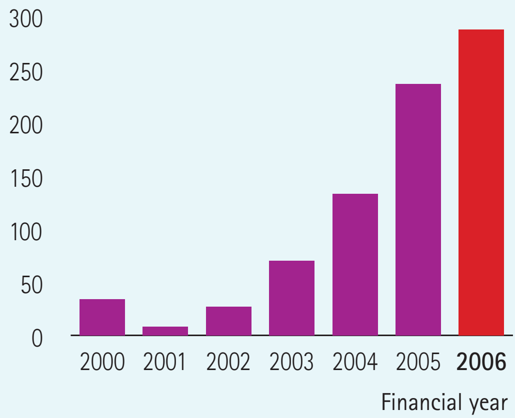
# Audited Financial Report

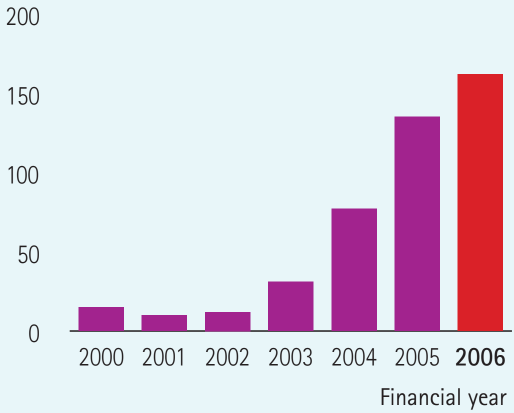
for the year ended 1 April 2006

Edcon

## Diluted headline earnings per share (cents)*




## Dividends per share (cents)*




*Comparatives restated for 10 for 1 subdivision of shares in 2006 financial year.

# Salient features

Retail sales growth of

20%

Diluted headline earnings per share up

22%

Attributable earnings up 24% to over

R1,5 billion

Total dividends increased by 20% to

162 cents

Cash "EBITDA" growth of

18%

# Commentary

## The retail environment

The key factors that bolstered the South African economy over the past couple of years remained in place during the financial year under review. Customers continued to benefit from low interest rates, rising employment and real wage increases, with consumer confidence reaching an all-time high in early 2006, boosted by the larger than expected tax cuts announced in the national budget. However, the rising fuel prices and the difficulties experienced by export sectors of the economy have curbed some of this enthusiasm.

This favourable trading environment contributed to sustained robust sales in the clothing, footwear and textile (CFT) sector. Statistics provided by the Retailers' Liaison Committee (RLC) indicate that national CFT sales have risen by 15% in the year to March 2006, while deflation in the sector is estimated to have been 4%.

## Group results

The Board is pleased to report another year of strong financial performance, generating R4,7 billion of new wealth for the South African economy and producing a return on shareowners' equity of 42%. Edcon, based on RLC statistics, has lifted its share of the formal CFT market from 30,7% to 31,4%, once again underscoring the success of its long-term strategies. The Group achieved diluted headline earnings per share of 287 cents, up 22%. Attributable earnings rose by a strong 24%, this despite the current year containing one less trading week than last year (4% impact) and the dilutionary impact of the staff empowerment transaction (estimated 5%). Excluding the effect of these two factors, comparable diluted headline earnings per share increased by 32%.

The Group's sales advanced by 20%, with the comparable weeks' sales being 22% above last year. All chains recorded strong growth. This performance was accomplished with overall selling price deflation of 5% and an additional 11% average retail space. New stores contributed 7% to sales growth and these stores are expected to reach full operational efficiency within 12 months of their opening.

Edcon's gross profit margin declined from 39,8% to 38,6% due to the rising contribution from the lower margin merchandise in the Discount Division and cellular products. In addition, the unseasonally warm 2005 winter necessitated greater markdowns. Ongoing operational efficiency enhancements enabled the Group to advance stockturn from 5,8 to 6,1 times and improve its operating margin to 12,9%.

In the Department Stores Division – incorporating Edgars and CNA – prudent cost management and improvements in staff and space productivity facilitated an excellent 32% rise in trading profit. Sales in the Edgars chain grew by 18% (like-for-like weeks 20%), with inflation of 1%. The chain's positive momentum accelerated over the year, with second half sales growth exceeding that of the first six months. All major departments reported sales increases in excess of 15%, with menswear and footwear being the most impressive. Substantial progress has been made in the home living business, with the chain benefiting from the successful integration of Boardmans. Gross profit margin at 41,5% was lower than last year's 42,1%, following higher sales growth in low margin cellular products. Edgars attained a stockturn of 5,7 times compared with last year's 5,3 times.

CNA's sales rose by 23% (comparable weeks 25%). Focus on its core business, improved customer service, competitive pricing and the benefits of Edcon's merchandise system contributed to this success. The most significant sales gains were in stationery, interactive and cellphones. Although stockturn improved from 3,4 times last year to 3,8 times, management believes there is still scope for further advances. Similarly, the gross profit margin, which remained at 32,5%, due to faster growth in the lower margin interactive and cellphone businesses, will improve in the year ahead as books' contribution to total chain sales grows.

Jet Mart has been fully integrated into the Discount Division. The proportion of CFT sold in Jet Mart is now 29%. Hardline merchandise is currently being rolled out to a number of Jet stores. As a consequence, the buying, planning and operations of Jet and Jet Mart have been merged and their financial results consolidated.

The Discount Division reported a 21% rise in turnover (like-for-like weeks 24%) despite deflation of 16%. As anticipated, gross profit margin has reduced from last year's 38,0%, to 36,1%. Trading profit, which rose 12%, was adversely impacted in the second half by opening costs for new stores and the associated expansion of chain management capabilities. Progress in ladieswear, infantswear and girlswear boosted the chain's performance. However, menswear and schoolwear were hampered by some stock imbalances and assortment problems. These issues will have been rectified by June and represent an opportunity in the months ahead. Stockturn for the Discount Division at 7,6 times, compared with 8,1 times last year, was impacted by the rapid new store rollout during the latter part of the year.

Total Group cellular phone and airtime sales grew by 49% to R1 738 million. Edcon's Manufacturing Division recorded a loss of R1 million, an improvement on the R4 million loss incurred last year, through effective cost management.

The Credit and Financial Services Division performed in line with forecast and profit increased by 19% to R252 million. Cost of credit rose to R158 million, due mainly to the annual net bad debt write-off to debtors reaching 8,3%. The rise in bad debts was inevitable as a consequence of the sharp rise in new accounts over the past two years and the maturing that has to occur. In line with our strategy, accounts that are current and able to purchase have fallen to our target of 85% from last year's 88%. Cash sales accounted for 37% of total sales, which was consistent with last year. A major success for the division has been the growth in insurance products, as evidenced by the 56% jump in taxed contribution from our insurance joint venture with the Hollard Group.

Excluding the costs of the staff empowerment transaction, total expenses increased by 11%. This is attributable primarily to the additional direct expenses for the new stores opened during the year and the associated corporate cost of managing the enlarged Group. Edcon's growth strategy has necessitated further investment in systems, supply chain and human resources. Other operating costs included R38 million to computerise new Topic stores and R27 million in respect of the extensive investigation and exhaustive due diligence exercise for an unsuccessful acquisition attempt of Myer in Australia.

The effective tax rate has reduced as the Group benefited from higher STC credits associated with dividends declared by the insurance joint venture.

## Cash flows and financial position

Cash "EBITDA" continued to be strong (up 18%), facilitating the growth of Edcon's business and supporting further investments in accounts receivable and new stores.

The Group increased the account base by approximately 585 000 over the past year (including 115 000 new credit customers from the Topic acquisition) to close with 4,1 million accounts. Total debtors managed by the Credit Division are now R7,9 billion, an increase of 26% over the prior year, but in line with expectations. Edcon has maintained its conservative policy relating to doubtful debts and has provided adequately for write-off requirements. During August 2005, Edcon sold a further tranche of debtors to the securitisation company – OntheCards Investments Limited. The net proceeds received of R682 million were utilised to repay debt.

Encouragingly, closing inventory was down 4%, highlighting the efficiency of the Group's merchandise management systems. Consistent with prior years, adequate provision has been made for slow-moving inventory and shrinkage.

During the year, Edcon added a net 175 additional stores (including 123 stores integrated as part of the Topic acquisition) at a total cost of R382 million. New Discount stores have been opened in regional locations across South Africa and new mall developments have allowed Edgars to extend its footprint in urban areas. A store is revamped or opened only if it is forecast to generate an internal rate of return in excess of our 25% return on shareowners' equity hurdle rate and a payback within three years. Also included in investment activities is R156 million relating to information technology and a net R33 million for the Topic acquisition.

The strength of Edcon's financial position is evident in the positive cash and cash equivalents balance, net of interest-bearing debt, of R173 million at year-end. Further substantial flexibility is provided by this negative gearing and the existence of nearly R1,3 billion of unutilised borrowing facilities.

**Accounting policies and comparatives** The abridged financial statements continue to be prepared in accordance with South African Statements of Generally Accepted Accounting Practice, International Financial Reporting Standards and the Listings Requirements of JSE Limited. The accounting policies are consistent with those of the previous year, except that the Group has implemented SAICA Circular 7/2005 on 'Leases' in respect of the straight-line method of recognising operating leases which include fixed escalation clauses. The Group has also reassessed its accounting treatment of the joint venture with the Hollard Group for financial services products and is now accounting for the arrangement as a jointly controlled entity, using the equity accounting method.

The impact of these changes is detailed in the notes to the financial statements and the prior year results have been restated in compliance with IAS 8. The headline earnings per share and the diluted headline earnings per share for last year, as a consequence, have reduced from 266 to 262 cents per share and from 240 to 236 cents per share respectively.

All "per share" comparatives have been recalculated to reflect the 10 for 1 subdivision of shares approved at the general meeting in July 2005.

**Dividend** In terms of the Group's policy of covering dividends approximately twice by attributable earnings, the Board has declared a final dividend of 100 cents per share, reflecting 18% growth on last year's final dividend. Total dividends of 162 cents per share are 20% higher than the previous year.

**Prospects** The sustained high levels of consumer confidence, benefiting from low interest and inflation rates as well as from the further tax cuts announced in the recent national budget, together with accelerating job creation, will have a positive impact on consumer spending in the year ahead. Government's commitment to an extensive infrastructural development programme and to achieving long-term GDP growth targets is also a very positive factor. While credit utilisation, reflected by consumer debt to income statistics, has moved upwards, debt servicing costs remain at historically low levels. Taking all the foregoing factors into consideration, ongoing expansion in the economy should continue to support retail sales growth, albeit at a slower pace than that experienced in the past three years.

Against this background, and given current trends in the industry, the Board is confident about the prospects for the forthcoming year, although sales growth may not be at quite the high levels that have characterised our recent history. Sales will, however, be augmented by the addition of a further 11% new trading space across all formats and the realisation of the full potential of the space added last year. Accordingly, shareowners can expect another meaningful rise in earnings, ahead of the sales growth, for the year to March 2007.

For and on behalf of the Board

**WS MacFarlane**
*Chairman*

**SM Ross**
*Group Chief Executive Officer*

# Final dividend

Notice is hereby given that the final ordinary dividend (No.119) of 100 cents per share, in respect of the 52 weeks ended 1 April 2006, has been declared payable to the holders of ordinary shares appearing in the records of the company at the close of business on Friday, 30 June 2006.

The dividend is declared payable in the currency of the Republic of South Africa and, in compliance with the requirements of STRATE, the following dates are applicable:

| | |
|---|---|
| Last day to trade cum dividend | Friday, 23 June 2006 |
| Date trading commences ex dividend | Monday, 26 June 2006 |
| Record date | Friday, 30 June 2006 |
| Date of payment | Monday, 3 July 2006 |

Shareholders may not dematerialise or rematerialise their shares between Monday, 26 June 2006 and Friday, 30 June 2006, both dates inclusive.

On behalf of the Board

**EA Bagley**
*Group Secretary*

Johannesburg
16 May 2006

# Abridged income statements

| | 2006 52 weeks to 1 April (audited) Rm | 2005 53 weeks to 2 April (restated and audited) Rm | Change % |
|---|---|---|---|
| **Revenue – retail sales** | **16 316** | 13 590 | 20 |
| Cost of sales | **10 015** | 8 180 | |
| **Gross profit** | **6 301** | 5 410 | 16 |
| Store costs | **2 724** | 2 346 | |
| Other operating costs | **1 575** | 1 439 | |
| **Trading profit** | **2 002** | 1 625 | 23 |
| Cost of credit | **158** | 51 | |
| Equity accounted earnings of joint venture | **254** | 163 | |
| **Operating profit before financing costs** | **2 098** | 1 737 | |
| Net financing costs | **24** | 4 | |
| **Profit before taxation** | **2 074** | 1 733 | 20 |
| Taxation | **566** | 517 | |
| **Earnings attributable to ordinary shareowners** | **1 508** | 1 216 | 24 |
| **Number of ordinary shares (000)** | | | |
| in issue | **489 825** | 469 185 | |
| weighted average | **482 491** | 461 877 | |
| diluted weighted average | **515 391** | 514 184 | |
| **Earnings per ordinary share (cents)** | | | |
| attributable earnings basis | **313** | 263 | 19 |
| headline earnings basis | **307** | 262 | 17 |
| cash equivalent basis | **375** | 310 | 21 |
| **Diluted earnings per ordinary share (cents)** | | | |
| attributable earnings basis | **293** | 236 | 24 |
| headline earnings basis | **287** | 236 | 22 |
| **Dividends per ordinary share (cents)** | | | |
| interim paid | **62** | 50 | 24 |
| final proposed | **100** | 85 | 18 |
| Total | **162** | 135 | 20 |
| Cover (times) | **1,9** | 2,0 | |
| **Return on shareowners' equity (%)** | **42,0** | 44,2 | |
| **Reconciliation of headline earnings** | | | |
| Group attributable earnings | **1 508** | 1 216 | |
| *Add:* Loss on disposal of fixtures, equipment and vehicles | **5** | (2) | |
| *Less:* Discount on acquisition of Topic | **(33)** | | |
| *Less:* Recognition of discount on acquisition of RAG receivables and assets | | (4) | |
| Taxation effect | **(1)** | 2 | |
| **Headline earnings** | **1 479** | 1 212 | 22 |

| | 2006 52 weeks to 1 April (audited) Rm | 2005 53 weeks to 2 April (restated and audited) Rm | Change % |
|---|---|---|---|
| **SEGMENTAL/CHAIN ANALYSIS** | | | |
| **Retail sales** | | | |
| Edgars (incl. Boardmans) | 8 575 | 7 296 | 18 |
| CNA | 1 242 | 1 012 | 23 |
| **Department Stores Division** | 9 817 | 8 308 | 18 |
| **Discount Division** | 6 411 | 5 282 | 21 |
| **Topic** (prior to conversion) | 88 | | |
| | 16 316 | 13 590 | 20 |
| **Average retail space (000 m$^2$)** | | | |
| Egdars (incl. Boardmans) | 473 | 430 | 10 |
| CNA | 90 | 90 | |
| **Department Stores Division** | 563 | 520 | 8 |
| **Discount Division** | 400 | 360 | 11 |
| **Topic** (prior to conversion) | 14 | | |
| | 977 | 880 | 11 |
| **Number of stores** | | | |
| Edgars (incl. Boardmans) | 240 | 199 | |
| CNA | 192 | 191 | |
| **Department Stores Division** | 432 | 390 | |
| **Discount Division** | 471 | 344 | |
| **Topic** (stores being converted) | 6 | | |
| | 909 | 734 | |
| **Gross profit** | | | |
| Edgars (incl. Boardmans) | 3 563 | 3 075 | 16 |
| CNA | 404 | 329 | 23 |
| **Department Stores Division** | 3 967 | 3 404 | 17 |
| **Discount Division** | 2 314 | 2 006 | 15 |
| **Topic** (prior to conversion) | 20 | | |
| | 6 301 | 5 410 | 16 |
| **Trading profit** | | | |
| Department Stores Division | 1 299 | 984 | 32 |
| Discount Division | 721 | 646 | 12 |
| Topic | (16) | | |
| Manufacturing | (1) | (4) | |
| Amortisation of intangibles | (1) | (1) | |
| | 2 002 | 1 625 | 23 |
| **Analysis of credit and financial services profit** | | | |
| Equity accounted earnings of joint venture after taxation | 254 | 163 | |
| Taxation of joint venture earnings | 156 | 100 | |
| Equity accounted earnings of joint venture before taxation | 410 | 263 | |
| Cost of credit as per the income statement | (158) | (51) | |
| **Credit and financial services profit** | 252 | 212 | 19 |

# Abridged cash flow statements

| | 2006 52 weeks to 1 April (audited) Rm | 2005 53 weeks to 2 April (restated and audited) Rm |
|---|---|---|
| **Cash retained from operating activities** | | |
| Operating profit | 2 098 | 1 737 |
| Depreciation and amortisation | 235 | 251 |
| Other non-cash items | 31 | 16 |
| **Cash "EBITDA"** | 2 364 | 2 004 |
| Increase in working capital | (547) | (189) |
| Inventories | 103 | (458) |
| Trade accounts receivable | (1 567) | (1 673) |
| Net proceeds of securitisation | 682 | 939 |
| Other debtors | (26) | 122 |
| Accounts payable | 261 | 881 |
| **Cash generated from operating activities** | 1 817 | 1 815 |
| Net financing costs paid | (24) | (4) |
| Taxation paid | (592) | (412) |
| **Cash inflow from operations** | 1 201 | 1 399 |
| Dividends paid | (712) | (470) |
| **Net cash retained** | 489 | 929 |
| **Cash utilised in investment activities** | | |
| Investment in fixtures, equipment and vehicles | (640) | (380) |
| Acquisitions | (33) | (79) |
| **Net cash utilised** | (673) | (459) |
| **Cash effects of financing activities** | | |
| Increase in shareowner funding | 69 | (7) |
| Increase in interest bearing debt | 56 | (247) |
| **Net cash inflow from financing activities** | 125 | (254) |
| **Decrease in cash and cash equivalents** | (59) | 216 |
| Cash and cash equivalents at the beginning of the period | 411 | 195 |
| Currency adjustments | (3) | – |
| **Cash and cash equivalents at the end of the period** | 349 | 411 |

# Abridged balance sheets

| | 2006<br>1 April<br>(audited)<br>Rm | 2005<br>2 April<br>(restated and audited)<br>Rm |
|---|---|---|
| ASSETS | | |
| **Non-current assets** | | |
| Properties, fixtures, equipment and vehicles | 1 320 | 920 |
| Goodwill and trademarks | 78 | 79 |
| Other financial assets | 700 | 570 |
| Investment in joint venture | 12 | 22 |
| Deferred tax | 84 | 96 |
| **Total non-current assets** | 2 194 | 1 687 |
| **Current assets** | | |
| Inventories | 1 666 | 1 734 |
| Trade, other receivables and prepayments | 3 786 | 2 913 |
| Cash and cash equivalents | 349 | 411 |
| **Total current assets** | 5 801 | 5 058 |
| **Total assets** | 7 995 | 6 745 |
| EQUITY AND LIABILITIES | | |
| **Capital and reserves** | | |
| Total shareowners' funds | 4 030 | 3 152 |
| Interest bearing debt | 176 | 120 |
| **Total capital employed** | 4 206 | 3 272 |
| **Interest free liabilities** | | |
| Trade and other payables | 3 603 | 3 232 |
| Current taxation | 186 | 241 |
| **Total interest free liabilities** | 3 789 | 3 473 |
| **Total equity and liabilities** | 7 995 | 6 745 |
| **Gearing ratios** | | |
| Net interest bearing debt/total shareowners' funds | (0,04) | (0,09) |
| Total liabilities/total shareowners' funds | 0,98 | 1,14 |
| **Future capital expenditure** | | |
| Contracted | 247 | 163 |
| Authorised but not contracted | 473 | 468 |
| **Unutilised borrowing facilities** | 1 279 | 1 335 |
| **Net equity per ordinary share (cents)** | 823 | 672 |

# Abridged statements of changes in ordinary shareowners' equity

| | 2006 to 1 April (audited) Rm | 2005 to 2 April (restated and audited) Rm |
|---|---|---|
| Ordinary shareowners' equity at the beginning of the period | **3 152** | 2 650 |
| Restatement – operating lease adjustment, Circular 7/2005 | **–** | (298) |
| Ordinary share capital issued | **38** | 16 |
| Net movement in treasury shares | **31** | (23) |
| Revaluation of land and buildings | | 50 |
| Earnings attributable to ordinary shareowners | **1 508** | 1 216 |
| Ordinary dividends paid | **(712)** | (470) |
| Other | **13** | 11 |
| **Balance at the end of the period** | **4 030** | 3 152 |

# Abridged cash value added statements

| | 2006 52 weeks to 1 April (audited) Rm | 2005 53 weeks to 2 April (audited) Rm | Change % |
|---|---|---|---|
| **Cash generated** | | | |
| Cash derived from customers | **15 340** | 12 976 | |
| Cash payments outside the Group to suppliers of materials, merchandise, facilities and services | **(10 678)** | (8 848) | |
| **Wealth created through cash value added** | **4 662** | 4 128 | 13 |
| **Cash utilised to:** | | | |
| Remunerate employees for their services | **1 909** | 1 527 | |
| Pay direct taxes to the state | **748** | 513 | |
| Provide lenders with a return on monies borrowed | **39** | 27 | |
| Provide lessors with a return for the use of their premises | **765** | 662 | |
| Provide shareowners with cash dividends | **712** | 470 | |
| **Cash disbursed among stakeholders** | **4 173** | 3 199 | 30 |
| **Net cash retained** | **489** | 929 | |

# Notes to the financial results

1. These abridged statements have been audited by Ernst & Young and the audit certificate is available for inspection at the company's registered office.

2. **SAICA Circular 7/2005, 'Leases'**
   The circular provides additional guidance to IAS 17 (AC 105) 'Leases', and addresses operating leases with fixed escalation clauses. Lease expenses are now recognised on the straight-line method irrespective of cash flows. Previously, lease expenses were recognised on the basis of cash flows as determined the lease agreement. The effect is a decrease in current year attributable profit of R2 million (2005: R17 million). Furthermore, the opening retained earnings at March 2004 has been reduced by R298 million, after providing for a deferred tax asset of R127 million, to reflect the cumulative impact at that date.

3. **Joint ventures**
   The relationship with our partners in the Hollard joint venture has been clarified to represent a jointly controlled entity which is now accounted for using the equity method.

   This has had no impact on the attributable profit of the Group. The Group's share of the joint venture profit has been disclosed on the face of the income statement net of applicable taxes and the investment of R12 million (2005: R22 million) is shown separately on the balance sheet. The taxation of the Group in the prior year reduced by R100 million as a result of the reclassification of the joint venture.

# Key indicators in US dollar terms

| | 2006 52 weeks to 1 April (unaudited) Rm | 2005 53 weeks to 2 April (restated and unaudited) Rm | Change % |
|---|---|---|---|
| Revenue – retail sales (US$m) | **2 541** | 2 167 | 17 |
| Headline earnings attributable to ordinary shareowners (US$m) | **230** | 193 | 19 |
| Net equity per ordinary share (US cents) | **133** | 106 | 25 |
| Diluted headline earnings per share (US cents) | **45** | 38 | 18 |
| **Dividends per ordinary share (US cents)** | | | |
| Interim (paid) | **10** | 8 | 25 |
| Final (proposed) | **16** | 12 | 33 |
| Closing rate | **6,21** | 6,31 | |
| Average rate | **6,42** | 6,27 | |

**Note:**

Dividends paid are at actual rates on the date of payment. The final dividend proposed is at the closing rate.

# Corporate information

**Non-executive directors:** WS MacFarlane (Chairman), AJ Aaron, ZB Ebrahim, JDMG Koolen#, HSP Mashaba, KD Moroka, PL Wilmot, SDM Zungu.
#Netherlands.

**Executive directors:** SM Ross** (Chief Executive), SR Binnie*, AvA Boshoff, MR Bower, Dr U Ferndale, JL Spotts**.
**USA. *UK.

**Group secretary:** EA Bagley.

**Transfer secretaries:** Ultra Registrars (Proprietary) Limited.
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**ISIN number:** ZAE 000068649

**Share codes:** JSE: ECO, NSX: ECN

For information on Edcon's electronic online proxy voting facility visit: http://www.edcon.co.za (click on the investor portal icon and register free of charge for the service) or, http://www.investorportal.co.za (click on the Edcon icon and register free of charge for the service).

These results can be viewed on the internet at: **http://www.edcon.co.za**

BASTION GRAPHICS

Edcon