Based on quoted market prices in active markets.

(b) Level 2 – Based on observable inputs other than Level 1 prices, such as quoted prices for similar financial assets or financial liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the financial assets or financial liabilities.

(c) Level 3 – Based on observable inputs that are supported by little or no market activity and are financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgement or estimation.

**34. FINANCIAL RISK MANAGEMENT** *(continued)*

**34.8 Fair value of financial instruments** *(continued)*

All financial instruments have been recognised in the statement of financial position and there is no material difference between their fair values and carrying values.

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

**Liquid resources, trade accounts receivable, investments and loans**: the carrying amounts reported in the statement of financial position approximate fair values.

**Short-term interest-bearing debt:** the fair values of the Group's loans are estimated using discounted cash flow analyses applying the RSA yield curve. The carrying amount of short-term borrowings approximates their fair value.

**Notes issued:** the floating rate notes issued are fair valued based on the exchange rate ruling at the reporting date.

**Forward instruments:** forward exchange contracts are entered into to cover import orders, and fair values are determined using foreign exchange market rates at 3 April 2010. Forward exchange agreements and swaps are entered into to hedge interest rate exposure of investments, interest bearing debt and fair values are determined using market related derivative rates at 3 April 2010.

**35. RELATED-PARTY TRANSACTIONS**

The Group Financial Statements include the financial statements of Edcon Holdings (Proprietary) Limited and subsidiaries and joint ventures (refer to Annexure 1 on page F-87 for a list of significant subsidiaries). Related party relationships exist within the Group. During the period all purchasing and selling transactions were concluded at arm's length. Edcon Holdings (Proprietary) Limited is the ultimate South African parent entity and the ultimate parent of the Group is Edcon (BC) S.A.R.L. The following table provides the total amount of transactions, which have been entered into with related parties:

| | Successor | |
|---|---|---|
| | 2010 | |
| | Paid to related parties | Amounts owed to related parties |
| | Rm | Rm |
| Loan including interest to shareholder | | **7,341** |
| Fee paid to Bain Capital affiliate | **38** | |
| Preference dividend paid to shareholders | **5** | |

| | Successor | |
|---|---|---|
| | 2009 | |
| | Fee paid to related parties | Amounts owed to related parties |
| | Rm | Rm |
| Loan including interest to shareholder | | 6,492 |
| Fee paid to Bain Capital affiliate | 43 | |

| | Successor | |
|---|---|---|
| | 2008 | |
| | Fee paid to related parties | Amounts owed to related parties |
| | Rm | Rm |
| Loan including interest to shareholder | – | 5,547 |
| Preference dividend due to shareholders | – | 27 |
| Fee paid to Bain Capital affiliate | 30 | – |

Transactions with joint ventures are detailed in note 7.

## 35. RELATED-PARTY TRANSACTIONS *(continued)*

### 35.1 Compensation relating to key management personnel *(continued)*

| | Successor | | |
|---|---|---|---|
| | **53 weeks 2010** | **52 weeks 2009** | **47 weeks 2008** |
| | **Total including directors** | **Total including directors** | **Total including directors** |
| | **Rm** | **Rm** | **Rm** |
| Remuneration | **30** | 27 | 20 |
| Retirement, medical, accident and death benefits | **4** | 4 | 2 |
| Loyalty bonus | **8** | 8 | – |
| Performance bonus | | | |
| Other benefits | **–** | 1 | – |
| Options exercised | | | 332 |
| | **42** | 38 | 354 |
| **Comprising:** | | | |
| Short-term employee benefits | **38** | 34 | 20 |
| Options exercised | | | 332 |
| Post-employment benefits | **4** | 4 | 2 |

Key management personnel includes directors (refer to note 27.7) and members of the Chief Executive's Forum.

| | Successor | | |
|---|---|---|---|
| | **2010 3 April** | **2009 28 March** | **2008 29 March** |
| | **Rm** | **Rm** | **Rm** |
| **36. CONSOLIDATION OF ONTHECARDS INVESTMENTS LIMITED (OtC) AND ONTHECARDS INVESTMENTS II (PROPRIETARY) LIMITED (OtC II)** | | | |
| Included in the Group Statement of Financial Position by line are the following balances relating to the consolidation of OtC and OtC II: | | | |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | **79** | 79 | 79 |
| Held-to-maturity investments | **(78)** | | |
| Loan Edcon (Proprietary) Limited | **(2,062)** | (1,450) | (1,425) |
| Deferred tax | **133** | | |
| **Total non-current assets** | **(1,928)** | (1,371) | (1,346) |
| **Current assets** | | | |
| Trade, other receivables and prepayments | **5,468** | 3,889 | 3,756 |
| Cash and cash equivalents | **684** | – | 127 |
| **Total current assets** | **6,152** | 3,889 | 3,883 |
| **Total assets** | **4,224** | 2,518 | 2,537 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to shareholders** | | | |
| Retained (loss)/surplus | **(140)** | (52) | 3 |
| **Total equity** | **(140)** | (52) | 3 |
| **Non-current liabilities – third parties** | | | |
| Interest-bearing debt (note 18) | **3,855** | | |
| Subordinated loan (note 18) | | | 25 |
| Deferred tax | | (89) | (70) |
| | **3,855** | (89) | (45) |
| **Total non-current liabilities** | **3,855** | (89) | (45) |
| **Current liabilities** | | | |
| Interest-bearing debt (note 19) | **445** | 2,659 | 2,581 |
| Current taxation | **–** | (2) | (4) |
| Trade and other payables | **64** | 2 | 2 |
| **Total current liabilities** | **509** | 2,659 | 2,579 |
| **Total equity and liabilities** | **4,224** | 2,518 | 2,537 |
| **Total managed capital per IAS 1** | **4,160** | 2,607 | 2,584 |

| | Successor | | |
|---|---|---|---|
| | **2010 53 weeks to 3 April** | **2009 52 weeks to 28 March** | **2008 47 weeks to 29 March** |
| | **Rm** | **Rm** | **Rm** |
| Included in the Group Statement of Comprehensive Income by line, are the following amounts relating to the consolidation of OtC and OtC II: | | | |
| **Total revenues** | **603** | 530 | 479 |
| Income from credit | **582** | 517 | 467 |
| Expenses from credit | **(403)** | (234) | (129) |
| **Trading profit and profit before financing costs** | **179** | 283 | 338 |
| Interest received | **21** | 13 | 12 |
| **Profit before financing costs** | **200** | 296 | 350 |
| Financing costs | **(348)** | (369) | (345) |
| **(Loss)/profit before taxation** | **(148)** | (73) | 5 |
| Taxation | **20** | 18 | (2) |
| **(Loss)/profit for the period** | **(128)** | (55) | 3 |

| | Successor | | |
|---|---|---|---|
| | **2010 53 weeks to 3 April** | **2009 52 weeks to 28 March** | **2008 47 weeks to 29 March** |
| | **Rm** | **Rm** | **Rm** |
| **36. CONSOLIDATION OF ONTHECARDS INVESTMENTS LIMITED (OtC) AND ONTHECARDS INVESTMENTS II (PROPRIETARY) LIMITED (OtC II)** *(continued)* | | | |
| Included in the Group Statement of Cash Flows by line, are the following amounts relating to the consolidation of OtC and OtC II: | | | |
| **Cash retained from operating activities** | | | |
| (Loss)/profit before taxation | **(148)** | (73) | 5 |
| Interest received | **(21)** | (13) | (12) |
| Financing costs | **348** | 369 | 345 |
| Non-cash items | **185** | | |
| **Operating cash inflow before changes in working capital** | **364** | 283 | 338 |
| Working capital movement | **493** | (133) | 13 |
| Trade accounts receivable | **505** | (82) | (51) |
| Other receivables | **(19)** | (43) | 76 |
| Trade and other payables | **7** | (8) | (12) |
| **Cash generated from operating activities** | 857 | **150** | **351** |
| Interest received | **21** | 5 | 12 |
| Financing costs paid | **(293)** | (360) | (345) |
| Taxation paid | **(22)** | – | (8) |
| **Net cash retained/(utilised)/Cash effects of financing activities** | **563** | (205) | 10 |
| Increase in held-to-maturity investments | **78** | 25 | 725 |
| Loan – Edcon (Proprietary) Limited | **612** | | |
| Proceeds from receivables-backed notes issued | **4,300** | | |
| Purchase of trade receivables | **(2,210)** | | |
| (Decrease)/increase in short-term interest bearing debt | **(2,659)** | 53 | (869) |
| **Net cash inflow/(outflow) from financing activities** | **121** | 78 | (144) |
| **Increase/(decrease) in cash and cash equivalents** | **684** | (127) | (134) |
| **Cash and cash equivalents at the beginning of the period** | **–** | 127 | – |
| Consolidation of OtC | | | 261 |
| **Cash and cash equivalents at the end of the period** | **684** | – | 127 |

**ANNEXURE 1 – INTERESTS IN SIGNIFICANT SUBSIDIARIES**

| | Nature of business* | Issued ordinary capital | | | % interest in capital | | | Book value-shares | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
| | | R | R | R | % | % | % | Rm | Rm | Rm |
| Celrose (Pty) Limited | M | **100** | 100 | 100 | **49** | 49 | 49 | **51** | 51 | 51 |
| Edcon Acquisition (Pty) Ltd | A | **1** | 1 | 1 | **100** | 100 | 100 | **1,968** | 1,968 | 1,968 |
| Edcon (Pty) Ltd | R | **896** | 895 | 894 | **100** | 100 | 100 | **3,482** | 3,232 | 3,075 |
| National Security Corporation (Pty) Limited | G | **2,000** | 2,000 | 2,000 | **100** | 100 | 100 | **7** | 7 | 7 |
| R22 Properties (Pty) Limited | P | **1** | 1 | 1 | **100** | 100 | 100 | **88** | 88 | 88 |
| Topics (Pty) Limited | D | **235,219** | 235,219 | 235,219 | **100** | 100 | 100 | **94** | 94 | 94 |
| VOC Investments (Pty) Limited | D | **950,050** | 950,050 | 950,050 | **100** | 100 | 100 | **51** | 51 | 51 |
| **Incorporated in Botswana** | | **P** | P | P | | | | | | |
| Jet Supermarkets Botswana (Pty) Limited | R | **300,000** | 300,000 | 300,000 | **100** | 100 | 100 | **405** | 405 | 405 |
| **Incorporated in Namibia** | | **N$** | **N$** | **N$** | | | | | | |
| Edgars Stores (Namibia) Limited | R | **1,050,000** | 1,050,000 | 1,050,000 | **100** | 100 | 100 | **264** | 264 | 264 |
| **Incorporated in Swaziland** | | **L** | L | L | | | | | | |
| Edgars Stores Swaziland Limited | R | **1,500,000** | 1,500,000 | 1,500,000 | **100** | 100 | 100 | **136** | 136 | 136 |
| **Incorporated in Guernsey** | G | **£** | **£** | **£** | | | | | | |
| Bellfield Limited | G | **41** | 41 | 41 | **100** | 100 | 100 | **70** | 70 | 70 |
| Interest in subsidiaries | | | | | | | | **6,616** | 6,366 | 6,209 |

* *Nature of business R: Retailing, M: Manufacturing, G: Group Services, D: Dormant, P: Property Holding, A: Acquisition company.*

Note: Celrose (Pty) Ltd is consolidated as the Group retains control.

**Corporate Information**

**Edcon Holdings (Proprietary) Limited**
Incorporated in the Republic of South Africa
Registration number 2006/036903/07

**Non-executive directors**
DM Poler* (Chairman), EB Berk*, SM Zide*, ZB Ebrahim, MMV Valentiny**

**Executive directors**
SM Ross* (Managing Director and Chief Executive Officer),
U Ferndale

*USA ** BELGIUM

**Group Secretary**
CM Vikisi

**Registered office**
Edgardale, Press Avenue
Crown Mines, Johannesburg 2092
Telephone: +27 11 495-6000
Fax: +27 11 837-5019

**Postal address**
PO Box 100, Crown Mines 2025

**Auditors**
Ernst & Young Inc.
Wanderers Office Park
52 Corlett Drive, Illovo 2196
PO Box 2322, Johannesburg 2000
Telephone: +27 11 772-3000
Fax: +27 11 772-4000

**Listing Agent, Trustee, Registrar, Transfer Agent and Principal Paying Agent**
The Bank of New York
1 Canada Square
London E14 SAL
United Kingdom

**Tracy Sheridan, Listing Executive –** The Bank of New York Mellon Corporation
Corporate Trust Services
Phone +353 1 542 6991
Fax +353 1 542 6999
Tracy.x.sheridan@bankofny.com

**Group Financial Statements**

**Edcon Holdings (Proprietary) Limited**

***For the period ended 28 March 2009***

**Group Financial Statements of Edcon Holdings (Proprietary) Limited**

*(Registration number 2006/036903/07)*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**Group Financial Statements of Edcon Holdings (Proprietary) Limited**

*(Registration number 2006/036903/07)*

**Certificate by Group Secretary**

In my capacity as Group Secretary, I hereby confirm, in terms of the Companies Act, 1973, that for the period ended 28 March 2009, the Company has lodged with the Registrar of Companies all such returns as are required of a company in terms of this Act and that all such returns are true, correct and up to date.

**CM Vikisi**
**Group Secretary**

Johannesburg
26 May 2009

Ernst & Young Inc.
Wanderers Office Park
52 Corlett Drive, Illovo
Private Bag X14
Northlands 2116
Tel: 00 27 (0)11 772-3000
Fax: 00 27 (0)11 772-4000
Docex 123 Randburg
Website www.ey.com/za

**Independent Auditor's Report**

**TO THE MEMBERS OF EDCON HOLDINGS (PROPRIETARY) LIMITED**

We have audited the Group Financial Statements of Edcon Holdings (Proprietary) Limited, which comprise the balance sheets as at 28 March 2009, the income statements, the statements of changes in ordinary shareholders' equity and cash flow statements for the period then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages F-93 to F-160.

*Directors' Responsibility for the Financial Statements*

The Group's directors are responsible for the preparation and fair presentation of these Financial Statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the Financial Statements present fairly, in all material respects, the financial position of the Group as at 28 March 2009, and of their financial performance and their cash flows for the period then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

*Ernst & Young Inc.*

Ernst & Young Inc.
Registered Auditor

26 May 2009
Johannesburg

**Chief Executive: Philip Hourquebie**
A full list of Directors is available from the website.

A member firm of Ernst & Young Global Limited

**GROUP FINANCIAL STATEMENTS OF EDCON HOLDINGS (PROPRIETARY) LIMITED**

*(Registration number 2006/036903/07)*

**GOING CONCERN AND DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING**
For the period 28 March 2009

**GOING CONCERN**

The Group's balance sheet at 28 March 2009 reports a net debit of R280 million in other reserves, an accumulated retained loss of R2,289 million and share premium of R2,143 million in equity attributable to shareholders. Therefore, the total deficit reported in equity at 28 March 2009 is R426 million.

The directors' having considered the going concern assumption have included the shareholder's loan of R6,492 million in the assessment (refer to note 34, management of capital). To the extent required to maintain the solvency of the Group, the Shareholder's loan agreement is subordinated to the claims of all of the creditors of the Group.

As a result, the Group Financial Statements set out on pages F-93 to F-160 have been prepared on the going-concern basis. The directors have every reason to believe that the Group has adequate resources to continue in operation for the foreseeable future.

**PRESENTATION OF FINANCIAL STATEMENTS**

With effect 14 May 2007, the issued ordinary shares and preference shares in Edgars Consolidated Stores Limited (the "Predecessor") were acquired by Edcon Acquisition (Proprietary) Limited whose sole shareholder is Edcon Holdings (Proprietary) Limited (the "Successor"). Edcon Acquisition (Proprietary) Limited is the legal successor to Edgars Consolidated Stores Limited and Edcon Holdings (Proprietary) Limited is the parent of the Edcon Group.

As of 5 May 2007, all conditions precedent to the private equity transaction had been fulfilled and the new Group consisting of Edcon Holdings (Proprietary) Limited and all its subsidiaries has been consolidated as from 6 May 2007.

The Group Financial Statements for the period ended 28 March 2009 incorporate the results for the 52 weeks ended 28 March 2009 of the Successor. The Group Financial Statements for the comparative period ended 29 March 2008 incorporate the results for the 47 weeks ended 29 March 2008 of the Successor. One months results, being 5 weeks relating to the Predecessor for the period ending 5 May 2007, have been presented for comparative purposes together with the Group Financial Statements relating to the Predecessor being the 52 weeks ended 31 March 2007.

In preparing these Group Financial Statements, the same accounting principles and methods of computation are applied as in the Group Financial Statements of the Predecessor, Edgars Consolidated Stores Limited on 31 March 2007 and for the periods then ended except for the changes set out on page F-94.

Accordingly, information for the current and comparative periods has been provided on the following basis: For periods ending prior to 6 May 2007, the financial position and results of the Predecessor are included and presented. For periods ending after 6 May 2007, the financial position and results of the Successor are included and presented.

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

No event, material to the understanding of this report, has occurred between the financial year-end and the date of this report.

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

## BUY-BACK OF SENIOR FLOATING RATE NOTES

On 27 June 2008, Edcon Holdings (Proprietary) Limited completed a notes repurchase of the senior floating rate notes with a nominal value of €252 million for €138.6 million, or 55% of the face value. As a result of the buy-back, the Group recognised a gain, net of associated fees, of R1,350 million.

## HEDGE REALISATION

In June 2008 we realised R1,793 million from certain derivatives used to hedge interest rate and foreign exchange exposures associated with the senior floating rate notes. A revised hedging structure was put in place, whereby Edcon Holdings (Proprietary) Limited entered into currency swaps and foreign currency forward contracts to hedge certain exposures under the €378 million of senior floating rate notes then outstanding. As a result, Edcon Holdings (Proprietary) Limited remains (i) hedged for the interest rate and currency risk on the interest payments of the Floating Rate Notes until June 2011 and (ii) economically hedged on the principal of the Floating Rate Notes until June 2012. Management is continually re-evaluating its hedging strategies and exposures and may choose to amend this position in the future.

Prior to the hedge realisation we had available liquidity under the Senior Revolving Credit Facility of over R2.5 billion. Over the one month following the hedge realisation we invested over R2 billion in capital expenditures and assets, including inventory that we use in our business. Our available liquidity under the Senior Revolving Credit Facility as at 27 December 2008 was R3,118 million.

## DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

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

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

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

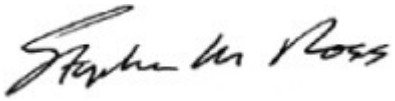
## COMPARABILITY

A portion of trade receivables is securitised to OntheCards Investments Limited ("OtC") on a non recourse basis. As a result of the refinancing of the OtC securitisation structure through the issue of unlisted and unrated notes and subordinated loan borrowings, management reassessed all previous judgments and assumptions in the prior period and concluded that OntheCards should be consolidated from 6 May 2007. OtC has therefore been consolidated in the 2009 and 2008 Group Financial Statements of the Successor.

Note 37 of the Group Financial Statements discloses the impact of consolidating OtC on the income statement, balance sheet and cash flow statement.

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

**DM Poler, Chairman**



**SM Ross, Group Chief Executive Officer**

Johannesburg
26 May 2009

**Currency of Group Financial Statements**

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

The approximate Rand cost of a unit of the following currencies at year-end was:

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| US Dollar | **9.48** | 8.15 | 7.26 |
| Sterling | **13.68** | 16.26 | 14.29 |
| Botswana Pula | **1.23** | 1.25 | 1.18 |
| Euro | **12.78** | 12.82 | 9.69 |

**Group Balance Sheets**

| | Note | Successor 2009 28 March | Successor 2008 29 March | Predecessor 2007 31 March |
|---|---|---|---|---|
| | | Rm | Rm | Rm |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Properties, fixtures, equipment and vehicles | 3 | **3,128** | 3,263 | 1,560 |
| Intangible assets | 4 | **18,997** | 20,112 | 77 |
| Held-to-maturity investments | 6 | | | 700 |
| Equity accounted investment in joint ventures | 7 | **1** | 11 | 14 |
| Derivative financial instruments | 8 | **2,393** | 5,429 | |
| Deferred tax | 9 | **–** | – | 82 |
| **Total non-current assets** | | **24,519** | 28,815 | 2,433 |
| **Current assets** | | | | |
| Inventories | 10 | **2,544** | 2,148 | 1,962 |
| Trade, other receivables and prepayments | 11 | **9,710** | 8,742 | 4,651 |
| Derivative financial instruments | 8 | **188** | 421 | |
| Cash and cash equivalents | 12 | **379** | 492 | 471 |
| **Total current assets** | | **12,821** | 11,803 | 7,084 |
| **Total assets** | | **37,340** | 40,618 | 9,517 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity attributable to shareholders** | | | | |
| Share capital | 13 | **–** | – | 5 |
| Share premium | 13 | **2,143** | 2,143 | 231 |
| Other reserves | 14 | **(280)** | 836 | 55 |
| Retained (loss) / surplus | 15 | **(2,289)** | (1,590) | 4,670 |
| | | **(426)** | 1,389 | 4,961 |
| Minority interest | | **–** | 1 | 11 |
| **Total equity** | | **(426)** | 1,390 | 4,972 |
| **Non-current liabilities – shareholder's** | | | | |
| Shareholder's loan | 17 | **6,492** | 5,547 | – |
| **Total equity and shareholder's loan** | | **6,066** | 6,937 | 4,972 |
| **Non-current liabilities – third parties** | | | | |
| Notes issued | 18 | **19,600** | 22,761 | |
| Subordinated loan | 18 | | 25 | |
| Lease equalisation | | **369** | 399 | 422 |
| Derivative financial instruments | 8 | **1,002** | 379 | |
| Employee benefit liability | 27.1 | **112** | 120 | 123 |
| Deferred tax | 9 | **374** | 1,851 | – |
| | | **21,457** | 25,535 | 545 |
| **Total non-current liabilities** | | **27,949** | 31,082 | 545 |
| **Current liabilities** | | | | |
| Interest-bearing debt | 19 | **5,300** | 4,507 | 713 |
| Current taxation | | **470** | 138 | 64 |
| Derivative financial instruments | 8 | **514** | – | |
| Trade and other payables | 20 | **3,533** | 3,501 | 3,223 |
| **Total current liabilities** | | **9,817** | 8,146 | 4,000 |
| **Total equity and liabilities** | | **37,340** | 40,618 | 9,517 |
| **Total managed capital per IAS 1** | 34 | **30,966** | 34,204 | 5,674 |

**Group Income Statements**

| | Note | Successor | | | Predecessor |
|---|---|---|---|---|---|
| | | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 weeks to 5 May | 2007 52 weeks to 31 March |
| | | Rm | Rm | Rm | Rm |
| **Total revenues** | 23 | **25,195** | 20,950 | 2,094 | 20,149 |
| **Revenue – retail sales** | | **22,075** | 18,244 | 1,939 | 18,531 |
| Cost of sales | | **(13,774)** | (11,407) | (1,178) | (11,395) |
| **Gross profit** | | **8,301** | 6,837 | 761 | 7,136 |
| Other income | 24 | **467** | 411 | 35 | 413 |
| Store costs | | **(3,847)** | (3,162) | (270) | (3,032) |
| Other operating costs | 25 | **(3,284)** | (2,476) | (206) | (2,109) |
| **Retail trading profit** | | **1,637** | 1,610 | 320 | 2,408 |
| Income from credit | 26.1 | **2,271** | 1,783 | 102 | 987 |
| Expenses from credit | 26.2 | **(1,772)** | (1,382) | (92) | (1,228) |
| Equity accounted earnings of joint venture | | **349** | 264 | 23 | 243 |
| **Trading profit** | | **2,485** | 2,275 | 353 | 2,410 |
| Restructure costs | | | (152) | (5) | (42) |
| Acquisition costs | | | (39) | | (2) |
| Gain on buy-back of senior floating rate notes | 18.2 | **1,350** | | | |
| Derivative unrealised (loss)/gain | 8.6 | **(1,415)** | 4,612 | | |
| Derivative realised gain | 8.7.1 | **231** | | | |
| Unrealised foreign exchange gain/(loss) on notes issued | 18.1 | **134** | (5,926) | | |
| Impairment of indefinite life brands and goodwill | 4 | **(697)** | | | |
| **Profit before net financing costs** | | **2,088** | 770 | 348 | 2,366 |
| Interest received | 28.2 | **33** | 248 | – | 35 |
| **Profit before financing costs** | | **2,121** | 1,018 | 348 | 2,401 |
| Financing costs | 28.1 | **(3,288)** | (3,100) | (8) | (57) |
| **(Loss) / profit before taxation** | | **(1,167)** | (2,082) | 340 | 2,344 |
| Taxation | 29 | **472** | 522 | (95) | (685) |
| **(Loss) / profit for the period** | | **(695)** | (1,560) | 245 | 1,659 |
| **Attributable to:** | | | | | |
| Equity holders of the parent | | **(694)** | (1,559) | 245 | 1,648 |
| Minority interest | | **(1)** | (1) | – | 11 |

**Group Statements of Changes in Ordinary Shareholders' Equity**

| | Share capital | Share premium | Other reserves | Retained (loss) / surplus | Total | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| | Rm | Rm | Rm | Rm | Rm | Rm | Rm |
| **Predecessor** | | | | | | | |
| Balance at 1 April 2006 | 5 | 166 | 41 | 3,818 | 4,030 | | 4,030 |
| Foreign currency translation | | | 15 | | 15 | | 15 |
| Other | | | (1) | | (1) | | (1) |
| Total income and expense for the period recognised directly in equity | | | 14 | | 14 | | 14 |
| Profit for the period | | | | 1,648 | 1,648 | 11 | 1,659 |
| Net income for the period | | | 14 | 1,648 | 1,662 | 11 | 1,673 |
| Ordinary share capital issued on 24 May 2006, 08 March and 28 March 2007 | – | 699 | | | 699 | | 699 |
| Net movement in treasury shares (note 13.6) | – | (634) | | | (634) | | (634) |
| Share-based payment credit | | | | 58 | 58 | | 58 |
| Acquisition of minority interest | | | | | | – | – |
| Ordinary dividends (note 30) | | | | (854) | (854) | | (854) |
| Balance at 31 March 2007 | 5 | 231 | 55 | 4,670 | 4,961 | 11 | 4,972 |
| Foreign currency translation | | | (5) | | (5) | | (5) |
| Total income for the period recognised directly in equity | | | (5) | | (5) | | (5) |
| Profit for the period | | | | 245 | 245 | | 245 |
| Net income for the period | | | (5) | 245 | 240 | | 240 |
| Acceleration of options | – | 727 | | | 727 | | 727 |
| Share-based payment credit | | | | 4 | 4 | | 4 |
| Other | | | | (1) | (1) | | (1) |
| Balance at 5 May 2007 | 5 | 958 | 50 | 4,918 | 5,931 | 11 | 5,942 |
| **Successor** | | | | | | | |
| Opening balance at 5 May 2007 | – | – | – | – | – | – | – |
| Foreign currency translation | | | 31 | | 31 | | 31 |
| Revaluation of land and buildings | | | 23 | | 23 | | 23 |
| Net gains on cash flow hedges | | | 782 | | 782 | | 782 |
| Total income and expense for the period recognised directly in equity | – | – | 836 | – | 836 | – | 836 |
| Loss for the period | | | | (1,559) | (1,559) | (1) | (1,560) |
| Net loss for the period | – | – | 836 | (1,559) | (723) | (1) | (724) |
| Ordinary share capital issued | – | 1,936 | | | 1,936 | | 1,936 |
| Preference share capital issued | – | 207 | | | 207 | | 207 |
| Preference share dividends | | | | (27) | (27) | | (27) |
| Other | | | | (4) | (4) | 2 | (2) |
| Balance at 29 March 2008 | – | 2,143 | 836 | (1,590) | 1,389 | 1 | 1,390 |
| Foreign currency translation | | | (3) | | (3) | | (3) |
| Net losses on cash flow hedges | | | (1,113) | | (1,113) | | (1,113) |
| Total income and expense for the period recognised directly in equity | – | – | (1,116) | – | (1,116) | – | (1,116) |
| Loss for the period | | | | (694) | (694) | (1) | (695) |
| Loss for the period | – | – | (1,116) | (694) | (1,810) | (1) | (1,811) |
| Other | | | | (5) | (5) | | (5) |
| **Balance at 28 March 2009** | **–** | **2,143** | **(280)** | **(2,289)** | **(426)** | **–** | **(426)** |
| Note | 13.6 | 13.6 | 14 | 15 | | | |

**Group Cash Flow Statements**

| | Note | 2009 52 weeks to 28 March | Successor 2008 47 weeks to 29 March | 2007 5 weeks to 5 May | Predecessor 2007 52 weeks to 31 March |
|---|---|---|---|---|---|
| | | Rm | Rm | Rm | Rm |
| **Cash retained from operating activities** | | | | | |
| (Loss)/profit before tax | | **(1,167)** | (2,082) | 340 | 2,344 |
| Interest received | | **(33)** | (248) | – | (35) |
| Financing costs | | **3,288** | 3,100 | 8 | 57 |
| Impairment of intangibles | 4 | **697** | | | |
| Derivative realised and unrealised loss/(gain) | 8.6 & 8.7.1 | **1,184** | (4,612) | | |
| Unrealised foreign exchange (gain)/loss on notes issued | 18.1 | **(134)** | 5,926 | | |
| Gain on buy-back of senior floating rate notes | 18.2 | **(1,350)** | | | |
| Amortisation | 25.1 | **418** | 380 | – | 1 |
| Depreciation | 25.3 | **681** | 410 | 27 | 296 |
| Other non-cash items | 32.1 | **131** | 14 | (16) | 43 |
| **Operating cash inflow before changes in working capital** | | **3,715** | 2,888 | 359 | 2,706 |
| Working capital movement | 32.2 | **(1,553)** | 165 | (506) | (946) |
| **Cash generated/(utilised) from operating activities** | | **2,162** | 3,053 | (147) | 1,760 |
| Interest received | | **15** | 248 | – | 35 |
| Financing costs paid | | **(2,280)** | (2,298) | (8) | (57) |
| Taxation paid | 32.3 | **(235)** | (246) | – | (805) |
| **Cash (outflow)/inflow from operations** | | **(338)** | 757 | (155) | 933 |
| Dividends paid | 32.4 | | | | (854) |
| **Net cash (utilised)/retained** | | **(338)** | 757 | (155) | 79 |
| **Cash utilised in investment activities** | | | | | |
| Investment to maintain operations | 32.5 | **(419)** | (332) | (26) | (181) |
| Investment to expand operations | 32.6 | **(149)** | (24,390) | (21) | (379) |
| **Net cash invested** | | **(568)** | (24,722) | (47) | (560) |
| **Cash effects of financing activities** | | | | | |
| Increase in shareholder funding | 32.7 | | 7,025 | | 65 |
| Notes issued | 32.8 | | 17,063 | | |
| Buy-back of senior floating rate notes | 32.9 | **(1,768)** | | | |
| Proceeds from derivatives | | **1,793** | | | |
| Increase in interest-bearing debt | 32.10 | **768** | 106 | 238 | 537 |
| **Net cash inflow from financing activities** | | **793** | 24,194 | 238 | 602 |
| **(Decrease)/increase in cash and cash equivalents** | 32.11 | **(113)** | 229 | 36 | 121 |
| **Cash and cash equivalents at the beginning of the period** | | **492** | – | 471 | 349 |
| Consolidation of OntheCards | | | 261 | | |
| Currency adjustments | | **–** | 2 | – | 1 |
| **Cash and cash equivalents at the end of the period** | | **379** | 492 | 507 | 471 |

**Notes to the Group Financial Statements**

## 1. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

### 1.1 Basis of preparation

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

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

With effect 14 May 2007, the issued ordinary shares and preference shares in Edgars Consolidated Stores Limited (the "Predecessor") were acquired by Edcon Acquisition (Proprietary) Limited whose sole shareholder is Edcon Holdings (Proprietary) Limited (the "Successor"). Edcon Acquisition (Proprietary) Limited is the legal successor to Edgars Consolidated Stores Limited and Edcon Holdings (Proprietary) Limited the parent of the Edcon Group.

As of 5 May 2007, all conditions precedent to the private equity transaction had been fulfilled and the new Group consisting of Edcon Holdings (Proprietary) Limited and all its subsidiaries has been consolidated as from 6 May 2007.

In preparing these Financial Statements, the same accounting principles and methods of computation are applied as in the Group Financial Statements of Edcon Holdings (Proprietary) Limited on 29 March 2008 and for the period then ended.

Financial information for the current and comparative periods has been provided on the following basis: For periods ending prior to 6 May 2007, the financial position and results of the Predecessor are included and presented. For periods ending after 6 May 2007, the financial position and results of the Successor are included and presented.

These Financial Statements should be read in conjunction with the audited Financial Statements as at and for the period ended 29 March 2008 as included in the 2008 audited Group Financial Statements of Edcon Holdings (Proprietary) Limited.

The Financial Statements are prepared in accordance with the historical cost basis except for land and buildings and financial instruments that have been measured at fair value.

The 2009 financial period consisted of 52 weeks while the 2008 financial period consisted of 47 weeks relating to the Successor and 5 weeks relating to the Predecessor. The 2007 financial period consisted of 52 weeks relating to the Predecessor.

### 1.2 Comparability

A portion of the trade receivables is securitised to OntheCards ("OtC") on a non-recourse basis. In connection with the refinancing of the OtC securitisation structure through the issue of unlisted and unrated notes and subordinated loan borrowings, OtC has been consolidated from 6 May 2007.

IFRIC 11, IFRS 2 – Group Treasury Share Transactions was early adopted by the Predecessor in the 2007 Group Financial Statements. The standard has had no material impact on the Group Financial Statements of the Successor.

The Group has adopted all Standards and Interpretations which have become effective during the current period. These Standards and Interpretations have had no material impact on the Group Financial Statements.

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

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

### 1.3 Basis of consolidation

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

Subsidiaries, which are directly or indirectly controlled by the Group, are included in the Group Financial Statements as from the date of acquisition, where control is transferred to the Group, and cease to be consolidated from the date on which control no longer exists. Where there is a loss of control of a subsidiary, the Group Financial Statements include the results for the part of the reporting period during which the Group has control. The identifiable assets and liabilities of entities acquired are assessed and included in the balance sheet at their fair values as at the dates of acquisition.

New acquisitions are included in the Group Financial Statements using the purchase method whereby the assets and liabilities are measured at their fair value. The purchase consideration is allocated to the assets and liabilities on the basis of fair values at the date of acquisition.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the Group balance sheet, separately from Edcon Holdings (Proprietary) Limited's shareholders' equity.

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

In preparing the Financial Statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and the application of judgment are inherent in the formation of estimates. Significant estimates and judgments made relate to credit risk valuation adjustments in determining the fair value of derivative instruments to reflect non-performance risk (refer to note 1.9.1), an allowance for doubtful debts (refer to note 1.9.3), allowances for slow-moving inventory (refer to note 1.10), residual values, useful lives and depreciation methods (refer to note 1.12), pension fund and employee obligations (refer to note 1.20, 27.2.1 and 27.2.2), and intangible asset impairment tests (refer to note 5). Other judgments made relate to classifying financial assets and liabilities into categories.

The Group owns 40% of the shares in Edgars Zimbabwe Limited. Edgars Zimbabwe has not been equity accounted in the current or prior years as the effect is considered to be immaterial and no further disclosure is made in these Group Financial Statements.

### 1.5 Foreign currency transactions

The functional and presentation currency of the Group Financial Statements is the South African Rand. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency, being the South African Rand, at exchange rates ruling at the balance sheet date. Exchange differences arising on the settlement of transactions, at rates different from those at the date of the transaction, and unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognised in profit or loss.

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

### 1.6 Foreign currency translations

The functional currencies of the foreign subsidiaries are as follows:

- Pula – (Jet Supermarkets Botswana (Pty) Limited).
- Maloti – (Edgars Stores (Lesotho) (Pty) Limited and Easy Rider Clothing (Pty) Limited).
- Namibian Dollar – (Edgars Stores (Namibia) Limited).
- Lilangeni – (Edgars Stores Swaziland Limited, Central News Agency (Swaziland) (Pty) Limited and Swaziland News Agency (Pty) Limited).
- British Pound – (Bellfield Limited).

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

As at the balance sheet date, the assets and liabilities of these foreign subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the period. The exchange differences arising on the translation are recognised directly in a foreign currency translation reserve within shareholders' equity. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in shareholders' equity relating to that particular foreign operation is recognised in the income statement.

### 1.7 Goodwill

Goodwill is initially measured at cost and represents the excess of the purchase consideration over the fair value of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

If on acquiring an entity, the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity exceed the purchase consideration, this excess/(discount) is recognised in profit or loss immediately.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the acquisition. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of, is included in the carrying amount of the operation when determining the gain or loss on disposal of that operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

### 1.8 Other intangible assets

Where payments are made for the acquisition of intangible assets with a finite useful life, the amounts are capitalised at cost and amortised on a straight-line basis over their anticipated useful lives. Intangible assets acquired through the acquisition of an entity are recognised at fair value. Currently the useful life of intangible assets with a finite life is estimated to be between five and fifteen years. Amortisation is charged on those assets with finite lives and the expense is taken to the income statement and included in other operating costs. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial period-end and assessed for indicators of

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

**1.8 Other intangible assets** *(continued)*

impairment. Annually, intangible assets with an indefinite useful life are reviewed for impairment or changes in estimated future benefits, either individually or at the cash-generating unit level. Such intangibles are not amortised and the useful life is reviewed annually to determine whether indefinite life assessment continues to be appropriate. If not, the change from indefinite to finite will be made on a prospective basis. If such indications exist, an analysis is performed to assess whether the carrying amount of intangible assets is fully recoverable. An impairment is made if the carrying amount exceeds the recoverable amount. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis. The Group's intangible assets and useful lives are as follows:

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

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

**1.9 Financial instruments**

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

All regular way purchases and sales of financial assets are recognised on the date of trade.

**1.9.1 Derivative instruments**

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

Derivative financial instruments are measured at their fair value. For hedge accounting purposes, derivative financial instruments are designated at inception as fair value, cash flow or net investment hedges if appropriate.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap

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

**1.9 Financial instruments** *(continued)*

**1.9.1 Derivative instruments** *(continued)*

contracts is determined by reference to market values for similar instruments. A credit risk valuation adjustment is incorporated to appropriately reflect both our own non-performance risk and the respective counterparty's non-performance risk in the fair value measurement. The significant inputs to the overall valuations are based on market observable data or information derived from or corroborated by market observable data, including transactions, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

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

The credit risk valuation adjustments are calculated by determining the current net exposure of each derivative (excluding potential future exposure) and then discounting the estimated cash flows at a rate adjusted with each counterparty's credit spread to the applicable exposure.

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

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

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

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

For cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged item affects the profit or loss, for example when interest payments are made.

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

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

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

### 1.9 Financial instruments *(continued)*

#### 1.9.2 Held-to-maturity investments

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest rate method. Interest received on loan and debt securities is included in the income statement as interest received and is recognised on an accrual basis.

#### 1.9.3 Trade and other receivables

Subsequent to initial measurement, receivables are recognised at amortised cost less an allowance for doubtful debts. A provision for impairment is made when there is objective evidence (such as default or delinquency of interest and the principal) that the Group will not be able to collect all amounts due under the original terms of the trade receivable transactions. Bad debts incurred are recognised in profit or loss as incurred.

Delinquent accounts are impaired by applying the Group's impairment policy recognising both contractual and ages of accounts. Age refers to the number of months since a qualifying payment was received. The process for estimating impairment considers all credit exposures, not only those of low credit quality and estimated on the basis of historical loss experience, adjusted on the basis of current observable data, to reflect the effects of current conditions. The Group assesses whether objective evidence of impairment exists individually for receivables that are individually significant, and individually or collectively for receivables that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, the receivable is included in a group of receivables with similar credit risk characteristics and that group of receivables is collectively assessed for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

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

#### 1.9.4 Cash and cash equivalents

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

#### 1.9.5 Financial liabilities

Financial liabilities, other than derivatives, are amortised at their original debt value, less principal payments and amortisation. Discounts arising from the difference between the net proceeds from debt instruments issued and the amounts repayable at maturity, are charged to net financing costs over the life of the instruments using the effective interest rate method.

#### 1.9.6 Impairment of financial assets

At each balance sheet date an assessment of financial assets other than trade receivables (refer note 1.9.3) is made of whether there is any objective evidence of impairment of these financial assets. If there is evidence of defaults and current market conditions indicate that an impairment loss on these financial assets has been incurred, the impairment loss is measured as the difference between the assets' carrying amounts and the present value of the estimated future cash flows discounted at the financial assets' original effective interest rates. The loss is recognised in profit or loss.

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

### 1.9 Financial instruments *(continued)*

#### 1.9.7 Derecognition of financial instruments

Financial assets are derecognised where the Group transfers the risks and rewards associated with the financial asset. Derecognition normally occurs when the financial asset is sold or all the cash flows associated with the financial asset are passed to an independent third party. Where the contractual rights to receive the cash flows of certain receivables are retained but a contractual obligation is assumed to pay those cash flows to a third party, those receivables are derecognised provided there is no obligation to pay amounts to the third party, unless equivalent amounts are collected from the original receivable.

The Group is prohibited from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows and, the Group has an obligation to remit any cash flows it collects on behalf of the third party without material delay and is not entitled to reinvest such cash flows except for investments in cash and cash equivalents during the short settlement period, from the collection date to the date of required remittance to the third party and the interest earned on such investments, is passed on to the third party.

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

### 1.10 Inventories

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

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

All store inventories are physically verified at least twice a year through the performance of inventory counts and shortages identified are written off immediately in profit or loss. Stores, which have a history of high inventory losses, are subject to more frequent inventory counts. An allowance is made, based on historical trends of inventory losses, for losses incurred between the last physical count and the balance sheet date.

### 1.11 Leases

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

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

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

**1.11 Leases** *(continued)*

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

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

**1.12 Properties, fixtures, equipment and vehicles**

**1.12.1 Properties**

Properties comprise of a building held by the Group for retail space and general-purpose land and buildings for use by employees. Properties are initially valued at cost and subsequently revalued by recognised professional valuers, to net realisable open-market value using the alternative or existing-use basis as appropriate, ensuring carrying amounts do not differ materially from those which would be determined using fair value at the balance sheet date. On revaluation, the cost, as well as the accumulated depreciation, is restated proportionately. Any revaluation surplus is credited to the asset revaluation reserve, net of deferred taxes, and included in shareholders' equity in the balance sheet. Any revaluation deficit directly offsetting a previous surplus is directly offset against that surplus in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular property being sold is transferred to retained earnings.

Depreciation is provided on buildings over 50 years on a straight-line basis.

**1.12.2 Lease premiums and leasehold improvements**

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

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

**1.12.3 Fixtures, equipment and vehicles**

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

| | |
|---|---|
| Fixtures and fittings | 8 years |
| Computer equipment | 5 years |
| Computer software | 3 years |
| Machinery | 10 years |
| Vehicles | 5 years |

**1.12.4 Impairment of property, fixtures, equipment and vehicles**

Property, fixtures, equipment and vehicles are reviewed at each reporting date for impairment or whenever events or changes in circumstances indicate that the carrying value may not be recoverable, to determine whether there is any indication of impairment. The impairment recognised in the profit or loss (or equity for revalued property) is the excess of the carrying value over the recoverable amount (the greater of fair value less cost to sell and value in use). Recoverable amounts are estimated for individual assets or, when an individual asset does not generate cash flows independently, the recoverable amount is determined for the larger cash-generating unit to which the asset belongs.

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

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

**1.12.4 Impairment of property, fixtures, equipment and vehicles** *(continued)*

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

**1.12.5 Derecognition of properties, fixtures, equipment and vehicles**

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

**1.12.6 Asset lives and residual values**

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

**1.13 Software costs**

Packaged software and the direct costs associated with the development and installation thereof are capitalised as computer software and are an integral part of computer hardware. The total cost is capitalised and depreciated in accordance with note 1.12.3.

**1.14 Non-current assets held for sale and discontinued operations**

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

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

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

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

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

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

### 1.15 Income taxes

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

Deferred tax liabilities are recognised for temporary differences arising between the carrying amounts of assets and liabilities in the balance sheet and their amounts as measured for tax purposes, irrespective of whether it will result in taxable amounts in future periods, unless the deferred tax liability arises from the initial recognition of goodwill. Deferred tax assets are recognised for all temporary differences which will result in deductible amounts in future periods, but only to the extent that it is probable that sufficient taxable profits will be available against which these differences can be utilised. Neither a deferred tax asset nor liability is recognised where it arises from a transaction, which is not a business combination, and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

Secondary tax on companies (STC), is provided for at a rate of 10% (12.5% to October 2007) on the amount by which dividends declared by the Group exceed dividends received. STC is charged to profit or loss at the applicable ruling rate and included in the taxation expense for the period.

### 1.16 Financing costs

Financing costs are recognised in the income statement in the period in which they are incurred.

### 1.17 Joint ventures

The Group has an interest in a joint venture which is jointly controlled by the Group and one or more other venturer under a contractual arrangement. The Group's interest in jointly controlled entities is accounted for using the equity method. Under the equity method, the investment in joint ventures is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the joint ventures. Goodwill relating to the joint ventures is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The income statement reflects the share of the results of operations of the joint ventures. Where the Group transacts with a jointly controlled entity, unrealised profits or losses are eliminated to the extent of the Group's interest in the joint venture. The reporting period for jointly controlled entities is the same as the Group's.

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

### 1.18 Revenue recognition

Revenue comprises retail sales of merchandise, manufacturing sales, club fees, financial services income, equity accounted earnings of joint ventures, dividends, interest and finance charges accrued to the Group. Revenue from all sales of merchandise, net of returns, is brought to account when delivery takes place to the customer. Revenue from manufacturing and other operations is recognised when the sale transactions giving rise to such revenue are concluded. Finance charges on arrear account balances are accrued on a time proportion basis, recognising the effective yield on the underlying assets. Dividends are recognised when the right to receive payment is established. Interest received is recognised using the effective interest rate method. Club fees are recognised as incurred. Revenue is measured at the fair value of consideration received or receivable.

### 1.19 Business and geographical segments

The principal segments of the Group have been identified on a primary basis by division, and on a secondary basis by significant geographical region. The basis is representative of the internal structure for management reporting purposes. The source and nature of business risks and returns are segmented on the same basis.

Segment revenue – retail sales reflect sales to third parties, excluding arm's length inter-segment revenue recorded at fair value. The segment result is presented as segment operating profit without allocation of finance costs and taxation. Corporate expenses are allocated on an appropriate basis after giving due consideration to the nature of such expenses incurred. Segment gross assets include those assets that can be specifically identified with a particular segment. Neither trade accounts receivable, which are housed in the centralised Credit and Financial Services Division, nor corporate liabilities which are held at the Group Services Division, are allocated to segments.

### 1.20 Employee benefits – post-retirement benefits

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

The Group uses the projected unit credit actuarial method to determine the present value of its defined benefit plans and the related current service cost and, where applicable, past service costs. The portion of actuarial gains and losses recognised in profit or loss is the excess over the greater of 10% of the present value of the defined benefit obligation at the end of the previous reporting period, before deducting plan assets, and 10% of the fair value of any plan assets at the same date, divided by the expected average remaining working lives of the employees participating in the fund. Improved benefits in defined benefit funds are only granted if they can be financed from the actuarial surplus. Contribution rates to defined benefit plans are adjusted for any unfavourable experience adjustments. Favourable experience adjustments are retained within the funds. Actuarial surpluses are only brought to account in the Group's Financial Statements when it is certain that economic benefits will be available to the Group.

### 1.21 Share capitalisation awards and cash dividends

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

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

### 1.22 Treasury shares

Shares held by the Staff Empowerment Trust are classified in the Group's shareholders' equity as treasury shares. These shares are treated as a deduction from the issued number of shares, and the cost price of the shares is deducted from share capital and premium, in the balance sheet. Any dividends received on treasury shares are eliminated on consolidation.

### 1.23 Future changes in accounting policies

***IFRS 8, Operating Segments***

IFRS 8 was issued in November 2006 and becomes effective for financial years beginning on or after 1 January 2009. The IFRS specifies how an entity should report information about its operating segments in annual financial statements and report selected information about its operating segments in interim financial reports. Additionally, it sets out requirements for related disclosures about products and services, geographical areas and major customers.

The Group has evaluated the effect of this standard and adoption of this standard will impact the segments currently reported in note 2 of the Financial Statements where an additional segment for the CNA chain will be required as well as additional disclosure with respect to the identification of the Group's operating segments and types of products and services from which each reportable segment derives its revenues. Additionally the standard shall result in overheads and net assets to be allocated as management views these allocations.

***IFRIC 13, Customer Loyalty Programmes***

IFRIC 13 was issued in June 2007 and becomes effective for financial periods beginning on or after 1 July 2008. The IFRIC addresses the accounting by an entity that grants award credits to its customers.

The Group is still evaluating the effect of this standard and expects that adoption of this standard will impact revenue reported in note 23, however, initial estimates indicate that this impact will not be material based on current processes.

***IFRS 2, Share-based Payments – Vesting Conditions and Cancellations***

An amendment to IFRS 2, Share-based payments, was published in 2008 and becomes effective for financial periods beginning on or after 1 January 2009. The standard restricts the definition of a vesting condition and specifies when an award is accounted for as a cancellation due to failure to meet a non-vesting condition.

The Group has not entered into share-based payment schemes with non-vesting conditions attached and therefore having evaluated the effect of adopting this standard, has concluded it will not materially impact the Group.

***IFRS 3, Business Combinations and IAS 27, Consolidated and Separate Financial Statements***

These standards were revised and reissued in January 2008 and become effective for financial periods beginning on or after 1 July 2009 with prospective application. The IFRS 3 applies to all transactions and events that meet the definition of a business combination. IAS 27 was revised to require that a change in ownership interest of a subsidiary is accounted for as an equity transaction and the accounting for losses incurred by a subsidiary as well as the loss of control of a subsidiary was changed.

The Group has evaluated the effect of adopting these standards and has resolved that the standards will have a material effect on all future business combinations in future reporting periods on adoption of the standards.

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

**1.23 Future changes in accounting policies** *(continued)*

***IAS 1, Presentation of Financial Statements***

This standard was revised and issued in September 2007 and becomes effective for financial periods beginning on or after 1 January 2009. The standard separates owner and non-owner changes in equity. The statement of changes in shareholders' equity will only include details of transactions with owners. All non-owner changes in equity will be presented as a single line. A statement of comprehensive income is also introduced which presents all items of income and expense recognised in profit or loss together with all other items of recognised income and expense either in a single statement, or two linked statements.

The Group is still evaluating these disclosures and whether one or two statements will be presented.

***IAS 23, Borrowing Costs***

This standard was revised and reissued in March 2007 and becomes effective for all periods beginning on or after 1 January 2009. The standard requires that borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset and other borrowing costs are recognised as an expense in the period incurred.

The Group has evaluated the effect of this standard and does not expect the adoption thereof to have a material effect.

***Amendment to IAS 32 and IAS 1, Puttable Financial Instruments***

This amendment was issued in February 2008 and becomes effective for financial periods beginning on or after 1 January 2009. IAS 32 now requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires certain disclosures relating to puttable instruments classified as equity.

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

***Amendment to IAS 39 – Eligible Hedged Items***

This amendment was issued in July 2008 to clarify how principles that determine whether a hedged risk or portion of cash flows is eligible for designation and how this should be applied in certain situations. The amendment becomes effective for financial periods beginning on or after 1 July 2009.

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

***IFRIC 16, Hedges of a Net Investment in a Foreign Operation***

The IFRIC becomes effective for financial periods beginning on or after 1 October 2008 and provides more detailed guidance on the identification of foreign currency risks that qualify for hedge accounting in this type of hedge, key aspects of the hedge effectiveness test, where within the group the related hedging instrument(s) can be held and, how the foreign currency gain or loss should be allocated to the foreign operation upon disposal. The IFRIC additionally clarifies that only differences between functional currencies may be hedged.

The Group has evaluated the effect of adopting this interpretation and has concluded that IFRIC 16 will have no material impact on the Group's Financial Statements.

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

**1.23 Future changes in accounting policies** *(continued)*

***IFRIC 17, Distributions of Non-cash Assets to Owners***

The IFRIC is effective for annual periods beginning on or after 1 July 2009 with prospective application. IFRIC 17 provides guidance on how an entity should account for the distribution of assets other than cash, as dividends to its owners, acting in their capacity as owners including prescribed disclosures.

The Group has evaluated the impact of adopting this interpretation and has concluded that IFRIC 17 will only impact the Group's Financial Statements where the Group distributes assets other than cash to its owners in terms of recognising any dividend payable, measurement of any dividend payable and applicable disclosures prescribed by this interpretation.

***Improvements to IFRS's (annual Improvements Project 2007)***

The Standard deals with 34 amendments which were separated into Part I and Part II and become effective for financial periods beginning on or after 1 January 2009 unless otherwise stated below. Part I deals with changes the IASB identified that resulted in accounting changes while Part II deals with terminology or editorial amendments.

Part I included 23 amendments to the following Standards:

- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations – effective 1 July 2009
- IAS 1, Presentation of Financial Statements
- IAS 16, Property, Plant and Equipment
- IAS 19, Employee Benefits
- IAS 20, Accounting for Government Grants and Disclosures of Government Assistance
- IAS 23, Borrowing costs
- IAS 27, Consolidated and Separate Financial Statements
- IAS 28, Investments in Associates
- IAS 29, Financial Reporting in Hyper Inflationary Economies
- IAS 31, Interests in Joint Ventures
- IAS 36 Impairment of Assets
- IAS 38, Intangible Assets
- IAS 39, Financial Instruments : Recognition and Measurement
- IAS 40, Investment Property
- IAS 41, Agriculture

The Group has evaluated the impact of all improvements and has concluded the improvements shall have no material impact on the Group's Financial Statements on adoption of the improvements.

## 2. SEGMENTAL ANALYSIS

| | REVENUES | | | | REVENUE-RETAIL SALES | | | | SEGMENT RESULT-OPERATING PROFIT[3] | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Successor | | | Predecessor | Successor | | | Predecessor | Successor | | | Predecessor |
| | 2009 | 2008 | 2007 5 weeks to 5 May | 2007 | 2009 | 2008 | 2007 5 weeks to 5 May | 2007 | 2009 | 2008 | 2007 5 weeks to 5 May | 2007 |
| | Rm | Rm | | Rm | Rm | Rm | | Rm | Rm | Rm | | Rm |
| Department Stores Division | **13,291** | 11,283 | 1,196 | 11,559 | **13,086** | 11,109 | 1,180 | 11,383 | **1,193** | 1,292 | 218 | 1,652 |
| Discount Division | **9,206** | 7,333 | 776 | 7,353 | **8,989** | 7,135 | 759 | 7,148 | **(197)** | 336 | 101 | 726 |
| Manufacturing Division | **45** | 39 [1] | 2 | 32 | | | | | **2** | (3 ) | 1 | (13) |
| Credit and Financial Services | **2,633** | 2,059 | 120 | 1,170 | | | | | **845**[4] | 664 [4] | 33[4] | 2[4] |
| Group Services[2] | **20** | 236 | – | 35 | | | | | **245** | (1,519 ) | (5) | (1) |
| Group | **25,195** | 20,950 | 2,094 | 20,149 | **22,075** | 18,244 | 1,939 | 18,531 | **2,088** | 770 | 348 | 2,366 |
| South Africa | **23,915** | 20,015 | 2,010 | 19,325 | **20,946** | 17,420 | 1,855 | 17,755 | **1,687** | 485 | 317 | 2,116 |
| Other[7] | **1,280** | 935 | 84 | 824 | **1,129** | 824 | 84 | 776 | **401** | 285 | 31 | 250 |

| | DEPRECIATION AND AMORTISATION | | | | IMPAIRMENT OF INTANGIBLES | | | | CAPITAL EXPENDITURE[5] | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Successor | | | Predecessor | Successor | | Predecessor | | Successor | | | Predecessor |
| | 2009 | 2008 | 2007 5 weeks to 5 May | 2007 | 2009 | 2008 | 2007 5 weeks to 5 May | 2007 | 2009 | 2008 | 2007 5 weeks to 5 May | 2007 |
| | Rm | Rm | | Rm | Rm | Rm | | Rm | Rm | Rm | | Rm |
| Department Stores Division | **562** | 319 | 8 | 94 | **184** | | | | **169** | 233 | 10 | 205 |
| Discount Division | **283** | 194 | 6 | 73 | **513** | | | | **168** | 81 | 7 | 107 |
| Manufacturing Division | **2** | 1 | – | 2 | | | | | **1** | – | – | 1 |
| Credit and Financial Services | **7** | 4 | – | 4 | | | | | **–** | 2 | – | 6 |
| Group Services[2] | **245** | 272 | 13 | 124 | | | | | **231** | 208 | 30 | 245 |
| Group | **1,099** | 790 | 27 | 297 | **697** | | | | **569** | 524 | 47 | 564 |
| South Africa | **1,088** | 780 | 26 | 288 | **697** | | | | **562** | 518 | 46 | 546 |
| Other[7] | **11** | 10 | 1 | 9 | | | | | **7** | 6 | 1 | 18 |

### Notes

1 Represents manufacturing sales to third parties. In deriving the revenue, inter-group manufacturing sales of R145 million (47 weeks to 29 March 2008 R153 million, 5 weeks to 5 May 2007 R13 million and 2007: R190 million) have been eliminated.

2 Incorporating corporate divisions and consolidation adjustments.

3 The 2009 segmental result is stated after impairment of intangibles.

4 Includes equity accounted earnings of joint ventures of R349 million (47 weeks to 29 March 2008 R264 million, 5 weeks to 5 May 2007 R23 million and 2007: R243 million).

5 Excludes proceeds on disposal of properties, fixtures, equipment and vehicles (note 32.5).

6 Includes investment in joint ventures of R1 million (2008 and 2007: R11 million and R14 million).

7 Comprising Botswana, Lesotho, Swaziland and Namibia.

8 2009 financial data is presented for 52 weeks and 2008 financial data is presented for the 47 weeks ended 29 March 2008 for the Successor. Comparative data of the Predecessor is for the 5 weeks ended 5 May 2007 and 52 weeks ended 31 March 2007.

| | TOTAL ASSETS | | | TOTAL LIABILITIES | | | TOTAL EQUITY | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Successor | Predecessor | | Successor | Predecessor | | Successor | Predecessor |
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| | Rm | Rm | Rm | Rm | Rm | Rm | Rm | Rm | Rm |
| Department Stores Division | **9,525** | 9,334 | 2,271 | **1,702** | 1,904 | 437 | **7,823** | 7,430 | 1,834 |
| Discount Division | **5,150** | 5,198 | 767 | **1,095** | 1,179 | 284 | **4,055** | 4,019 | 483 |
| Manufacturing Division | **72** | 90 | 48 | **18** | 21 | 7 | **54** | 69 | 41 |
| Credit and Financial Services | **9,579**[6] | 8,711[6] | 5,251[6] | **162** | 146 | 175 | **9,417** | 8,565 | 5,076 |
| Group Services[2] | **13,014** | 17,285 | 1,180 | **34,789** | 35,978 | 3,642 | **(21,775)** | (18,693) | (2,462) |
| Group | **37,340** | 40,618 | 9,517 | **37,766** | 39,228 | 4,545 | **(426)** | 1,390 | 4,972 |
| South Africa | **36,652** | 39,987 | 8,943 | **37,673** | 39,163 | 4,507 | **(1,021)** | 824 | 4,436 |
| Other[7] | **688** | 631 | 574 | **93** | 65 | 38 | **595** | 566 | 536 |

| | Successor | | Predecessor |
|---|---|---|---|
| | **2009 28 March** | **2008 29 March** | **2007 31 March** |
| | **Rm** | **Rm** | **Rm** |
| **3. PROPERTIES, FIXTURES, EQUIPMENT AND VEHICLES** | | | |
| **Historic cost except for revalued land and buildings** | | | |
| Land and buildings | | | |
| Historic cost | **131** | 98 | 31 |
| Revaluation surplus | **35** | 35 | 94 |
| Leasehold improvements | **495** | 470 | 363 |
| Fixtures and fittings | **2,438** | 2,272 | 1,831 |
| Computer equipment and software | **952** | 642 | 1,403 |
| Machinery and vehicles | **169** | 156 | 177 |
| | **4,220** | 3,673 | 3,899 |
| **Accumulated depreciation** | | | |
| Buildings | **8** | 4 | 25 |
| Leasehold improvements | **155** | 58 | 191 |
| Fixtures and fittings | **595** | 206 | 1,033 |
| Computer equipment and software | **290** | 126 | 1,008 |
| Machinery and vehicles | **44** | 16 | 82 |
| | **1,092** | 410 | 2,339 |
| **Net carrying value** | **3,128** | 3,263 | 1,560 |
| Comprising: | | | |
| Land and buildings | **158** | 129 | 100 |
| Leasehold improvements | **340** | 412 | 172 |
| Fixtures and fittings | **1,843** | 2,066 | 798 |
| Computer equipment and software | **662** | 516 | 395 |
| Machinery and vehicles | **125** | 140 | 95 |
| | **3,128** | 3,263 | 1,560 |
| **Opening net carrying value** | **3,263** | – | 1,320 |
| **Movements for the year** | | | |
| Land and buildings – revaluation, cost less accumulated depreciation | **–** | 26 | – |
| **Capital expenditure** | | | |
| Buildings | **–** | – | – |
| Leasehold improvements | **65** | 64 | 59 |
| Fixtures and fittings | **233** | 257 | 268 |
| Computer equipment and software | **265** | 201 | 204 |
| Machinery and vehicles | **3** | 2 | 33 |
| | **566** | 524 | 564 |
| **Fair value of acquisitions** (note 32.12) | | | |
| Acquisition of the Edcon Group: | | | |
| Land and buildings | | 105 | |
| Leasehold Improvements | | 409 | |
| Fixtures and fittings | | 1,973 | |
| Computer equipment and software | | 440 | |
| Machinery and vehicles | | 155 | |
| Acquisition of Discom – fixtures and fittings | | 39 | |
| | | 3,121 | |
| **Other** | | | |
| Currency adjustments | **(1)** | 8 | 2 |
| Reclassification of assets | **–** | | |
| Buildings | **33** | | |
| Leasehold improvements | **(36)** | | |
| Fixtures and fittings | **(57)** | | |
| Computer equipment and software | **50** | | |
| Machinery and vehicles | **10** | | |
| | **565** | 3,679 | 566 |
| **Disposals** | | | |
| Land and buildings | **–** | – | 26 |
| Leasehold improvements | **4** | 1 | – |
| Fixtures and fittings | **10** | 5 | 4 |
| Computer equipment and software | **5** | – | – |
| Machinery and vehicles | **–** | – | – |
| | **19** | 6 | 30 |
| Depreciation (note 25.3) | **681** | 410 | 296 |
| **Closing net carrying value** | **3,128** | 3,263 | 1,560 |

**3. PROPERTIES, FIXTURES, EQUIPMENT AND VEHICLES** *(continued)*

The reclassifications on page F-116 arose as a result of finalising the take-on of the fixed assets fair value adjustment in the fixed asset register by asset as a result of the Edcon Group acquisition.

Land and buildings were revalued at 1 March 2008 to open market value based on the open market net rentals and current replacement cost of each property. Deferred taxation has been raised on the revaluation surplus. The independent valuations were carried out by professional valuers. No other categories of assets were revalued. A register of the Group's land and buildings is available for inspection at the company's registered office.

If the land and buildings were measured using the cost model the cost is R156 million (2008 and 2007: R98 million and R31 million) and the accumulated depreciation is R8 million (2008 and 2007: R4 million and R25 million).

At 28 March 2009 the properties, fixtures, equipment and vehicles have an estimated replacement cost and insurance value of R6.0 billion (2008 and 2007: R5.2 billion and R5.0 billion) which excludes input value added-tax where appropriate. The Group had no idle fixed assets. The gross cost of fully depreciated fixtures, equipment and vehicles is immaterial.

These assets are security in terms of the floating rate notes issued (note 18) and the revolving credit facility (note 19).

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 28 March | 2008 29 March | 2007 31 March |
| | Rm | Rm | Rm |
| **4. INTANGIBLE ASSETS** | | | |
| Goodwill represents the excess of the purchase consideration over the fair value of the identifiable assets at the date of acquisition purchased as part of a business combination. Other intangible assets represent registered rights to the exclusive use of certain trademarks and brand names. | | | |
| **Balance at the beginning of the period** | **20,112** | – | 78 |
| **Current year movements** | | | |
| Goodwill on acquisition of Edcon Group (note 32.12.1) | | 8,348 | |
| Goodwill on acquisition of Discom (note 32.12.2) | | 86 | |
| Goodwill on consolidation of OntheCards (note 32.12.3) | | 79 | |
| Intangible assets on acquisition of the Edcon Group (note 32.12.1) | | 11,906 | |
| Intangible asset on acquisition of Discom (note 32.12.2) | | 73 | |
| Amortisation of intangible assets: | | | |
| Charge for the year (note 25.1) | **(418)** | (380) | (1) |
| Impairment of goodwill | **(12)** | | |
| Impairment of indefinite life brands | **(685)** | | |
| **Balance at the end of the period** | **18,997** | 20,112 | 77 |
| **Comprising:** | | | |
| Goodwill at cost | **8,513** | 8,513 | 77 |
| Intangible assets at cost | **11,979** | 11,979 | 5 |
| Impairment of intangibles | **(697)** | | |
| Accumulated amortisation of intangible assets | **(798)** | (380) | (5) |
| | **18,997** | 20,112 | 77 |

| | Successor | | Predecessor |
|---|---|---|---|
| | 28 March 2009 | 29 March 2008 | 31 March 2007 |
| | Rm | Rm | Rm |
| **4. INTANGIBLE ASSETS** *(continued)* | | | |
| **Intangible assets at cost:** | | | |
| Indefinite life brands | **8,492** | 8,492 | |
| Finite life brands | **229** | 229 | |
| Customer relationships | **1,974** | 1,974 | |
| Trademarks recognised | **206** | 206 | 5 |
| Customer lists | **561** | 561 | |
| Technology | **517** | 517 | |
| | **11,979** | 11,979 | 5 |
| **Impairment of intangibles:** | | | |
| Indefinite life brands | **(685)** | | |
| | **(685)** | | |
| **Amortisation of intangible assets:** | | | |
| Finite life brands | **(41)** | (18) | |
| Customer relationships | **(433)** | (207) | |
| Trademarks recognised | **(40)** | (19) | (5) |
| Customer lists | **(142)** | (68) | |
| Technology | **(142)** | (68) | |
| | **(798)** | (380) | (5) |
| **Carrying value of intangible assets:** | | | |
| Indefinite life brands | **7,807** | 8,492 | |
| Finite life brands | **188** | 211 | |
| Customer relationships | **1,541** | 1,767 | |
| Trademarks recognised | **166** | 187 | – |
| Customer lists | **419** | 493 | |
| Technology | **375** | 449 | |
| | **10,496** | 11,599 | – |

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

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

Goodwill is tested annually for impairment (refer to note 5).

## 5. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES

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

- Department Stores Division – consists of the Edgars and CNA chains offering clothing, footwear, homeware and stationery products
- Discount Division – includes Jet, JetMart, Discom, Legit and Jet Shoes chains offering clothing, footwear, beauty and homeware products.
- Credit and Financial Services

Impairment testing of this goodwill and intangibles with indefinite lives was undertaken on the following basis: The recoverable amount of cash-generating units has been determined based on a value-in-use calculation. To calculate this, cash flow projections are based on financial budgets approved by senior management covering a five-year period. The discount

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

rate applied to the cash flow projections for the Department Stores and Discount Divisions is 15% (2008: 15%) and for the Credit and Financial Services division, 17% (2008: 17%). The average growth rates used to extrapolate the cash flow projection of each cash-generating unit beyond the five-year period is 6% (2008: 5%) as future benefits are expected beyond the five year period.

| **Carrying amount of goodwill and intangibles with indefinite lives (Rm)** | **Department Stores Division** | **Discount Division** | **Credit and Financial Services** | **Total** |
|---|---|---|---|---|
| Carrying amount of goodwill | **1,824** | **3,008** | **3,669** | **8,501** |
| Carrying amount of indefinite life intangibles | **5,099** | **2,708** | **–** | **7,807** |

During the current period a total impairment of R685 million has been recognised on the indefinite life brands due to an economic downturn not anticipated in the prior period impairment tests. As a result, forecast sales assumptions were decreased in line with current market conditions over the short-term, however the growth rates beyond the five year period were increased.

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

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

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

Gross margins are based on financial budgets for both the Department Stores Division and the Discount Division. The gross margin of the Department Stores Division and Discount Division is held constant over the five year period.

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

Market share assumptions (based on external market information) are important as management considers how the units position relative to its competitors might change over the budget period. Management expects the market share of both the Department Stores Division and the Discount Division to be reasonably stable over the budget period.

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

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

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 28 March | 2008 29 March | 2007 31 March |
| | Rm | Rm | Rm |
| **6. HELD-TO-MATURITY INVESTMENTS** | | | |
| Preference shares earning a prime interest linked rate of (2007: 7,81%) redeemable in August 2007 | | | 170 |
| Preference shares earning a prime linked interest rate of (2007: 7,72%) redeemable in August 2008 | | | 370 |
| Preference shares earning a prime linked interest rate of (2007: 7,81%) redeemable in August 2008 | | | 160 |
| | | | 700 |

Our credit and financial services business has historically been funded by the sale of receivables generated by that business to OntheCards (OtC). In order to fund the payment of the purchase price for the receivables, OtC issued from time to time notes that were listed on the Bond Exchange of South Africa and borrowed under a subordinated loan facility provided by First Rand Bank. Edcon pledged preference shares as security for a credit default swap which secured First Rand Bank's subordinated loan to OtC.

| | | | |
|---|---|---|---|
| **7. EQUITY ACCOUNTED INVESTMENT IN JOINT VENTURES** | | | |
| Hollard Insurance – 50% holding offering long and short- term insurance products to account holders | **1** | 11 | 14 |
| SA Eagle Legal (Pty) Ltd | **–** | – | – |
| | **1** | 11 | 14 |
| **7.1 Share of joint ventures' reserves** | | | |
| Balance at the beginning of the period | **11** | – | 12 |
| Acquisition of Edcon Group | | 38 | |
| Profit for the period | **349** | 264 | 243 |
| Administration fee | **(129)** | | |
| Dividends received | **(230)** | (291) | (241) |
| Carrying value of joint ventures | **1** | 11 | 14 |
| **7.2 Share of joint ventures' net assets, revenue and profit** | | | |
| Current assets | **270** | 222 | 177 |
| Current liabilities | **56** | 23 | 50 |
| Revenue | **990** | 622 | 727 |
| Expenses | **515** | 210 | 215 |
| Profit after tax | **349** | 264 | 243 |

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 28 March | 2008 29 March | 2007 31 March |
| | Rm | Rm | Rm |
| **8. DERIVATIVE FINANCIAL INSTRUMENTS** | | | |
| **8.1 Non-current derivative assets** | | | |
| Foreign currency forward contracts[1] | **232** | 942 | |
| Currency swaps | **2,161** | 4,487 | |
| | **2,393** | 5,429 | |
| **8.2 Current derivative assets** | | | |
| Interest rate swaps[1] | | 5 | |
| Foreign currency forward contracts[1] | **188** | 416 | |
| | **188** | 421 | |
| **8.3 Non-current derivative liabilities** | | | |
| Interest rate swaps[1] | **503** | 379 | |
| Foreign currency forward contracts[1] | **68** | | |
| Currency swaps | **431** | | |
| | **1,002** | 379 | |
| **8.4 Current derivative liabilities** | | | |
| Interest rate swaps[1] | **454** | | |
| Foreign currency forward contracts[1] | **60** | | |
| | **514** | | |
| **8.5 Total derivatives** | | | |
| Interest rate swap liability | **(957)** | (374) | |
| Foreign currency forward contracts asset | **292** | 1,358 | |
| Currency swaps asset | **1,730** | 4,487 | |
| | **1,065** | 5,471 | |
| **Credit risk valuation adjustments[2]** | | | |
| Interest rate swaps | **(240)** | – | |
| Foreign currency forward contracts | **(18)** | – | |
| Currency swaps | **(168)** | – | |
| | **(426)** | – | |
| **Total derivatives before credit risk valuation adjustments** | | | |
| Interest rate swap liability | **(1,197)** | (374) | |
| Foreign currency forward contracts asset | **274** | 1,358 | |
| Currency swaps asset | **1,562** | 4,487 | |
| | **639** | 5,471 | |

The Group issued Euro denominated floating rate notes to the value of € 1,810 million on the Irish Stock Exchange on 15 June 2007. The issue consisted of senior secured floating rate notes and senior floating rate notes of € 1,180 million and € 630 million respectively.

On 27 June 2008, the Group completed a notes repurchase of the senior floating rate notes with a nominal value of € 252 million for € 138.6 million being 55% of the face value.

In June 2008 we realised R1,793 million from certain derivatives used to hedge interest rate and foreign exchange exposures associated with the senior floating rate notes.

1 Refer to note 35.2 for details of hedging activities.

2 Credit risk valuation adjustments are included in the total fair value of derivatives above.

| | | Successor | | Predecessor |
|---|---|---|---|---|
| | | 2009 28 March | 2008 29 March | 2007 31 March |
| | | Rm | Rm | Rm |
| **8.** | **DERIVATIVE FINANCIAL INSTRUMENTS** *(continued)* | | | |
| **8.5** | **Total derivatives** *(continued)* | | | |

The remaining notes expose the Group to both interest rate risk and foreign exchange risk. The Group has executed the following hedging strategy:

– A series of interest rate swaps were entered at a swap rate of pay 4.529% fixed, receive three months EURIBOR, quarterly. Settlement dates match the quarterly payment dates for coupons on the floating rate notes up to 15 June 2011. The transaction hedges the interest rate risk on the cash flows occurring during the first four years of the senior floating rate notes and the senior secured floating rate notes (refer to note 18) and was designated as a cash flow hedge.

– A series of foreign currency forward contracts were entered to buy EUR and sell ZAR corresponding to the EUR scheduled payments on the fixed leg of the interest rate swap at each payment date. Settlement dates match the payment dates of the interest rate swap. These foreign currency forward contracts therefore hedge the EUR/ZAR currency risk on the combined cash flows of the interest rate swap and the first four years of anticipated interest payments on the floating rate notes and were designated as a cash flow hedge.

– A currency swap was entered to economically hedge the repayment of the €1,558 million (2008: €1,810 million) principal on the senior and senior secured floating rate notes and matures on 15 June 2012.

| | | | | |
|---|---|---|---|---|
| **8.6** | **Derivative unrealised (losses)/gains** | | | |
| | Interest rate swaps gain | **–** | 70 | |
| | Foreign currency forward contracts loss | **–** | (203) | |
| | Currency swaps (loss)/gain | **(1,427)** | 4,745 | |
| | Ineffective portion of cash flow hedge – interest rate swap released from equity (note 14) | **2** | – | |
| | Ineffective portion of cash flow hedge – foreign currency forward released from equity (note 14) | **10** | – | |
| | Derivative unrealised (losses)/gains | **(1,415)** | 4,612 | |
| **8.7** | **Derivative realised gains** | | | |
| 8.7.1 | Included in profit before net financing costs released from equity (note 14) | **231** | | |
| 8.7.2 | Included in net financing costs released from equity (note 14) | **265** | | |
| | **Total derivative realised gains** | **496** | | |

During June 2008, R1,330 million previously recognised in unrealised gains in profit and loss was realised on the currency swaps.

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 28 March | 2008 29 March | 2007 31 March |
| | Rm | Rm | Rm |
| **8. DERIVATIVE FINANCIAL INSTRUMENTS** *(continued)* | | | |
| **8.8 Maturity analysis of derivative financial instruments' cash flows** | | | |
| **Cash outflows** | | | |
| Due within one year | **2,205** | 1,663 | |
| Total due within one year | **2,205** | 1,663 | |
| After one year but within two years | **2,268** | 1,935 | |
| After two years but within three years | **564** | 2,026 | |
| After three years but within four years | **21,623** | 504 | |
| After four years but within five years | | 23,054 | |
| Total due after one year | **24,455** | 27,519 | |
| Total | **26,660** | 29,182 | |
| **Cash inflows** | | | |
| Due within one year | **1,738** | 2,116 | |
| Total due within one year | **1,738** | 2,116 | |
| After one year but within two years | **1,831** | 2,239 | |
| After two years but within three years | **475** | 2,383 | |
| After three years but within four years | **23,617** | 623 | |
| After four years but within five years | | 29,933 | |
| Total due after one year | **25,923** | 35,178 | |
| Total | **27,661** | 37,294 | |
| **Net cash (outflows)/inflows** | | | |
| Due within one year | **(467)** | 453 | |
| Total due within one year | **(467)** | 453 | |
| After one year but within two years | **(437)** | 304 | |
| After two years but within three years | **(89)** | 357 | |
| After three years but within four years | **1,994** | 119 | |
| After four years but within five years | | 6,879 | |
| Total due after one year | **1,468** | 7,659 | |
| Total | **1,001** | 8,112 | |

The maturity analysis of derivative financial instruments' cash flows reflects the expected cash outflows and inflows of the Group using undiscounted cash flows, settlement terms and expected movements in floating rates.

| | Successor | | Predecessor | |
|---|---|---|---|---|
| | **2009 52 weeks to 28 March** | **2008 47 weeks to 29 March** | **2007 5 weeks to 5 May** | **2007 52 weeks to 31 March** |
| | **Rm** | **Rm** | **Rm** | **Rm** |
| **9. DEFERRED TAXATION** | | | | |
| Balance at the beginning of the period | **(1,851)** | – | 82 | 84 |
| Deferred tax arising on acquisitions and consolidation of OtC (note 32.12) | | (2,289) | – | – |
| Income statement (note 29.1) | **1,193** | 718 | (5) | (2) |
| Deferred tax in equity (note 29.2) | **279** | (280) | – | – |
| Other | **5** | | (77) | |
| Balance at the end of the period | **(374)** | (1,851) | – | 82 |
| **Comprising:** | | | | |
| Appro sales | **20** | – | | 53 |
| Intangible assets | **1,669** | 1,881 | | |
| Property, fixtures, equipment and vehicles | **431** | 430 | | 68 |
| Capital expenditure | **–** | – | | 4 |
| Prepayments | **4** | 2 | | 3 |
| Revaluation reserve | **3** | 3 | | 5 |
| Fair value gain on interest rate swaps | **2** | 20 | | |
| Cash flow hedges in equity | **–** | 401 | | |
| Deferred STC raised | **10** | 9 | | |
| Other | **15** | 14 | | 14 |
| **Deferred tax liability** | **2,154** | 2,760 | | 147 |
| Doubtful debts | **244** | 175 | | 19 |
| Other payables | **129** | 75 | | 43 |
| Leave pay accrual | **34** | | | |
| Operating lease adjustment | **112** | 118 | | 129 |
| Unearned finance income | **19** | 15 | | |
| Fair value loss on interest rate swaps deferred in equity | **–** | 125 | | |
| Cash flow hedges | **270** | | | |
| Assessed loss on income statement items | **972** | 401 | | |
| Other | **–** | – | | 38 |
| **Deferred tax asset** | **1,780** | 909 | | 229 |
| **Net deferred tax (liability) / asset** | **(374)** | (1,851) | | 82 |

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 28 March | 2008 29 March | 2007 31 March |
| | Rm | Rm | Rm |
| **10. INVENTORIES** | | | |
| Merchandise | **2,515** | 2,119 | 1,937 |
| Raw materials | **20** | 22 | 18 |
| Work in progress | **9** | 7 | 7 |
| Total inventories on hand | **2,544** | 2,148 | 1,962 |
| Inventory write-downs included above | **85** | 95 | 91 |
| **11. TRADE, OTHER RECEIVABLES AND PREPAYMENTS** | | | |
| Trade accounts receivable – retail | **10,506** | 9,325 | 4,844 |
| Trade accounts receivable – personal loans | **1** | 7 | 66 |
| Allowance for doubtful debts | **(1,045)** | (827) | (545) |
| Total trade receivables | **9,462** | 8,505 | 4,365 |
| Other receivables | **224** | 190 | 182 |
| Pension fund asset | | | 86 |
| Value-added taxation receivable | **–** | – | 5 |
| Staff loans | **9** | 5 | 6 |
| Total receivables | **9,695** | 8,700 | 4,644 |
| Fair value gain on forward exchange contracts (note 35.4) | **–** | 29 | – |
| Prepayments | **15** | 13 | 7 |
| Net trade, other receivables and prepayments | **9,710** | 8,742 | 4,651 |
| All obligations under the borrowing base facility (see note 19) are secured by a first priority security interest over designated eligible receivables constituting the borrowing base for the borrowing base facility. At 28 March 2009 R2,634 million (2008: R2,792 million) is designated as eligible receivables. | | | |
| All obligations under the OtC receivable backed facility (see note 19) are secured by a pledge and cession of the eligible receivables that OtC acquires from time to time. At 28 March 2009 R4,157 million (2008: R4,017 million) is designated as eligible receivables. | | | |
| **11.1 Analysis of trade receivables past due but not impaired** | | | |
| Overdue 30 days – 60 days | **1,778** | 1,105 | 479 |
| Overdue 60 days – 90 days | **655** | 405 | 193 |
| Overdue 90 days – 120 days | **277** | 194 | 96 |
| Greater than 120 days | **480** | 324 | 181 |
| | **3,190** | 2,028 | 949 |
| **11.2 Trade receivables provided for** | **1,045** | 827 | 545 |
| **11.3 Interest on impaired receivables** | **201** | 212 | 118 |
| Interest recognised on impaired receivables This interest is included in the finance charges in note 23. | | | |
| **11.4 Allowance for doubtful debts** | | | |
| Balance at the beginning of the period | **827** | – | 322 |
| Acquisition of the Edcon Group | | 548 | |
| Consolidation of OntheCards | | 198 | |
| Increase in allowance | **218** | 88 | 223 |
| Release of provision | **–** | (7) | – |
| Balance at the end of the period | **1,045** | 827 | 545 |
| Amounts written off are disclosed in note 26.2. | | | |

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 28 March | 2008 29 March | 2007 31 March |
| | Rm | Rm | Rm |
| **12. CASH AND CASH EQUIVALENTS** | | | |
| Cash on hand | **233** | 382 | 207 |
| Cash on deposit | **146** | 110 | 264 |
| | **379** | 492 | 471 |
| **13. SHARE CAPITAL AND PREMIUM** | | | |
| **13.1 Authorised ordinary share capital** | | | |
| 720,000,000 ordinary shares with a par value of 1 cent | | | 7 |
| 65,000,000 "A" ordinary shares of 1 cent each | | | 1 |
| 1,000,000,000 "A" ordinary shares with a par value of 0.00001 cent each | **–** | – | |
| 100,000,000 "B" ordinary shares with a par value of 0.00001 cent each | **–** | – | |
| 1,000,000,000 "C" ordinary shares with a par value of 0.00001 cent each | **–** | – | |
| 1,000,000,000 "D" ordinary shares with a par value of 0.00001 cent each | **–** | – | |
| 1,000,000,000 "E" ordinary shares with a par value of 0.00001 cent each | **–** | – | |
| | **–** | – | 8 |
| **13.2 Authorised preference share capital** | | | |
| 150,000 6% preference shares of R2 each | | | – |
| 15,000,000 cumulative and redeemable at the option of the issuer, non-participating variable rate "B" preference shares of 1 cent each | | | – |
| 1,000,000,000 "A" preference shares of R0.00001 each | **–** | – | |
| | **–** | – | – |

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 28 March Number | 2008 29 March Number | 2007 31 March Number |
| **13.3 Number of ordinary shares in issue** | | | |
| Number of shares at the beginning of the period | **610,438** | – | 489,824,716 |
| "A" ordinary shares issued | | 550,438 | |
| "B" ordinary shares issued | | 69,213 | |
| "C" ordinary shares issued | | 20,000 | |
| "D" ordinary shares issued | | 20,000 | |
| "E" ordinary shares issued | | 20,000 | |
| Issued for exercise of share options | | | 36,552,090 |
| Treasury Shares – Staff Empowerment Trust | | (69,213) | |
| Treasury Shares – Staff Share Trust | | | (22,033,831) |
| Number of shares at the end of the period | **610,438** | 610,438 | 504,342,975 |
| **Number of ordinary shares in issue comprise:** | | | |
| "A" ordinary shares issued | **550,438** | 550,438 | |
| "B" ordinary shares issued | **69,213** | 69,213 | |
| "C" ordinary shares issued | **20,000** | 20,000 | |
| "D" ordinary shares issued | **20,000** | 20,000 | |
| "E" ordinary shares issued | **20,000** | 20,000 | |
| Ordinary shares | | | 595,209,810 |
| "A" ordinary shares | | | 56,500,000 |
| Treasury shares – United Retail Limited | | | (51,700,140) |
| Treasury shares – Staff Empowerment Trust | **(69,213)** | (69,213) | (56,500,000) |
| Treasury shares – Staff Share Trust | | | (39,166,695) |
| | **610,438** | 610,438 | 504,342,975 |

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 28 March | 2008 29 March | 2007 31 March |
| | Number | Number | Number |
| **13.4 Number of preference share capital in issue** | | | |
| Number of shares at the beginning of the period | **200,866** | – | 150,000 |
| "A" preference shares of R0.00001 each | | 200,866 | |
| Number of shares at the end of the period | **200,866** | 200,866 | 150,000 |
| **Number of preference shares in issue comprise:** | | | |
| "A" preference shares of R0.00001 each | **200,866** | 200,866 | |
| 6% preference shares of R2 each | | | 150,000 |
| | **200,866** | 200,866 | 150,000 |

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 28 March | 2008 29 March | 2007 31 March |
| | Rm | Rm | Rm |
| **13.5 Voting rights of ordinary and preference shares** | | | |

The "A" ordinary shareholder of the Predecessor was not entitled to any participation in the profits or assets of the company Edgars Consolidated Stores Limited and was not entitled to receive or participate in any payment to shareholders.

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

Each "A" preference share of the Successor shall not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of the company Edcon Holdings (Proprietary) Limited, save in the circumstances prescribed by the Companies Act.

The total "B" ordinary shareholder of the Successor at any time shall, in aggregate, have the right to exercise such number of votes as is equal to 10.6% of the aggregate voting rights of the total "A" ordinary shares then in issue.

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

| | | | |
|---|---|---|---|
| **13.6 Issued ordinary shares and premium** | | | |
| Balance at the beginning of the period | **2,143** | – | 171 |
| Ordinary shares issued – share capital | | – | 699 |
| Preference shares issued – share capital | | – | |
| Ordinary shares issued – share premium | | 2,756 | |
| Preference shares issued – share premium | | 207 | |
| Treasury shares – Staff Empowerment Trust | | (820) | |
| Net movement of treasury shares – Staff Share Trust | | | (634) |
| Balance at the end of the period | **2,143** | 2,143 | 236 |
| **Comprising:** | | | |
| Share capital | **–** | – | 5 |
| Share premium | **2,143** | 2,143 | 231 |
| Total | **2,143** | 2,143 | 236 |

R175 million of ordinary shares were issued through the capitalisation of a portion of the shareholder's loan at 29 March 2008.

| | Successor | Predecessor | |
|---|---|---|---|
| | 2009 28 March | 2008 29 March | 2007 31 March |
| | Rm | Rm | Rm |
| **14. OTHER RESERVES** | | | |
| **Balance at the beginning of the period comprising:** | | | |
| Revaluation reserve net of deferred taxation | **23** | – | 76 |
| Foreign currency translation reserve | **31** | – | (45) |
| Other | **–** | – | 10 |
| Cash flow hedges net of tax | **782** | | |
| | **836** | – | 41 |
| **Movements** | | | |
| Net increase in revaluation reserve | **–** | 23 | – |
| Foreign currency translation reserve | **(3)** | 31 | 15 |
| Other | **–** | – | (1) |
| Cash flow hedges recognised in equity | **(2,054)** | 1,234 | |
| Cash flow hedges reclassified to profit or loss (note 8.6 & 8.7) | **508** | (148) | |
| Tax impact of cash flow hedges (note 29.2) | **433** | (304) | |
| Balance at the end of the period | **(280)** | 836 | 55 |
| **Comprising:** | | | |
| Revaluation reserve net of deferred taxation | **23** | 23 | 76 |
| Foreign currency translation reserve | **28** | 31 | (30) |
| Other | **–** | – | 9 |
| Cash flow hedges net of tax | **(331)** | 782 | |
| | **(280)** | 836 | 55 |
| **15. RETAINED (LOSS) / SURPLUS** | | | |
| **Comprising:** | | | |
| Holding company – Edcon Holdings (Proprietary) Limited | **2,039** | (454) | 4,038 |
| Consolidated subsidiaries | **(4,328)** | (1,136) | 632 |
| | **(2,289)** | (1,590) | 4,670 |
| Distributions by certain foreign subsidiaries will give rise to withholding taxes of R68 million (2008 and 2007: R43 million and R29 million). No deferred tax is raised until dividends are declared as the Group controls the timing of the reversal and it is probable that there will be no reversal in the foreseeable future. Deferred tax not raised was R161 million (2008: R109 million). | | | |
| **16. CONSOLIDATED SUBSIDIARIES (Annexure 1 : page F-160)** | | | |
| **16.1 Aggregate profits/losses of subsidiaries and joint venture** | | | |
| Profits | **254** | 25,382 | 534 |
| Losses | **(3,415)** | (26,906) | (1) |
| | **(3,161)** | (1,524) | 533 |

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 28 March | 2008 29 March | 2007 31 March |
| | Rm | Rm | Rm |
| **17. SHAREHOLDER'S LOAN** | | | |
| Loan by Edcon (BC) S.A.R.L. | **6,492** | 5,547 | – |
| **Comprising:** | | | |
| Principal at the beginning of the period (note 28.1) | **5,057** | | |
| Loan from Edcon (BC) S.A.R.L. | | 5,057 | |
| Interest capitalised during the period | **672** | | |
| Principal at the end of the period | **5,729** | 5,057 | |
| Interest accrued at the beginning of the period | **490** | | |
| Interest accrued for the period (note 28.1) | **945** | 665 | |
| Interest capitalised during the period | **(672)** | | |
| Share capital issued | | (175) | |
| Interest accrued at the end of the period | **763** | 490 | |
| The loan is denominated in South African Rands and accrues interest at the South African prime rate plus 2% p.a. on the principal up to and including the date of repayment. The principal is repayable by no later than May 2037. This shareholder's loan is regarded as capital for IAS 1 purposes (refer to note 34). | | | |
| **18. LONG TERM INTEREST BEARING DEBT** | | | |
| Senior secured floating rate notes issued | **11,259** | 11,259 | |
| Foreign currency on senior secured floating rate notes | **3,832** | 3,863 | |
| Fees capitalised on senior secured floating rate notes | **(224)** | (252) | |
| **Senior secured floating rate notes** | **14,867** | 14,870 | |
| Senior floating rate notes issued | **3,606** | 6,010 | |
| Foreign currency on senior floating rate notes | **1,227** | 2,063 | |
| Fees capitalised on senior floating rate notes | **(100)** | (182) | |
| **Senior floating rate notes** | **4,733** | 7,891 | |
| Subordinated loan | | 25 | |
| | **19,600** | 22,786 | |
| **18.1 Reconciliation of long-term interest bearing debt** | | | |
| Balance at the beginning of the period | **22,786** | – | |
| Subordinated loan issued | | 25 | |
| Senior floating rate notes issued | | 6,010 | |
| Senior secured floating rate notes issued | | 11,259 | |
| Fees capitalised on senior floating rate notes | | (194) | |
| Fees capitalised on senior secured floating rate notes | | (273) | |
| Foreign currency movement on senior floating rate notes | **(103)** | 2,063 | |
| Foreign currency movement on senior secured floating rate notes | **(31)** | 3,863 | |
| Fees amortised on senior floating rate notes | **82** | 12 | |
| Fees amortised on senior secured floating rate notes | **28** | 21 | |
| Senior floating rate notes repurchased (note 18.2) | **(2,404)** | | |
| Foreign currency movement on notes repurchased | **(733)** | | |
| Subordinated loan repaid | **(25)** | | |
| Balance at the end of the period | **19,600** | 22,786 | |
| Unrealised foreign exchange gain/(loss) on notes issued | **134** | (5,926) | |
| Fees amortised recognised in financing costs (note 28.1) | **110** | 33 | |

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 28 March | 2008 29 March | 2007 31 March |
| | Rm | Rm | Rm |
| **18. LONG TERM INTEREST BEARING DEBT** *(continued)* | | | |
| **18.2 Buy-back of senior floating rate notes** | | | |
| Senior floating rate notes repurchased | **2,404** | | |
| Foreign currency movement on notes repurchased | **733** | | |
| Purchase price of senior floating rate notes | **(1,726)** | | |
| Fees paid and accrued on buy-back of senior floating rate notes | **(61)** | | |
| Gain on buy-back of the senior floating rate notes after fees incurred | **1,350** | | |

The senior secured floating rate notes of €1,180 million are issued by Edcon (Proprietary) Limited and guaranteed on a senior secured basis and are secured, along with the revolving credit facility, by security interests over substantially all the assets of Edcon Holdings (Proprietary) Limited and its restricted subsidiaries. Currently there are no unrestricted subsidiaries in the Group. Interest is payable quarterly in arrears at a rate of three-month EURIBOR, reset quarterly, plus 3.25%. The notes mature on 15 June 2014. There have been no defaults or breaches of the principal or interest during the period. The market value of the senior secured floating rate notes at 28 March 2009 was R5,885 million (2008: R10,132 million).

The senior floating rate notes of € 378 million (2008: € 630 million) are issued by Edcon Holdings (Proprietary) Limited and guaranteed on a senior subordinated basis and secured by a third ranking pledge of the proceeds from the loan between Edcon Holdings (Proprietary) Limited and Edcon (Proprietary) Limited. Interest is payable quarterly in arrears at a rate of three-month EURIBOR, reset quarterly, plus 5.5%. The notes mature on 15 June 2015. There have been no defaults or breaches of principal or interest during the period. On 27 June 2008, the Group repurchased € 252 million (R3,137 million) of the senior floating rate notes. The market value of the senior floating rate notes at 28 March 2009 was R1,039 million (2008: R3,714 million).

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 28 March | 2008 29 March | 2007 31 March |
| | Rm | Rm | Rm |
| **19. SHORT-TERM INTEREST BEARING DEBT** | | | |
| Borrowing base facility | **816** | 1,315 | |
| OtC receivables backed facility | **2,599** | 2,581 | |
| Revolving credit facility | **1,825** | 611 | |
| OtC liquidity facility | **60** | | |
| Secured bank overdrafts, call funds and short-term loans | **–** | – | 713 |
| | **5,300** | 4,507 | 713 |

The borrowing base facility provides secured financing of up to R3,900 million (2008: R3,900 million). All obligations under that facility are secured by a first priority security interest over designated eligible receivables (see note 11) constituting the borrowing base for the facility. The facility accrues interest at applicable JIBAR plus a margin of 2.6% (2008: 2.1%) payable monthly in arrears.

The OtC receivables backed facility provides secured financing of up to R2,600 million (2008: R2,600 million). All obligations under the facility are secured by a pledge and a cession of the eligible receivables that OtC acquires from time to time (see note 11). The facility accrues interest at applicable JIBAR plus a margin of 2.6% (2008: 2.1%) payable monthly in arrears.

## 19. SHORT-TERM INTEREST BEARING DEBT *(continued)*

The revolving credit facility provides senior secured financing of up to R3,500 million (2008: R3,500 million) for general corporate and working capital purposes. All obligations under the facility are secured by substantially all the assets of Edcon Holdings (Proprietary) Limited and its restricted subsidiaries. Currently there are no unrestricted subsidiaries in the Group. The revolving credit facility accrues interest at applicable JIBAR plus a margin of 2.5% payable monthly in arrears. The facility includes R2,225 million (2008: R2,200 million) borrowing capacity available for bank guarantees, letters of credit, forward exchange contracts and for borrowings under bilateral ancillary facilities. These ancillary facilities accrue interest at ruling over-night market related lending rates.

The OtC liquidity facility with FirstRand Bank Limited accrues interest at a rate equal to the SAFEX call rate from time to time plus 1.45% calculated from the date of any particular drawdown is made up to and including to the date immediately prior to the date on which the drawdown is repaid and capitalised monthly in arrears. The total liquidity facility granted is R200 million expiring in June 2010.

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

## 20. TRADE AND OTHER PAYABLES

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 28 March | 2008 29 March | 2007 31 March |
| | Rm | Rm | Rm |
| Trade accounts payable | **2,150** | 2,289 | 2,374 |
| Sundry accounts payable and accrued expenses | **1,111** | 909 | 710 |
| Lease equalisation | **30** | 23 | 24 |
| Leave pay accrual | **126** | 122 | 114 |
| Value added taxation payable | **46** | 59 | – |
| Interest accrued on Senior floating rate notes | **15** | 33 | – |
| Interest accrued on Senior secured floating rate notes | **32** | 49 | – |
| Commitment fee accrued | **15** | 17 | – |
| Fair value change on forward exchange contracts (notes 35.4) | **8** | – | 1 |
| | **3,533** | 3,501 | 3,223 |

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

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 28 March | 2008 29 March | 2007 31 March |
| | Rm | Rm | Rm |
| **21. FUTURE CAPITAL EXPENDITURE** | | | |
| **Contracted:** | | | |
| Properties, fixtures, equipment and vehicles | **214** | 395 | 249 |
| **Authorised by the directors but not yet contracted:** | | | |
| Properties, fixtures, equipment and vehicles | **258** | 373 | 553 |
| | **472** | 768 | 802 |

All the expenditure will be incurred during the next financial period and is to be financed from free cash flows.

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 28 March | 2008 29 March | 2007 31 March |
| | Rm | Rm | Rm |
| **22. LEASES** | | | |
| The Group leases the majority of its properties and computer equipment under operating leases whereas other operating assets are generally owned. The lease agreements of certain of the Group's store premises provide for a minimum annual rental payment and additional payments determined on the basis of turnover. Lease agreements have an option of renewal in terms of the lease agreement ranging between 5 to 10 years. | | | |
| The future minimum property operating lease commitments are due as follows: | **5,667** | 5,439 | 4,086 |
| Within one year | **1,069** | 941 | 814 |
| Between two and five years | **3,218** | 3,064 | 2,466 |
| In more than five years | **1,380** | 1,434 | 806 |
| The future revenue expected from sub-leases is estimated to be R17 million (2008: R15 million). | | | |
| The Group also leases certain computer equipment. The agreements provide for minimum annual rental payments and additional payments depending on usage. | | | |
| The future minimum computer equipment operating lease commitments are due as follows: | **412** | 480 | 439 |
| Within one year | **167** | 183 | 163 |
| Between two and five years | **245** | 297 | 276 |

| | Successor | | Predecessor | |
|---|---|---|---|---|
| | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 weeks to 5 May | 2007 52 weeks to 31 March |
| | Rm | Rm | Rm | Rm |
| **23. REVENUES** | | | | |
| Retail sales | **22,075** | 18,244 | 1,939 | 18,531 |
| Club fees | **422** | 372 | 33 | 381 |
| Preference dividend (note 31) | | 4 | 4 | 52 |
| Finance charges on trade receivables (note 31) | **2,271** | 1,779 | 93 | 875 |
| Equity accounted earnings of joint ventures | **349** | 264 | 23 | 243 |
| Interest received (note 28.2) | **33** | 248 | – | 35 |
| Manufacturing sales to third parties | **45** | 39 | 2 | 32 |
| | **25,195** | 20,950 | 2,094 | 20,149 |
| **24. OTHER INCOME** | | | | |
| Club fees | **422** | 372 | 33 | 381 |
| Manufacturing sales to third parties | **45** | 39 | 2 | 32 |
| | **467** | 411 | 35 | 413 |

| | Successor | | Predecessor | |
|---|---|---|---|---|
| | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 weeks to 5 May | 2007 52 weeks to 31 March |
| | Rm | Rm | Rm | Rm |
| **25. OTHER OPERATING COSTS** | | | | |
| Trading profit is stated after taking account of the following items: | | | | |
| **25.1 Amortisation of trademarks** | | | | |
| Charge for the year | **418** | 380 | – | 1 |
| **25.2 Auditors' remuneration** | | | | |
| Audit fees – current year | **10** | 11 | – | 7 |
| Audit fees – prior year | **1** | | | 2 |
| Fees for consulting and other services | **2** | 5 | – | 19 |
| | **13** | 16 | – | 28 |
| **25.3 Depreciation of properties, fixtures, equipment and vehicles** | | | | |
| Buildings | **4** | 4 | – | 3 |
| Leasehold improvements | **96** | 58 | 3 | 38 |
| Fixtures and fittings | **389** | 206 | 13 | 137 |
| Computer equipment and software | **164** | 126 | 10 | 107 |
| Machinery and vehicles | **28** | 16 | 1 | 11 |
| | **681** | 410 | 27 | 296 |
| **25.4 Fees payable** | | | | |
| Managerial, technical, administrative and secretarial fees paid outside the Group | **212** | 176 | 10 | 125 |
| Outsourcing of IT function | **354** | 233 | 22 | 245 |
| | **566** | 409 | 32 | 370 |
| **25.5 Operating lease expenses** | | | | |
| Properties: | | | | |
| Minimum lease payments | **1,061** | 841 | 71 | 812 |
| Turnover clause payments | **35** | 33 | 7 | 51 |
| Operating lease adjustment | **(23)** | (22) | (2) | (12) |
| Sublease rental income | **(17)** | (14) | (1) | (15) |
| Equipment and vehicles | **213** | 192 | 26 | 206 |
| | **1,269** | 1,030 | 101 | 1,042 |
| **25.6 Net (loss) / gain on disposal of properties, fixtures, equipment and vehicles** | **(18)** | **(5)** | **(4)** | **1** |
| **25.7 Cost of share based payments** | | | | |
| Acceleration of share options | | | 103 | |
| Staff share incentive scheme | | | 3 | 46 |
| Staff empowerment transaction | | | 1 | 12 |
| | | | 107 | 58 |
| Subsequent to 31 March 2007, the vesting dates for all options which were previously issued by the Predecessor were accelerated. An amount of R103 million was recognised in profit by the Predecessor on acceleration. | | | | |
| **25.8 Cost of inventories expensed** | **13,325** | 10,797 | 1,117 | 10,768 |

| | Successor | | Predecessor | |
|---|---|---|---|---|
| | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 weeks to 5 May | 2007 52 weeks to 31 March |
| | Rm | Rm | Rm | Rm |
| **25. OTHER OPERATING COSTS** *(continued)* | | | | |
| **25.9 VAT expense** | **90** | | | |
| As a result of legislative interpretation in terms of Value Added Tax (VAT) the Group has incurred a R90 million charge in the current year which relates to transactions incurred in prior periods. | | | | |
| **26. CREDIT INCOME AND EXPENSE** | | | | |
| **26.1 Income from credit** | | | | |
| Discount | | | | 5 |
| Preference dividend | | 4 | 4 | 52 |
| Finance charges on trade receivables | **2,271** | 1,779 | 93 | 875 |
| Subordinated loan / credit default swap | | | 5 | 55 |
| | **2,271** | 1,783 | 102 | 987 |
| **26.2 Expenses from credit** | | | | |
| Bad debt recoveries | **221** | 198 | 12 | 113 |
| Bad debt incurred | **(1,226)** | (1,074) | (68) | (789) |
| Net increase in doubtful debt provision | **(218)** | (81) | (4) | (223) |
| Administration and other costs | **(549)** | (425) | (32) | (329) |
| | **(1,772)** | (1,382) | (92) | (1,228) |
| **26.3 Net credit income / (expense)** | **499** | 401 | 10 | (241) |
| **27. DIRECTORS AND EMPLOYEES** | | | | |
| **27.1 Employees** | | | | |
| The aggregate remuneration and associated cost of permanent and casual employees including directors was: | | | | |
| Salaries and wages | **2,287** | 1,977 | 159 | 1,899 |
| Retirement benefit costs | **217** | 177 | 14 | 172 |
| Medical aid contributions: | | | | |
| Current | **53** | 48 | 5 | 57 |
| Post-retirement | **1** | – | – | 1 |
| | **2,558** | 2,202 | 178 | 2,129 |

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 52 weeks to 31 March |
| | Rm | Rm | Rm |
| **27 DIRECTORS AND EMPLOYEES** *(continued)* | | | |
| **27.1 Employees** *(continued)* | | | |
| **Edcon Pension Fund** | | | |
| Actuarially determined: | | | |
| Current service cost | **(1)** | (1) | (1) |
| Interest cost | **(33)** | (38) | (25) |
| Unrecognised loss (paragraph 58 limit) | **(129)** | (41) | (10) |
| Expected return on assets | **76** | 79 | 35 |
| Net loss | **(87)** | (1) | (1) |
| Company contributions | **1** | 1 | 1 |
| Actual return on pension fund assets | **101** | 80 | 103 |
| The contribution for the 2010 financial period is estimated to be approximately R1 million. | | | |
| **Edcon Medical Aid** | | | |
| Actuarially determined: | | | |
| Current service cost | **3** | 3 | 3 |
| Interest cost | **10** | 11 | 8 |
| Actuarial (loss)/gain | **(15)** | (12) | 3 |
| Post-retirement medical aid expense | **(2)** | 2 | 14 |

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

A statutory valuation of the Edcon Pension Fund, a defined benefit plan, was carried out by an independent firm of consulting actuaries on 31 December 2002 using the attained age method of valuation. The actuarial value of liabilities for all pensioners and members, including a stabilisation reserve, was determined at R328 million. The fair value of assets calculated by reference to the market value was R644 million. The fund was accordingly fully funded. The actuarial valuation was based on the principal assumptions that the fund will earn 10% per annum after taxation, that salary increases will be 7.3% per annum plus merit increases and a post-retirement interest rate of 4.5% per annum.

As a result of a change in the requirements of the regulators it was necessary to re-perform the valuation on the “best estimate basis” as prescribed by Pension Fund Circular 117 issued by the Financial Services Board in the current period. Under the best estimate basis the actuarial value of liabilities for all pensioners and members including a solvency reserve, was determined at R426 million. The fair value of assets calculated by reference to the market value remained at R644 million. The fund therefore remains fully funded.

In the current period an actuarial estimate was performed using the projected unit credit method, and the fair value of the assets and liabilities is reflected on page F-137. The actuarial estimate was based on the principle assumptions as set out in note 27.2.1.

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

**27. DIRECTORS AND EMPLOYEES** *(continued)*

**27.1 Employees** *(continued)*

Initially approval was received from the FSB to transfer active members and pensioners to alternative arrangements and annuity policies. These members' and pensioners' accrued actuarial liabilities were enhanced by 25%. The surplus detailed in note 27.5 is adequate to cover the estimated consequence of this transaction which is estimated to be R59 million and the balance of the surplus will be transferred to the Edcon Provident Fund. Subsequently, however, the FSB reneged on their approval and requested a determination of the surplus available for distribution to former members prior to the utilisation of the surplus for current members.

The consequence for the Edcon Pension Fund is that prior to being permitted to distribute the enhancements to the members and pensioners, a formal surplus apportionment scheme must be prepared as envisaged by Section 15B of the Pension Fund Act. Based on the advice of the funds consultants and actuaries and the results of preliminary investigations, the Trustees remain confident that sufficient surplus exists to meet post-retirement medical aid liabilities and amounts due to former members.

The Trustees of the Edcon Pension Fund have amended the investment strategy of the Fund with regards to the management of the assets backing the pensioner liabilities. The pension assets have been utilised to purchase a policy of insurance with Metropolitan which effectively guarantees the monthly pensions payable to pensioners and protects the Fund against the adverse effects of longevity risk.

Contributions to the Group's significant defined contribution funds are at a rate of 17.49% of benefit salary and where funds are contributory, members pay a maximum of 7.5%. The employer's portion is charged against profits.

| | Pensioners Number | Members Number | Contributions Rm |
|---|---|---|---|
| Membership of, and employer contributions to each of the funds were: | | | |
| **2009 Successor at 28 March** | | | |
| Edcon Pension Fund | **1,020** | **27** | **1** |
| Edcon Provident Fund | **–** | **15,597** | **195** |
| Edcon Namibia Retirement Fund | **13** | **224** | **1** |
| Botswana Retirement Fund | **–** | **220** | **1** |
| SACCAWU National Provident Fund | **–** | **1,090** | **6** |
| FEDCRAW Provident Fund | **–** | **463** | **3** |
| | **1,033** | **17,621** | **207** |
| 2008 Successor at 29 March | | | |
| Edcon Pension Fund | 1,181 | 29 | 1 |
| Edcon Provident Fund | – | 16,436 | 183 |
| Edcon Namibia Retirement Fund | 13 | 252 | 1 |
| Topics Namibia Retirement Fund | – | 11 | – |
| Botswana Retirement Fund | – | 218 | 1 |
| SACCAWU National Provident Fund | – | 1,280 | 6 |
| FEDCRAW Provident Fund | – | 504 | 3 |
| | 1,194 | 18,730 | 195 |
| 2007 Predecessor at 31 March | | | |
| Edcon Pension Fund | 1,246 | 35 | 1 |
| Edcon Provident Fund | – | 15,173 | 160 |
| Edcon Namibia Retirement Fund | 13 | 221 | 1 |
| Botswana Retirement Fund | – | 133 | 1 |
| SACCAWU National Provident Fund | – | 1,161 | 6 |
| FEDCRAW Provident Fund | – | 496 | 3 |
| | 1,259 | 17,219 | 172 |

## 27. DIRECTORS AND EMPLOYEES *(continued)*

### 27.1 Employees *(continued)*

All funds are subject to the Pension Funds Acts of the various countries and, where required by law, actuarial valuations are conducted every three years. The market value of investments of the various Edcon funds as at 28 March 2009 was R2,690 million (2008 and 2007: R2,851 million and R2,523 million).

**Medical aid fund**

The Successor operates a defined benefit medical aid scheme for the benefit of permanent employees. The costs of the short-term benefit for current employees are charged against income as incurred and amounted to R53 million for the period ending 28 March 2009 (2008 and 2007: R48 million and R57 million). Membership of the medical aid scheme is voluntary for all employees. Total membership currently stands at 4,787 principal members in South Africa. In terms of employment contracts and the rules of the schemes, certain post-retirement medical benefits are provided to 1,582 current and past employees by subsidising a portion of the medical aid contribution of members, after retirement. The medical aid contributions for 2009 are estimated to be approximately R1 million. The actuarial valuation was based on the main assumptions set out in note 27.2.2.

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

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 28 March | 2008 29 March | 2007 31 March |
| | Rm | Rm | Rm |
| Recognised employee benefit liability | **112** | 120 | 123 |
| **Reconciliation of employee benefit liability** | | | |
| Balance at the beginning of the period | **120** | 123 | 113 |
| Current service cost | **3** | 3 | 3 |
| Interest cost | **10** | 11 | 8 |
| Actuarial gain | **(15)** | (12) | 3 |
| Employee benefit payments | **(6)** | (5) | (4) |
| | **112** | 120 | 123 |

### 27.2 Valuation Assumptions

#### 27.2.1 Defined Benefit Pension Fund Valuation Assumptions

The valuation is based on assumptions which include a discount rate of 9.0% (2008 and 2007: 8.8% and 8.0%) per annum, an inflation rate and pension increase rate of 5.3% (2008 and 2007: 5.5% and 5.0%) per annum, a salary increase rate of 6.3% (2008 and 2007: 6.5% and 6.0%) per annum, and an expected return on assets of 8.5% per annum. The discount rate is determined with reference to market yields at the balance sheet date. The market yield is determined with reference to the yield curve for South African government bonds. The inflation rate is in line with the Government Monetary Policy target of 3% to 6% (2008 and 2007: 3% to 6%). The inflation rate assumed is used to determine both the salary and pension rate increases. The salary increase is based on the assumption that the increase will be 1% above inflation. The Fund adopts a pension increase policy that targets 100% of inflation and, as a result, a pension increase of 5.3% is used in the valuation. The expected rate of return on assets has been based on long-term returns on equities, cash and bonds. An adjustment is made to reflect the effects of retirement fund's tax.

**27. DIRECTORS AND EMPLOYEES** *(continued)*

**27.2 Valuation Assumptions** *(continued)*

**27.2.2 Employee Benefit Liability Valuation Assumptions and Sensitivity**

The valuation is based on assumptions which include a discount rate of 9.0% (2008 and 2007: 8.8% and 9.0%) per annum, inflation rate of 5.3% (2008 and 2007: 5.5% and 6.0%) per annum, income at retirement would increase by 6.8% per annum, demographic assumptions based on a standard set of best estimate demographic assumptions, membership continuation and expected retirement age. The discount rate is determined with reference to market yields at the balance sheet date. The market yield is determined with reference to the yield curve for South African government bonds. The inflation rate is in line with the Government Monetary Policy target of 3% to 6% (2008 and 2007: 3% to 6%). It was assumed that health care cost inflation would be the same as CPI inflation and that remuneration increases, including promotional increases would exceed inflation by 1,5% over the long-term and that income at retirement would be 60% of final salary. It was further assumed that no current in-service members eligible for benefits would discontinue membership upon reaching retirement with Edcon and that they would retire on their current medical scheme option and no changes would occur on retirement. An expected retirement age of 63 was used in the valuation with assumed rates of early retirement.

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

**27. DIRECTORS AND EMPLOYEES** *(continued)*

**27.2 Valuation Assumptions** *(continued)*

**27.2.2 Post Retirement Medical Obligation Valuation Assumptions and Sensitivity**

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

| | Central Assumption | | | Decrease 1% | | | Increase 1% | | |
|---|---|---|---|---|---|---|---|---|---|
| | Successor | | Predecessor | Successor | | Predecessor | Successor | | Predecessor |
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| **Inflation (CPI and health care costs) sensitivity** | **5.3%** | 5.5% | 6.0% | | | | | | |
| Accrued liability – Rm | **112** | 120 | 123 | **99** | 106 | 107 | **129** | 138 | 143 |
| Accrued liability – % change | | | | **(12)** | (12) | (13) | **15** | 15 | 16 |
| Current service and interest cost – Rm | **13** | 14 | 11 | **11** | 12 | 10 | **15** | 16 | 14 |
| Current service and interest cost – % change | | | | **(15)** | (14) | (8) | **15** | 17 | 24 |
| **Retirement age sensitivity** | **63 years** | | | **One year younger** | | | **One year older** | | |
| Accrued liability – Rm | **112** | 120 | 123 | **116** | 125 | 130 | **109** | 116 | 117 |
| Accrued liability – % change | | | | **4** | 4 | 6 | **(3)** | (3) | (5) |
| **Discount rate** | **9.0%** | 8.8% | 9.0% | **Decrease 1%** | | | **Increase 1%** | | |
| Accrued liability – Rm | **112** | 120 | 123 | **128** | 138 | 143 | **100** | 106 | 107 |
| Accrued liability – % change | | | | **14** | 15 | 16 | **(11)** | (12) | (13) |
| **Post employment mortality tables** | **PA (90) ult rated down 1 year to 0.75% improvement p.a from 2006** | | | **PA (90) ult rated down 2 years with 1% improvement p.a from 2006** | | | | | |
| Accrued liability – Rm | **112** | 120 | 123 | **117** | 126 | 134 | | | |
| Accrued liability – % change | | | | 4 | 5 | 9 | | | |

| | Successor | | Predecessor |
|---|---|---|---|
| | **2009 28 March** | 2008 29 March | 2007 31 March |
| | **Rm** | Rm | Rm |
| **27. DIRECTORS AND EMPLOYEES** *(continued)* | | | |
| **27.3 Reconciliation of defined benefit obligation – pension fund** | | | |
| Balance at the beginning of the period | **400** | 395 | 332 |
| Service cost | **1** | 1 | 1 |
| Interest cost | **33** | 38 | 25 |
| Actuarial loss | **43** | 2 | 68 |
| Benefits paid | **(37)** | (36) | (31) |
| Balance at the end of the period | **440** | 400 | 395 |
| **27.4 Reconciliation of fair value plan assets – pension fund** | | | |
| Balance at the beginning of the period | **786** | 740 | 649 |
| Expected return on assets | **76** | 79 | 35 |
| Employer contributions | **1** | 1 | 1 |
| Benefits paid | **(37)** | (35) | (30) |
| Actuarial gain | **24** | 1 | 85 |
| Balance at the end of the period | **850** | 786 | 740 |
| **Composition and percentage of the portfolio:** | **%** | % | % |
| Cash | **48** | 19 | 17 |
| Equity | **4** | 11 | 35 |
| Bonds | **–** | 1 | 13 |
| International | **–** | 13 | 2 |
| Pensioner Annuities | **–** | – | 32 |
| Property and other | **48** | 56 | 1 |
| | **100** | 100 | 100 |

| | Successor | | Predecessor | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| **27.5 Analysis of defined benefit obligation and the fair value of plan assets – pension fund (Rm)** | | | | | |
| Defined benefit obligation | **(440)** | (400) | (395) | (332) | (311) |
| Fair value of plan assets | **850** | 786 | 740 | 649 | 634 |
| Unrecognised actuarial (gains) / losses | **(64)** | (84) | (84) | 143 | 109 |
| Unrecognised net asset (paragraph 58 limit) | **346** | 302 | 261 | 460 | 432 |
| **27.6 Analysis of employee benefit liability (Rm)** | | | | | |
| Accrued liability for post retirement medical aid | **112** | 120 | 123 | 113 | 86 |

| | Successor | | Predecessor | |
|---|---|---|---|---|
| | 2009 52 weeks to 28 March | 2008 47 week to 29 March | 2007 5 weeks to 5 May | 2007 52 weeks to 31 March |
| | R 000 | R 000 | R 000 | R 000 |
| **27. DIRECTORS AND EMPLOYEES** *(continued)* | | | | |
| **27.7 Directors' emoluments** | | | | |
| **Non-executive directors:** | | | | |
| Fees | **295** | 221 | 565 | 2,545 |
| Retirement, medical, accidental and death benefits | | | | 300 |
| | **295** | 221 | 565 | 2,845 |
| **Executive directors:** | | | | |
| Remuneration | **10,651** | 9,092 | 827 | 16,358 |
| Retirement, medical, accidental and death benefits | **446** | 302 | 27 | 1,867 |
| Performance bonus | **350** | – | – | 1,500 |
| Loyalty bonus | **423** | 350 | – | 1,899 |
| Other benefits | **–** | 439 | – | 255 |
| Options realised | | 167,080 | | |
| Fair value of options granted[1] | | | – | 23,395 |
| | **11,870** | 177,263 | 854 | 45,274 |
| Retired ex directors | **69** | 84 | 18 | 200 |
| Total | **12,234** | 177,568 | 1,437 | 48,319 |

[1] The fair value of options granted is the annual expense determined by IFRS 2.

| | Successor | | Predecessor | |
|---|---|---|---|---|
| | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 weeks to 5 May | 2007 52 weeks to 31 March |
| | Rm | Rm | Rm | Rm |
| **28. FINANCING COSTS AND INTEREST RECEIVED** | | | | |
| **28.1 Financing costs** | | | | |
| Interest paid to independent third parties | **769** | 1,167 | 7 | 57 |
| Interest accrued on shareholder's loan (note 17) | **945** | 665 | | |
| Fees amortised on senior floating rate note (note 18.1) | **82** | 12 | | |
| Fees amortised on senior secured floating rate note (note 18.1) | **28** | 21 | | |
| Interest on senior notes | **470** | 482 | | |
| Interest on senior secured notes | **956** | 753 | | |
| Foreign currency losses | **–** | – | 1 | – |
| Forward exchange contracts | **38** | – | – | – |
| | **3,288** | 3,100 | 8 | 57 |
| **28.2 Interest received** | | | | |
| Interest received from independent third parties | **18** | 221 | – | 20 |
| Foreign currency gain | **15** | – | – | 10 |
| Forward exchange contracts | **–** | 27 | – | 5 |
| | **33** | 248 | – | 35 |
| **28.3 Net financing costs** | **3,255** | 2,852 | 8 | 22 |

| | | | Successor | | Predecessor | |
|---|---|---|---|---|---|---|
| | | | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 weeks to 5 May | 2007 52 weeks to 31 March |
| | | | Rm | Rm | Rm | Rm |
| **29.** | **TAXATION** | | | | | |
| **29.1** | **Taxation charge** | | | | | |
| | Current taxation | – this year | **696** | 135 | 90 | 610 |
| | | – prior year | **25** | 5 | – | 13 |
| | Secondary taxation on companies | | | | | |
| | | – this year | | – | – | 66 |
| | | – deemed | | 54 | – | – |
| | | – prior year | | 1 | – | – |
| | Withholding taxes | – this year | | | | |
| | | – prior year | | – | – | – |
| | | | | 1 | – | (6) |
| | Total current taxation | | **721** | 196 | 90 | 683 |
| | Deferred taxation | – this year | **(1,193)** | (650) | 5 | 2 |
| | | – acquisitions | | – | – | – |
| | | – rate change | | (57) | – | – |
| | | – prior years | | (11) | – | – |
| | Total deferred taxation credit | | **(1,193)** | (718) | 5 | 2 |
| | Total | | **(472)** | (522) | 95 | 685 |
| | **Comprising:** | | | | | |
| | South African normal taxation | | **(472)** | (638) | 95 | 584 |
| | Secondary taxation on companies | | | 55 | – | 66 |
| | Withholding taxes | | | 1 | – | (6) |
| | Foreign taxes | | | 60 | – | 41 |
| | | | **(472)** | (522) | 95 | 685 |
| **29.2** | **Taxation charge to the statement of changes in equity** | | | | | |
| | **Current income tax related to items charged or credited directly to equity:** | | | | | |
| | Unrealised gain on cash flow hedges | | **(154)** | 28 | | |
| | **Deferred income tax related to items charged or credited directly to equity:** | | | | | |
| | Unrealised gain on cash flow hedges | | **(279)** | 276 | | |
| | Gain on revaluation of properties | | | 4 | | |
| | Income tax expense reported in equity | | **(433)** | 308 | | |

| | Successor | | Predecessor | |
|---|---|---|---|---|
| | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 weeks to 5 May | 2007 52 weeks to 31 March |
| | Rm | Rm | Rm | Rm |
| **29. TAXATION** *(continued)* | | | | |
| **29.3 Deferred income tax comprises:** | | | | |
| **Arising on deferred tax assets (note 9)** | | | | |
| Doubtful debts | **(69)** | (97) | – | (45) |
| Other payables | **(54)** | (27) | – | 34 |
| Leave pay accrual | **(34)** | (2) | – | (2) |
| Operating lease adjustment | **6** | 7 | – | (1) |
| Unearned finance income | **(4)** | – | – | – |
| Interest rate swaps | **–** | 20 | – | – |
| Assessed loss on income statement items | **(851)** | (401) | – | – |
| Other | **–** | – | – | (1) |
| **Arising on deferred tax liabilities (note 9)** | | | | |
| Appro sales | **20** | (53) | – | 2 |
| Property, fixtures, equipment and vehicles | **1** | – | – | 14 |
| Intangible assets | **(212)** | (97) | – | – |
| Capital expenditure | **–** | – | – | 1 |
| Prepayments | **2** | (1) | – | 1 |
| Deferred STC raised | **1** | 9 | – | – |
| Other | **1** | (8) | 5 | (1) |
| | **(1,193)** | (650) | 5 | 2 |
| Rate exchange | | (57) | | |
| Prior year adjustment | | (11) | | – |
| Net deferred tax expense | **(1,193)** | (718) | 5 | 2 |
| **29.4 Reconciliation of rate of taxation (%)** | | | | |
| Standard rate – South Africa | **(28)** | (29) | 29 | 29 |
| Adjusted for: | | | | |
| Dividend income | **–** | – | – | (1) |
| Equity accounted earnings of joint venture | **–** | (4) | (2) | (3) |
| Disallowable expenditure | **(47)** | 8 | 1 | 1 |
| Secondary taxation on companies | **–** | 3 | – | 3 |
| Prior year charges | **5** | – | – | – |
| Rate changes | **–** | (3) | – | – |
| Capital profits and assessed loss utilised | **43** | – | – | – |
| Effective tax rate | **(27)** | (25) | 28 | 29 |

**29.5 Change in tax rate**

The statutory taxation rate in South Africa changed from 29% to 28% with effect from the 2009 financial period. Normal taxation has therefore been calculated using a rate of 28% for the current financial period (2008: 29%). As this change in rate was substantively enacted before the end of the prior financial period, deferred taxation in the prior period was calculated using a rate of 28%.

| | Predecessor |
|---|---|
| | 2007 |
| | Rm |
| **30. DIVIDENDS** | |
| Ordinary shares | |
| No. 119 of 100 cents declared on 16 May 2006 and paid on 3 July 2006 | 566 |
| No. 120 of 71 cents declared on 14 November 2006 and paid on 8 January 2007 | 402 |
| | 968 |
| Less: dividends received on treasury shares held through: | |
| United Retail Limited | (89) |
| Staff Share Trust | (25) |
| Total ordinary dividends paid | 854 |

| | Successor | | Predecessor | |
|---|---|---|---|---|
| | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 weeks to 5 May | 2007 52 weeks to 31 March |
| | Rm | Rm | Rm | Rm |
| **31. INCOME, EXPENSE, GAINS AND LOSSES FROM FINANCIAL ASSETS AND LIABILITIES** | | | | |
| Held-to-maturity investments – preference dividends (note 23) | | 4 | 4 | 52 |
| Finance charges on trade receivables (note 23) | **2,271** | 1,779 | 93 | 875 |
| Interest on cash deposits (note 28.2) | **18** | 221 | – | 20 |
| Interest on financial liabilities carried at amortised cost (note 28.1) | **(3,250)** | (3,100) | (7) | (57) |
| (Loss)/gain recognised on forward exchange contracts at fair value (note 28.1 and 28.2) | **(38)** | 27 | – | 5 |
| Foreign currency gain/(loss) recognised on financial assets (note 28.1 and 28.2) | **15** | – | (1) | 10 |
| Income recognised on credit default swap (note 35.5) | | | 5 | 90 |
| Interest settlement on Usury/Usury star swap (note 35.5) | | – | (1) | (44) |
| Derivative unrealised (loss)/ gain (note 8.6) | **(1,415)** | 4,612 | | |
| Derivative realised gain (note 8.7.1) | **231** | | | |
| Unrealised foreign exchange gain/(loss) on notes issued (note 18.1) | **134** | (5,926) | | |
| | **(2,034)** | (2,383) | 93 | 951 |
| **32. CASH FLOW** | | | | |
| **32.1 Other non-cash items** | | | | |
| Net loss/(gain) on disposal of properties, fixtures, equipment and vehicles (note 25.6) | **18** | 5 | 4 | (1) |
| Cost of share-based payments | | – | 4 | 58 |
| Equity accounted investment in joint ventures | **10** | 31 | (22) | (2) |
| Vat expense[1] | **130** | | | |
| Operating lease adjustment | **(23)** | (22) | (2) | (12) |
| Other non-cash items | **(4)** | | | |
| | **131** | 14 | (16) | 43 |

[1] Includes R90 million relating to prior periods (note 25.9) and R40 million for the current period included in expenses from credit (note 26.2)

| | Successor | | Predecessor | |
|---|---|---|---|---|
| | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 weeks to 5 May | 2007 52 weeks to 31 March |
| | Rm | Rm | Rm | Rm |
| **32. CASH FLOW** *(continued)* | | | | |
| **32.2 Working capital movement** | | | | |
| (Increase)/decrease in inventories | **(397)** | (95) | 45 | (294) |
| Increase in trade accounts receivable | **(988)** | (287) | (59) | (829) |
| Increase in other receivables | **(11)** | (26) | (12) | (18) |
| (Decrease)/increase in trade and other payables | **(157)** | 573 | (480) | 195 |
| | **(1,553)** | 165 | (506) | (946) |
| **32.3 Taxation paid** | | | | |
| Taxation liability at the beginning of the period | **(138)** | – | (64) | (186) |
| Acquisition of the Edcon Group and consolidation of OtC | | (160) | | |
| Current taxation provided (note 29.1) | **(721)** | (196) | (90) | (683) |
| Current taxation recognised in equity (note 29.2) | **154** | (28) | | |
| Taxation liability disposed of | | – | 154 | |
| Taxation liability at the end of the period | **470** | 138 | – | 64 |
| | **(235)** | (246) | – | (805) |
| **32.4 Dividends paid** | | | | |
| Dividends declared and paid (note 30) | | | | (854) |
| **32.5 Investment to maintain operations** | | | | |
| Replacement of properties, fixtures, equipment and vehicles | **(420)** | (332) | (26) | (185) |
| Proceeds on disposal of properties, fixtures, equipment and vehicles | **1** | – | – | 4 |
| | **(419)** | (332) | (26) | (181) |
| **32.6 Investment to expand operations** | | | | |
| Additions to leased premises | **(65)** | (64) | (15) | (59) |
| Additions to properties, fixtures, equipment and vehicles | **(84)** | (128) | (6) | (320) |
| Net investment in subsidiaries and other assets (note 32.12.4) | | (24,198) | | |
| | **(149)** | (24,390) | (21) | (379) |
| **32.7 Increase in shareholder funding** | | | | |
| Increase in shareholder's loan | | 5,057 | | |
| Ordinary share capital issued | | 1,761 | – | 699 |
| Preference share capital issued | | 207 | – | – |
| Net movement in treasury shares | | | – | (634) |
| | | 7,025 | – | 65 |
| **32.8 Notes issued** | | | | |
| Senior floating rate notes | | 6,102 | | |
| Senior secured floating rate notes | | 11,428 | | |
| Fees paid on notes issued | | (467) | | |
| | | 17,063 | | |

| | Successor | | Predecessor | |
|---|---|---|---|---|
| | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 5 weeks to 5 May | 2007 52 weeks to 31 March |
| | Rm | Rm | Rm | Rm |
| **32. CASH FLOW** *(continued)* | | | | |
| **32.9 Buy-back of senior floating rate notes** | | | | |
| Senior floating rate notes repurchased (note 18.2) | **(3,137)** | | | |
| Fees paid on buy-back of senior floating rate notes | **(42)** | | | |
| Gain before fees paid and accrued on buy-back of senior floating rate notes (note 18.2) | **1,411** | | | |
| | **(1,768)** | | | |
| **32.10 Increase in interest bearing debt** | | | | |
| Net increase in short-term debt | **793** | 106 | 238 | 537 |
| Net decrease in long-term debt | **(25)** | | | |
| | **768** | 106 | 238 | 537 |
| **32.11 Increase in cash and cash equivalents** | | | | |
| Cash on hand | **(149)** | 384 | 85 | 3 |
| Cash on deposit | **36** | 108 | (49) | 119 |
| Consolidation of OntheCards (note 32.12.3) | | (261) | | |
| Currency adjustments | **–** | (2) | – | (1) |
| | **(113)** | 229 | 36 | 121 |

| | Successor | |
|---|---|---|
| | 2008 29 March Fair value | Carrying value |
| | Rm | Rm |

**32. CASH FLOW** *(continued)*

**32.12 Net investment in subsidiaries and other assets**

**32.12.1 Acquisition of the Edcon Group**

The Group acquired 100% of the shares of Edgars Consolidated Stores Limited, a clothing retailer effective 5 May 2007 as determined by IFRS 3. The fair value of the net assets acquired at the effective date of acquisition was as follows:

| | | |
|---|---|---|
| **Non-current assets** | | |
| Properties, fixtures, equipment and vehicles | 3,082 | 1,575 |
| Intangible assets | 11,906 | 77 |
| Deferred tax asset | – | 77 |
| Other financial assets | 742 | 742 |
| | 15,730 | 2,471 |
| **Current assets** | | |
| Inventories | 1,901 | 1,915 |
| Trade, other receivables and prepayments | 5,356 | 5,442 |
| Cash and cash equivalents | 507 | 507 |
| | 7,764 | 7,864 |
| **Non-current liabilities** | | |
| Deferred tax liability | (2,335) | – |
| **Current liabilities** | | |
| Interest-bearing debt | (951) | (951) |
| Trade and other payables | (3,442) | (3,442) |
| | (4,393) | (4,393) |
| **Total identifiable assets acquired and liabilities assumed** | 16,766 | 5,942 |
| Goodwill on acquisition | 8,348 | |
| Cost of the business combination | 25,114 | |
| Settled by way of cash | 25,114 | |
| Less: cash and cash equivalents acquired | (507) | |
| Less: cash received from employees | (727) | |
| **Net cash outflow on acquisition** | 23,880 | |
| The total cost of the business combination comprised of the following: | | |
| Cash paid | 25,002 | |
| Directly attributable acquisition costs | 112 | |
| **Total cost of acquisition** | 25,114 | |

The acquired business contributed revenues and net profit as presented for the 11 month period to 29 March 2008. Had this business combination been effected on 1 April 2007, Group revenue would have been R2,094 million higher and the loss reported would have reduced by R245 million as reported in the 5 weeks to 5 May 2007 of the Predecessor.

The goodwill recognised of R8,348 million is attributed to the benefits expected to be derived from combining the assets and activities with those of the Group including, expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

| | Successor | |
|---|---|---|
| | 2008 29 March Fair value | Carrying value |
| | Rm | Rm |

**32. CASH FLOW** *(continued)*

**32.12 Net investment in subsidiaries and other assets** *(continued)*

**32.12.2 Acquisition of Discom**

On 17 September 2007, the Group acquired certain Discom stores net assets from New Clicks. The fair value of the net assets acquired was as follows:

| | | |
|---|---|---|
| **Non-current assets** | | |
| Fixtures, equipment and vehicles | 39 | 45 |
| Intangible asset | 73 | – |
| | 112 | 45 |
| **Current assets** | | |
| Inventories | 148 | 148 |
| | 148 | 148 |
| **Non-current liabilities** | | |
| Deferred taxation | (20) | – |
| | (20) | – |
| **Current liabilities** | | |
| Other payables | (8) | (8) |
| | (8) | (8) |
| **Total identifiable assets acquired and liabilities assumed** | 232 | 185 |
| Goodwill on acquisition | 86 | |
| Cost of the business combination | 318 | |
| Settled by way of cash | 318 | |
| The total cost of the business combination comprised of the following: | | |
| Cash paid | 316 | |
| Directly attributable acquisition cost | 2 | |
| Total cost of acquisition | 318 | |

The acquired Discom stores contributed revenues of R491 million and a net loss of R30 million for the period from 17 September 2007 to 29 March 2008. Had the business combination been effected on 6 May 2007 on formation of the Successor, it is estimated that the Group revenue would have been R486 million higher. The Group cannot reliably measure the impact on net loss reported had the business combination been effected on 6 May 2007.

The goodwill recognised is attributed to the benefits expected to be derived from combining the assets and activities of the Discom stores with those of the Group.

| | Successor |
|---|---|
| | 2008 29 March Fair value |
| **32. CASH FLOW** *(continued)* | Rm |
| **32.12 Net investment in subsidiaries and other assets** *(continued)* | |
| **32.12.3 Consolidation of OntheCards Investments Limited** | |
| The fair value of net assets consolidated at 6 May 2007 was as follows: | |
| **Non-current assets** | |
| Deferred taxation | 66 |
| | 66 |
| **Current assets** | |
| Trade, other receivables and prepayments | 3,783 |
| Cash and cash equivalents | 261 |
| | 4,044 |
| **Non-current liabilities** | |
| Notes issued | 3,475 |
| | 3,475 |
| **Current liabilities** | |
| Trade and other payables | 714 |
| | 714 |
| **Net liabilities at fair value consolidated** | (79) |
| Goodwill arising on consolidation | 79 |
| Consideration | – |

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 52 weeks to 28 March | 2008 47 weeks to 29 March | 2007 52 weeks to 31 March |
| **32.12.4 Cash utilised:** | Rm | Rm | Rm |
| Acquisition of the Edcon Group (note 32.12.1) | | 23,880 | |
| Discom acquisition (note 32.12.2) | | 318 | |
| Consolidation of OntheCards (note 32.12.3) | | – | |
| Cash utilised in investment activities (note 32.6) | | 24,198 | |

| | Successor | | Predecessor |
|---|---|---|---|
| | 2009 28 March | 2008 29 March | 2007 31 March |
| **33. MATURITY ANALYSIS FOR NOTES ISSUED, SUBORDINATED LOAN, SHORT-TERM INTEREST-BEARING DEBT AND TRADE AND OTHER PAYABLES** | Rm | Rm | Rm |
| Trade and other payables | **3,331** | 3,297 | 3,223 |
| Short-term interest bearing debt | **5,300** | 4,507 | 713 |
| Total due within one year | **8,631** | 7,804 | 3,936 |
| After one year but within two years | **–** | – | – |
| After two years but within three years | **–** | 25 | – |
| After three years but within four years | **–** | – | – |
| After four years but within five years | **–** | – | – |
| After five years | **26,092** | 28,308 | – |
| Total due after one year | **26,092** | 28,333 | – |
| **Total debt** | **34,723** | 36,137 | 3,936 |

Refer to note 8 for maturity details relating to derivatives.

## 34. MANAGEMENT OF CAPITAL

The Successor considers share capital including ordinary and preference shares, share premium, the shareholder's loan, reserves and interest-bearing debt as capital.

The shareholder's loan is considered to be capital as the amount is repayable in May 2037 and all interest is capitalised. The "A" preference shares are cumulative and redeemable at the option of the issuer and are therefore regarded as capital. The long-term interest bearing debt primarily consists of the senior secured floating rate notes and the senior floating rate notes which have a maturity of June 2014 and June 2015 respectively. These notes were issued to finance the purchase of Edgars Consolidated Stores Limited and as such are regarded as permanent capital.

The objectives in managing this capital are to:

- Ensure appropriate access to equity debt markets.
- Ensure sufficient resilience against economic turmoil.
- Safeguard the Group's ability to continue as a going concern, be flexible and take advantage of opportunities that are expected to provide an adequate return to shareholders.
- Optimise weighted average cost of capital, given inherent constraints.

The Group manages its capital and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the current period.

The notes and the short-term banking facilities contain substantially the same covenants and events of default. These are set out in the Offering Memorandum for the notes dated 8 June 2007. During the period there have been no defaults.

The Successor takes cognisance of select rating agency ratios that evaluate the ability of the capital to absorb losses and the flexibility that a combination of capital instruments provide. The value placed on the corporate rating is important as Edcon has issued notes on the Irish Stock Exchange and to facilitate the funding of OtC.

## 35. FINANCIAL RISK MANAGEMENT

### 35.1 Treasury risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to moderate certain risk exposures.

A treasury workgroup consisting of senior executives meets on a regular basis to update treasury policies and objectives, analyse currency and interest rate exposures and re-evaluate treasury management strategies against revised economic forecasts. Compliance with Group Treasury policies and objectives of the Board and exposure limits is reviewed at meetings of the Risk Management Workgroup.

### 35.2 Cash flow hedges

The Group's cash flow hedges relate to the floating rate notes and consist of (i) interest rate swaps that are used to protect against variability in future interest cash flows on liabilities which bear interest at variable rates or which are expected to be refunded or reinvested in the future and (ii) foreign currency forward contracts that are used to protect against variability in future cash flows that are subject to fluctuations based on foreign exchange rates.

**35. FINANCIAL RISK MANAGEMENT** *(continued)*

**35.2 Cash flow hedges** *(continued)*

Gains and losses on derivatives are initially recognised directly in equity, in the cash flow hedging reserve, and are transferred to the income statement when the forecast transactions affect the income statement. On a quarterly basis amounts are transferred from equity to profit or loss on both the interest rate swap and forward exchange contracts as interest payments on the notes are incurred.

The cash flow hedge forecast transactions are expected to occur until June 2011 in line with the maturity dates of the hedging instruments and will affect profit or loss over the same period.

**35.3 Sensitivity analysis of derivatives**

The Group recognises that movements in certain risk variables (such as interest rates or foreign exchange rates) might impact the value of its derivatives and also the amounts recorded in its equity and its profit or loss for the period. Therefore the Group has assessed:

(a) what would be reasonably possible changes in the risk variables at the balance sheet date and

(b) the effects on profit or loss and equity if such changes in the risk variables were to occur.

The sensitivity analysis takes into account the incremental change in value arising from a parallel fall or rise in the yield curve and the exchange rate.

The following table assumes all designated hedges will change in fair value through equity (100% effective), and considers sensitivities to forward interest rate curves, of +/- 50 and +/-100 basis points respectively. If these sensitivities were to occur, the impact on the consolidated profit or loss, and equity for each category of financial instrument held at the balance sheet date is shown below:

| | Index | Sensitivity | Derivative asset / (liability) | Equity | Income statement effect |
|---|---|---|---|---|---|
| | | | Rm | Rm | Rm |
| | EURIBOR | -100bps | (404) | 404 | – |
| Interest rate swaps | EURIBOR | -50bps | (200) | 200 | – |
| | EURIBOR | +50bps | 197 | (197) | – |
| | EURIBOR | +100bps | 391 | (391) | – |
| | EUR-ZAR | -10% | (2,221) | 299 | 1,922 |
| Foreign currency forward contracts and currency swaps | EUR-ZAR | -5% | (1,111) | 150 | 961 |
| | EUR-ZAR | 5% | 1,111 | (150) | (961) |
| | EUR-ZAR | 10% | 2,221 | (299) | (1,922) |

## 35. FINANCIAL RISK MANAGEMENT *(continued)*

### 35.4 Foreign currency management

Material forward exchange contracts at 28 March 2009 are summarised below. The writing of option contracts is restricted, thus currency options may only be purchased as a cost-effective alternative to forward exchange contracts. No currency options are currently in place.

| | Foreign currency | Derivative fair value | Contract equivalent | Average rate |
|---|---|---|---|---|
| | m | Rm | Rm | |
| **Foreign currency exposure against Rand economically hedged import forward orders** | | | | |
| **2009 – Successor** | | | | |
| **US dollar** | **26** | **(8)** | **260** | **10.12** |
| 2008 – Successor | | | | |
| US dollar | 28 | 29 | 201 | 7.18 |
| 2007 – Predecessor | | | | |
| Euro | 1 | – | 10 | 9.67 |
| US dollar | 25 | (1) | 187 | 7.36 |
| **Foreign currency exposure against Rand economically hedged floating rate notes exposure** | | | | |
| **2009 – Successor Euro** | **1,854** | **2,022** | **25,370** | **13.68** |
| 2008 – Successor Euro | 2,321 | 5,845 | 28,749 | 12.39 |

The Group, in terms of approved policy limits, manages short-term foreign currency exposures relating to trade imports and exports. Net uncovered Rand transaction exposures to the US dollar at 28 March 2009 amounted to R27 million, being 9.5% of the total import exposure (2008 and 2007: R21 million and nil). The Group policy is to restrict the net aggregate cover to between 80% and 125% of total foreign order exposure.

At 28 March 2009, in respect of future import commitments, if the South African Rand had weakened 5% against the US dollar, with all other variables held constant, attributable earnings for the period would have increased by R14 million from revaluation of forward exchange contracts (2008 and 2007: R12 million and R13 million). Conversely at 28 March 2009, in respect of future import commitments, if the South African Rand had strengthened by 5% against the US dollar, with all other variables held constant, attributable earnings for the period would have decrease by R14 million from revaluation of forward exchange contracts (2008 and 2007: R12 million and R13 million). Changes in the Rand/US dollar exchange rates of foreign currency creditors are largely offset by fair value changes on the forward exchange contracts.

The nominal principal floating rate notes amounts, totalling EUR1,558 million, have been hedged economically through a foreign currency swap (refer to note 8). The interest cash flows payable quarterly have been hedged to 15 June 2011 (Refer to note 8 and 35.2). Foreign exchange gains and losses on the foreign currency swap will be largely offset by gains and losses on translation of the floating rate notes. At 28 March 2009, in respect of the floating rate notes exposures, if the South African Rand had weakened 5% against the Euro, with all other variables held constant, attributable earnings for the period would have decreased by R996 million (2008: R1,160 million). Conversely, at 28 March 2009, in respect of the floating rate notes exposures, if the South African Rand had strengthened 5% against other currencies, with all other variables held constant, attributable earnings for the period would have increased by R996 million (2008: R1,160 million).

## 35. FINANCIAL RISK MANAGEMENT *(continued)*

### 35.5 Interest rate management

As part of the process of managing the Group's fixed and floating rate interest bearing debt and cash and cash equivalents mix, the interest rate characteristics of new and the refinancing of existing loans are positioned according to expected movements in interest rates. The maximum interest rate exposure and the repricing profile at 28 March 2009 is summarised as follows:

| | Floating rate Total | Fixed rate Total | Total interest bearing debt Total |
|---|---|---|---|
| **2009 – Successor** | | | |
| Interest-bearing debt (Rm) – short-term | **5,300** | **–** | **5,300** |
| Interest-bearing debt (Rm) – long-term | **19,600** | **–** | **19,600** |
| % of total interest-bearing debt | **100** | **–** | **100** |
| 2008 – Successor | | | |
| Interest-bearing debt (Rm) – short-term | 4,507 | – | 4,507 |
| Interest-bearing debt (Rm) – long-term | 22,786 | – | 22,786 |
| % of total interest-bearing debt | 100 | – | 100 |
| 2007 – Predecessor | | | |
| Interest-bearing debt (Rm) | 713 | | 713 |
| % of total interest-bearing debt | 100 | | 100 |

At 28 March 2009, if all interest rates on local borrowings had been 100 basis points lower, with all other variables held constant, attributable earnings would have been R53 million (2008 and 2007: R45 million and R7 million) higher. Conversely, at 28 March 2009, if all interest rates on local borrowings had been 100 basis points higher with all other variables held constant, attributable earnings would have been R53 million (2008 and 2007: R45 million and R7 million) lower.

| | Total | Floating rate | Repriced within 0 – 6 months Total | Fixed rate |
|---|---|---|---|---|
| | R | R | R | R |
| **2009 – Successor** | | | | |
| **Cash on deposit and investments by currency** | | | | |
| **US dollar** | **108** | **108** | **–** | **–** |
| **Sterling** | **3** | **3** | **–** | **–** |
| **Botswana Pula** | **21** | **21** | **–** | **–** |
| **South African Rand** | **247** | **247** | **–** | **–** |
| 2008 – Successor | | | | |
| Cash on deposit and investments by currency | | | | |
| US dollar | 57 | 57 | – | – |
| Sterling | 6 | 6 | – | – |
| Botswana Pula | 14 | 14 | – | – |
| South African Rand | 415 | 415 | – | – |
| 2007 – Predecessor | | | | |
| Cash on deposit and investments by currency | | | | |
| US dollar | 16 | 13 | 3 | – |
| Sterling | 3 | – | 3 | – |
| Euro | 3 | 3 | – | – |
| Botswana Pula | 1 | 1 | – | – |
| South African Rand | 447 | 447 | – | – |

## 35. FINANCIAL RISK MANAGEMENT *(continued)*

### 35.5 Interest rate management *(continued)*

| | Notional amount EUR million | | | Fixed interest % payable | | | Fair value – R million | | |
|---|---|---|---|---|---|---|---|---|---|
| | Successor 2009 | Successor 2008 | Predecessor 2007 | Successor 2009 | Successor 2008 | Predecessor 2007 | Successor 2009 | Successor 2008 | Predecessor 2007 |
| **Interest rate swaps (Rm)** | | | | | | | | | |
| Pay fixed / receive floating Interest rate swaps > 1 year-Senior floating rate note | **378**[1] | 630[1] | | **10.03** | 10.03 | | **232** | 130 | |
| Interest rate swaps > 1year-Senior Secured floating rate note | 1,180[1] | 1,180[1] | | 7.78 | 7.78 | | 725 | 244 | |
| **Other swaps (Rm)** | | | | | | | | | |
| Usury/Usury star swap[2] (note 31) | | | 3,222[3] | | | | | | – |
| Credit default swap (note 31) | | | 700 | | | | | | – |

1 The successor entered into interest rate swaps to swap interest payable on the notes issued from floating, being 3 months EURIBOR, to a fixed rate of pay 4,529%.

2 Receive Usury, pay Usury star (133% of prime rate plus 6%).

3 Nominal amount variable as asset base movements occur.

### 35.6 Credit risk management

Maximum exposure to credit risk is represented by the carrying amounts of derivative assets, trade accounts receivable and short-term cash investments in the balance sheet. The Group only deposits short-term cash surpluses with financial institutions of high-quality credit standing. Credit limits per financial institution are established at the treasury meeting and are approved at the Audit and Risk Workgroup. Trade accounts receivable comprise a large, widespread customer base and risk exists on delinquent accounts and possible defaults by customers. The Group performs ongoing credit evaluations of the financial condition of customers. The granting of credit is controlled by application and behavioural scoring models, and the assumptions therein are reviewed and updated on an ongoing basis. At 28 March 2009, the Group did not consider there to be any concentration of credit risk.

At 28 March 2009, if all interest rates on interest-bearing trade receivables and short-term cash investments at that date had been 100 basis points lower, with all other variables held constant, attributable earnings would have been R85 million (2008 and 2007: R76 million and R12 million) lower. Conversely, at 28 March 2009, if all interest rates at that date had been 100 basis points higher, with all other variables held constant, the attributable earnings

## 35. FINANCIAL RISK MANAGEMENT *(continued)*

### 35.6 Credit risk management *(continued)*

would have been R85 million (2008 and 2007: R76 million and R12 million) higher. This sensitivity is due to the high value of trade receivables attracting the Usury rate interest income.

The derivatives are held with four counterparties of high credit worthiness. The credit worthiness is assessed on a regular basis. At period end all counterparties were classified as investment grade.

### 35.7 Liquidity risk

| | 2009 Successor | 2008 Successor | 2007 Predecessor |
|---|---|---|---|
| | Rm | Rm | Rm |
| The Group has minimised risk of illiquidity as shown by its substantial banking facilities and reserve borrowing capacity. | | | |
| Total banking and loan facilities | **10,200** | 10,200 | 2,385 |
| Actual interest-bearing debt (note 19 and 35.5) | **(5,300)** | (4,507) | (713) |
| Unutilised borrowing facilities | **4,900** | 5,693 | 1,672 |
| Total banking and loan facilities of the Successor including OntheCards comprise: | | | |
| Revolving credit facility | **3,500**[1] | 3,500[1] | |
| Borrowing base facility | **3,900** | 3,900 | |
| OtC receivable backed facility | **2,600** | 2,600 | |
| OtC liquidity facility | **200** | 200 | |
| | **10,200** | 10,200 | |

[1] Includes R2,200 million ancillary facilities.

These facilities are committed facilities and are therefore subject to commitment fees as follows:

- Revolving credit facilities at 0.625% p.a.
- Borrowing base facility 0.5% p.a.
- OtC receivable backed facility at 0.5% p.a.
- OtC liquidity facility at 0.48% p.a.

The maturity dates of the facilities are:

| | | |
|---|---|---|
| • Revolving credit facility | **June 2012** | June 2012 |
| • Revolving credit Ancillary facilities | **Reviewed annually** | Reviewed annually |
| • Borrowing base facility | **June 2010** | June 2010 |
| • OtC receivable backed facility | **June 2010** | June 2010 |
| • OtC liquidity facility | **June 2010** | June 2010 |

### 35.8 Fair value of financial instruments

All financial instruments have been recognised in the balance sheet and there is no material difference between their fair values and carrying values.

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

**Liquid resources, trade accounts receivable, investments and loans:** the carrying amounts reported in the balance sheet approximate fair values.

## 35. FINANCIAL RISK MANAGEMENT *(continued)*

### 35.8 Fair value of financial instruments *(continued)*

**Short-term interest-bearing debt:** the fair values of the Group's loans are estimated using discounted cash flow analyses applying the RSA yield curve. The carrying amount of short-term borrowings approximates their fair value.

**Notes issued:** the floating rate notes issued are fair valued based on the exchange rate ruling at the balance sheet date.

**Forward instruments:** forward exchange contracts are entered into to cover import orders, and fair values are determined using foreign exchange market rates at 28 March 2009. Forward exchange agreements and swaps are entered into to hedge interest rate exposure of investments, interest bearing debt and fair values are determined using market related derivative rates at 28 March 2009.

## 36. RELATED-PARTY TRANSACTIONS

The Group Financial Statements include the financial statements of Edcon Holdings (Proprietary) Limited and subsidiaries and joint ventures (refer to Annexure 1 on page F-160 for a list of significant subsidiaries). Related party relationships exist within the Group. During the period all purchasing and selling transactions were concluded at arm's length. Edcon Holdings (Proprietary) Limited is the ultimate South African parent entity and the ultimate parent of the Group is Edcon (BC) S.A.R.L. The following table provides the total amount of transactions, which have been entered into with related parties:

| | Successor | | |
|---|---|---|---|
| | 2009 | | |
| | Fee paid to related parties | Amounts owed by related parties | Amounts owed to related parties |
| | Rm | Rm | Rm |
| Loan including interest to shareholder | | | **6,492** |
| Fee paid to Bain Capital affiliate | **43** | | |

| | Successor | | |
|---|---|---|---|
| | 2008 | | |
| | Fee paid to related parties | Amounts owed by related parties | Amounts owed to related parties |
| | Rm | Rm | Rm |
| Loan including interest to shareholder | – | – | 5,547 |
| Preference dividend due to shareholders' | – | – | 27 |
| Fee paid to Bain Capital affiliate | 30 | – | – |

## 36. RELATED-PARTY TRANSACTIONS *(continued)*

Transactions with joint ventures are detailed in note 7.

| | Successor | | Predecessor |
|---|---|---|---|
| | 52 weeks 2009 | 47 weeks 2008 | 52 weeks 2007 |
| | Total including directors | Total including directors | Total including directors |
| | Rm | Rm | Rm |
| **36.1 Compensation relating to key management personnel** | | | |
| Remuneration | **27** | 20 | 23 |
| Retirement, medical, accident and death benefits | **4** | 2 | 3 |
| Performance bonus | **–** | – | 2 |
| Loyalty bonus | **6** | – | 2 |
| Other benefits | **1** | – | – |
| Fair value of options granted[1] | | | 28 |
| Options exercised | | 332 | – |
| | **38** | 354 | 58 |
| **Comprising:** | | | |
| Short-term employee benefits | **34** | 20 | 27 |
| Fair value of options granted[1] | | | 28 |
| Options exercised | | 332 | – |
| Post-employment benefits | **4** | 2 | 3 |

[1] The fair value of options granted is the annual expense determined by IFRS 2.

Key management personnel includes directors (refer to note 27.7) and members of the Chief Executive's Forum.

| | Successor | |
|---|---|---|
| | 2009 28 March | 2008 29 March |
| | Rm | Rm |
| **37. CONSOLIDATION OF ONTHECARDS INVESTMENTS LIMITED (OtC)** | | |
| Included in the Group Balance Sheets by line are the following balances relating to the consolidation of OtC effective 6 May 2007: | | |
| **ASSETS** | | |
| **Non-current assets** | | |
| Intangible assets | **79** | 79 |
| Held-to-maturity investments | **(1,450)** | (1,425) |
| **Total non-current assets** | **(1,371)** | (1,346) |
| **Current assets** | | |
| Trade, other receivables and prepayments | **3,889** | 3,756 |
| Cash and cash equivalents | **–** | 127 |
| **Total current assets** | **3,889** | 3,883 |
| **Total assets** | **2,518** | 2,537 |
| **EQUITY AND LIABILITIES** | | |
| **Equity attributable to shareholders** | | |
| Retained (loss)/surplus | **(52)** | 3 |
| **Total equity** | **(52)** | 3 |
| **Non-current liabilities – third parties** | | |
| Subordinated loan | | 25 |
| Deferred tax | **(89)** | (70) |
| | **(89)** | (45) |
| **Total non-current liabilities** | **(89)** | (45) |
| **Current liabilities** | | |
| Interest-bearing debt | **2,659** | 2,581 |
| Current taxation | **(2)** | (4) |
| Trade and other payables | **2** | 2 |
| **Total current liabilities** | **2,659** | 2,579 |
| **Total equity and liabilities** | **2,518** | 2,537 |
| **Total managed capital per IAS 1** | **2,607** | 2,584 |
| Included in the Group Income Statements by line, are the following amounts relating to the consolidation of OtC effective 6 May 2007: | | |
| **Total revenues** | **530** | 479 |
| Income from credit | **517** | 467 |
| Expenses from credit | **(234)** | (129) |
| **Trading profit and profit before financing costs** | **283** | 338 |
| Interest received | **13** | 12 |
| **Profit before financing costs** | **296** | 350 |
| Financing costs | **(369)** | (345) |
| **Loss before taxation** | **(73)** | 5 |
| Taxation | **18** | (2) |
| **Loss for the period** | **(55)** | 3 |

| | Successor | |
|---|---|---|
| | **2009 52 weeks to 28 March** | **2008 47 weeks to 29 March** |
| | **Rm** | **Rm** |
| **37. CONSOLIDATION OF ONTHECARDS INVESTMENTS LIMITED (OtC)** *(continued)* | | |
| Included in the Group Cash Flow Statements by line, are the following amounts relating to the consolidation of OtC effective 6 May 2007: | | |
| **Cash retained from operating activities** | | |
| (Loss)/profit before taxation | **(73)** | 5 |
| Interest received | **(13)** | (12) |
| Financing costs | **369** | 345 |
| **Operating cash inflow before changes in working capital** | **283** | 338 |
| Working capital movement | **(133)** | 13 |
| Trade accounts receivable | **(82)** | (51) |
| Other receivables | **(43)** | 76 |
| Trade and other payables | **(8)** | (12) |
| **Cash generated from operating activities** | **150** | 351 |
| Interest received | **5** | 12 |
| Financing costs paid | **(360)** | (345) |
| Taxation paid | **–** | (8) |
| **Net cash (utilised)/retained** | **(205)** | 10 |
| **Cash effects of financing activities** | | |
| Increase in held-to-maturity investments | **25** | 725 |
| Increase in short-term interest bearing debt | **53** | (869) |
| **Net cash inflow/(outflow) from financing activities** | **78** | (144) |
| **Decrease in cash and cash equivalents** | **(127)** | (134) |
| **Cash and cash equivalents at the beginning of the period** | **127** | – |
| Consolidation of OntheCards | | 261 |
| **Cash and cash equivalents at the end of the period** | **–** | 127 |

## ANNEXURE 1 – INTERESTS IN SIGNIFICANT SUBSIDIARIES

| | Nature of business* | Issued ordinary capital | | | % interest in capital | | | Book value-shares | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **2009** | **2008** | **2007** | **2009** | **2008** | **2007** | **2009** | **2008** | **2007** |
| | | **R** | **R** | **R** | **%** | **%** | **%** | **Rm** | **Rm** | **Rm** |
| Celrose (Pty) Limited | M | **100** | 100 | 100 | **49** | 49 | 49 | **51** | 51 | – |
| Edcon Acquisition (Pty) Ltd | A | **1** | 1 | | **100** | 100 | | **1,968** | 1,968 | |
| Edcon (Pty) Ltd | R | **895** | 894 | | **100** | 100 | | **3,232** | 3,075 | |
| National Security Corporation (Pty) Limited | G | **2,000** | 2,000 | 2,000 | **100** | 100 | 100 | **7** | 7 | – |
| R22 Properties (Pty) Limited | P | **1** | 1 | 1 | **100** | 100 | 100 | **88** | 88 | – |
| Topics (Pty) Limited | D | **235,219** | 235,219 | 235,219 | **100** | 100 | 100 | **94** | 94 | 54 |
| VOC Investments (Pty) Limited | D | **950,050** | 950,050 | 950,050 | **100** | 100 | 100 | **51** | 51 | 51 |
| **Incorporated in Botswana** | | **P** | P | P | | | | | | |
| Jet Supermarkets Botswana (Pty) Limited | R | **300,000** | 300,000 | 300,000 | **100** | 100 | 100 | **405** | 405 | – |
| **Incorporated in Namibia** | | **N$** | N$ | N$ | | | | | | |
| Edgars Stores (Namibia) Limited | R | **1,050,000** | 1,050,000 | 1,050,000 | **100** | 100 | 100 | **264** | 264 | – |
| **Incorporated in Swaziland** | | **L** | L | L | | | | | | |
| Central News Agency (Swaziland) (Pty) Limited | D | **400** | 400 | 400 | **100** | 100 | 100 | **1** | 1 | 1 |
| Edgars Stores Swaziland Limited | R | **1,500,000** | 1,500,000 | 1,500,000 | **100** | 100 | 100 | **136** | 136 | 1 |
| **Incorporated in Guernsey** | G | **£** | £ | £ | | | | | | |
| Bellfield Limited | G | **41** | 41 | 41 | **100** | 100 | 100 | **70** | 70 | – |
| Interest in subsidiaries | | | | | | | | **6,367** | 6,210 | 107 |

* *Nature of business R: Retailing, M: Manufacturing, G: Group Services, D: Dormant, P: Property Holding, A: Acquisition company.*

Note: Celrose (Pty) Ltd is consolidated as the Group retains control.

**Corporate Information**

**Edcon Holdings (Proprietary) Limited**

Incorporated in the Republic of South Africa
Registration number 2006/036903/07

**Non-executive directors**

DM Poler* (Chairman), EB Berk*, JM Tudor*,
SM Zide*,
ZB Ebrahim.

**Executive directors**

SM Ross* (Managing Director and Chief Executive Officer),
U Ferndale
*USA

**Group Secretary**

CM Vikisi

**Registered office**

Edgardale, Press Avenue
Crown Mines, Johannesburg 2092
Telephone: +27 11 495-6000
Fax: +27 11 837-5019

**Postal address**

PO Box 100, Crown Mines 2025

**Auditors**

Ernst & Young Inc.
Wanderers Office Park
52 Corlett Drive, Illovo 2196
PO Box 2322, Johannesburg 2000
Telephone: +27 11 772-3000
Fax: +27 11 772-4000

**Listing Agent, Trustee, Registrar, Transfer Agent and Principal Paying Agent**
The Bank of New York
1 Canada Square
London E14 SAL
United Kingdom

**Tracy Sheridan, Listing Executive –**
The Bank of New York
Mellon Corporation
Corporate Trust Services
Phone +353 1 542 6991
Fax +353 1 542 6 999
Tracy.x.sheridan@bankofny.com

## ANNEX A—GLOSSARY OF DEFINED TERMS

The following glossary of defined terms is intended as a general source of information and has not been prepared or independently verified by us or our advisers or the Initial Purchasers or any of their respective affiliates or advisers.

"*Anchor store / tenant*" is a large store within a shopping area that is attractive to landlords because it is viewed as a draw to retail traffic, which increases the financial stability of the shopping project.

"*BBBEE*" means Broad-Based Black Economic Empowerment, the South African governmental initiative designed to increase equity ownership and management positions for black South Africans, given statutory effect in accordance with the following legislation:

- the Broad-Based Black Economic Empowerment Act and the codes of good practice issued thereunder in relation to all sectors of the economy other than the mining sector, as read in conjunction with the Preferential Procurement Framework Policy Act in relation to public sector procurement; and
- the Mineral and Petroleum Resource Development Act and the mining charter issues thereunder in relation to the mining sector.

"*Co-branded credit card*" is a credit card that has the labels of both a retailer and a financial institution affixed on the card; the credit risk is underwritten by the financial institution.

"*Credit life*" is an insurance policy for the repayment of all credit upon death.

"*Credit retailer*" refers to a retail company with credit services such, as a private label credit card.

"*Lead time*" is the amount of time between a procurement decision and the receipt of the ordered goods.

"*Markdown*" is a reduction in the original retail selling price of a product. Markdowns are made for one of three reasons:

- Clearance: a permanent markdown occurs because the original price is either too high, the product is not selling well at the current price or the product is at the end of its range. This type of markdown may indicate poor buying.
- Promotion: a temporary markdown in order to help improve sale levels.
- New Low Prices: a permanent markdown because a new product is replacing an existing one at a lower price. This type of markdown is usually applicable to mobile phones, where newer models continually replace older models.

"*Private label credit card*" is a card issued and underwritten by a retailer to be used for credit at its stores, usually with some discounted purchase prices or other rewards for using the card.

"*Product flow*" is the production process through its various stages, from raw materials to the final product.

"*Product mix*" is the total composite of all of the products offered by a particular organization.

"*Same store sales*" is sales from stores open for the full period of each of two comparable periods.

"*Stock imbalance*" describes the situation in which the supply of products readily available for sale to customers is too small or too large to be efficient.

"*Stock turn*" is the number of times that an organization replaces its stock during a given time period, usually one year.

"*Trading density*" is retail sales per average square metre of store space.

## REGISTERED OFFICE OF THE ISSUER

**Edcon (Proprietary) Limited**
Edgardale
1 Press Avenue
Crown Mines
Johannesburg, 2092
Republic of South Africa

## LEGAL ADVISERS TO THE ISSUER

*As to U.S. and English law*

**Kirkland & Ellis International LLP**
30 St Mary Axe
London, EC3A 8AF
United Kingdom

*As to South African law*

**Werksmans, Inc.**
155 5th Street
Sandown
Sandton
Johannesburg
Republic of South Africa

## LEGAL ADVISERS TO THE INITIAL PURCHASERS

*As to U.S. and English law*

**Shearman & Sterling (London) LLP**
Broadgate West
9 Appold Street
London, EC2A 2AP
United Kingdom

*As to South African law*

**Bowman Gilfillan Inc.**
165 West Street
Sandton
Johannesburg, 2146
Republic of South Africa

## INDEPENDENT AUDITORS

**Ernst & Young Inc.**
Wanderers Office Park
52 Corlett Drive
Illovo
Johannesburg
Republic of South Africa

## LISTING AGENT AND IRISH PAYING AGENT

**The Bank of New York Mellon (Ireland) Limited**
Hannover Building
Windmill Lane
Dublin 2
Republic of Ireland

## REGISTRAR

**The Bank of New York Mellon (Luxembourg) S.A.**
Vertigo Building - Polaris
2-4 rue Eugene Ruppert
L-2453 Luxembourg

## TRUSTEE, TRANSFER AGENT AND PRINCIPAL PAYING AGENT

**The Bank of New York Mellon**
One Canada Square
London, E14 5AL
United Kingdom

## U.S. REGISTRAR AND U.S. PAYING AGENT

**The Bank of New York Mellon**
101 Barclay Street
New York, NY10286
United States of America

## LEGAL ADVISERS TO THE TRUSTEE

**Berwin Leighton Paisner LLP**
Adelaide House
London Bridge
London, EC4R 9HA
United Kingdom

Printed by RR Donnelley, 148110

Kelso

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# Edcon (Proprietary) Limited

**€317,000,000 9 1/2% Senior Secured Notes due 2018**

**U.S. $250,000,000 9 1/2% Senior Secured Notes due 2018**

**OFFERING MEMORANDUM**

**16 MARCH 2011**