MASSMART

Dedicated to Value

Reviewed Consolidated Results for the six months ended 29 December 2002

ThirtyPointThree*

Massmart is a unique, managed portfolio of nine wholesale or retail chains, each focused on high-volume, low margin, low cost distribution of mainly branded consumer goods for cash, in eight countries in Southern Africa. The Group is the third largest distributor of consumer goods in Southern Africa, the leader in general merchandise and liquor and the fourth largest in food.

32	45	42	39	42	19	92
% increase in sales to R10 555 million	% increase in trading profit to R430 million	% increase in headline earnings to R287 million	% increase in headline earnings before acquisitions to R281 million	% increase in headline EPS to 145,4 cents	% decrease in cash flow from operations to R556 million	% increase in dividend to 48,0 cents

Overview

Significant shifts in the Rand/Dollar exchange rate, inflation and consumer confidence, created a challenging platform for Massmart's twelth consecutive half year of real sales and headline earnings growth.

The highlights of the half-year were:

- Record half-year sales and pre- and post-interest trading profits in all divisions
- Improved half year pre- and post-interest trading margins in all divisions other than Makro where margins were depressed mainly by the opening of a new store in October
- Half-year pre-interest operating profit as a percentage of sales at 4,07% exceeding 4% for the first time
- Comparable store and comparable member sales growth of 26,2%
- Strong operating leverage achieved in Massdiscounters and Masscash
- Non-South African sales of R735 million
- The acquisition of Builders Warehouse for R140 million now subject to approval by the Competitions Tribunal
- The strengthening of the Board with the appointment of three independent non-executive directors
- Massmart's ranking in the Deloitte & Touche "Best Company To Work For" improved from 19th in 2001 to 7th in 2002.

Strategy and Implementation

Massmart is dedicated to creating shareholder value through high quality, strategically aligned, organic and acquisitive growth, which renders superior operating margins, cash flow and returns on capital.

Massmart's performance relies on the achievement of two major objectives. The first – growth through aggressive development of a portfolio of focused chains; the second – collaboration between those chains to create value in addition to that which they could otherwise achieve.

The strategy emphasises the imperative for the management of each chain to be dedicated to serving the needs of a well defined target market with a specific business model, while concurrently participating in collaborative activities which enhance value by leveraging the resources, influence and talent of the Group. Pragmatism results in this collaboration ranging from almost total integration of two chains under one management team to the simple sharing of information and knowledge. Potential conflicts between Chain and Group objectives are obviated by structures, processes and incentives, which fuel entrepreneurship at the expense of corporate politics and bureaucracy.

We are ever mindful that the strategy would fail without the commitment of the 14 822 people who apply their intellect, energy and passion to Massmart every day. We thank them for choosing Massmart.

Environment

During the reporting period the retail environment was shaped by four major factors, two of which significantly altered their trend in the latter part of 2002.

- Exchange rate – The volatility reflected in the 44,9% decrease and the subsequent 28,7% increase in the Rand/$ exchange rate over the 18 months to December 2002 had a significant impact on purchasing, inventory, margin and pricing decisions on dollar based merchandise, particularly in those merchandise categories with longer lead times or slower stock turns.
- Interest rates – The cumulative effect of four interest rate increases in 2002 slowed consumer expenditure in the last quarter.
- Inflation – Retail inflation rose steadily from 4,1% in May 2001, accelerating in response to the sharp exchange rate deterioration in late 2001, peaking at 10.9% in November before declining in December. Average retail inflation for the six months to December 2002 was 9,77% compared to 4,68% for the comparable period in 2001. Imported inflation declined sharply from 15% in November to 10% in December. Sales and gross profits moved in sympathy with these trends.
- Consumer confidence – In the second quarter of 2002, retailer and wholesaler confidence rose to fourteen-year highs, and consumer confidence to seven-year highs. The latter declined in the third quarter and more sharply in the fourth quarter, dampening consumer expenditure towards the year-end.

The volatility of these exogenous factors demanded more accurate measurement and analysis and a rapid response.

For some years we have noted and commented on the phenomenon of retail convergence – a development typical of mature or overtraded markets – where market participants struggling to achieve growth in their chosen category, forsake their historic product/market positioning to enter into the product or category domains of other retailers known for such products. This trend accelerated over the reporting period with a number of organic and acquisitive growth initiatives by participants who have now become competitors.

Both the macro economic and industry trends described above contributed to sustained, if not heightened competitive activity in the Southern African retail and wholesale markets.

Performance

Massmart's high sales growth rate decelerated gradually through the six months. Sales before acquisitions grew 27,7%. Enhanced slightly by the acquisition of Furnex, sales of general merchandise grew 31,2%. Food sales grew 30,1% and liquor sales 34,3%.

Reference to industry statistics and the reported sales of competitors indicates that Massmart continued to register market share gains.

Trading profit before interest and before acquisitions grew by 42% to R421,4 million. Headline earnings before acquisitions was R281 million or 142,1 cents per share.

Despite double-digit inflation, profit-enhancing volumes have continued to grow. It is difficult to accurately attribute such volume to either rising consumer expenditure or market share gains. In addition, inflationary profits and losses were realised on inventories during the period. While it is therefore clear that profits were enhanced by inflation, it is difficult to quantify the exact extent.

The introduction of AC133 – the new accounting standard applied to financial instruments including forward contracts – reduced headline earnings by R3,8 million or 1,9 cents per share.

Massdiscounters – comprises retail general merchandise discounters Game (55 stores) and Dion (11 stores). Aggressive merchandising and advertising resulted in comparable store sales growth of 27,1%, with operating efficiencies leading to further progress towards the division's medium-term, annual targeted profit before tax return on sales of 5%. The appreciation of the Rand relative to the dollar translation based economies of Zambia and Mauritius, resulted in a foreign exchange translation loss of R16 million compared to a R10,6 million foreign exchange profit in the comparable period last year. Inventory ratios increased relative to last year following a softer than planned Christmas period, an up weighted import programme and two major product categories exceeding their stock budgets. Historic ratios will be restored by June.

Masswarehouse – comprises the 13 store Makro warehouse club, trading in food, liquor and general merchandise. Comparable store sales grew 20,3%. Although sales were enhanced by the successful October opening of Makro's first new store in 6 years, pre-opening costs of R7,9 million depressed returns. This, together with general merchandise growth lower than food and liquor, resulted in a half-year regression in the company's progress towards its medium term, annual, targeted profit before tax return on sales of 4%.

Masscash – comprises 45 CBW and 6 Jumbo wholesale cash and carry outlets. Comparable store sales grew 29,8%. CBW performed well in every respect including the successful opening of new stores in Nelspruit and Vereeniging during the period. Jumbo entered into the advanced stages of its integration, trading well from the refurbished Crown Mines store, successfully relocating the Bloemfontein outlet and further improving the structure and calibre of management. The Masscash division registered continued progress towards its medium-term, annual targeted profit before tax return on sales of 3.5%.

Masstrade – comprises voluntary buying organisations Shield (serving 411 independent food traders) and Furnex (serving 392 independent furniture and appliance traders). Shield's sales growth was subdued by the loss of the member who allegedly perpetrated the VAT fraud on the company during 2002, which resulted in the dismissal of the financial director. Despite this and a number of systems and integration challenges, pre- and post-interest margin improvements were achieved. Furnex performed ahead of expectations, contributing sales of R310 million and post-interest profits of R8,5 million in the six months. Masstrade is committed to a medium-term profit before tax target of 3%.

	6 months to December 2002 (Reviewed) Rm	6 months to December 2001 (Unaudited) Rm	*% Change*	Year to June 2002 (Audited) Rm
Trading profit before tax	**415,3**	297,5	*39,6*	549,8
As a % of sales	***3,9***	*3,7*		*3,3*
Massdiscounters	**180,8**	117,4	*54,0*	178,0
Masswarehouse	**94,0**	84,5	*11,2*	130,0
Masscash	**102,1**	69,1	*47,8*	185,6
Masstrade	**38,4**	26,5	*44,9*	56,2

Acquisition

The due diligence on Builders Warehouse proceeded as planned but stock takes were delayed until 2003 to prevent disruption of the Christmas trading period. A final conclusion on the state of the business will therefore only be made shortly. The Competitions Commission has recommended the transaction to the Competions Tribunal without conditions. A ruling is expected on, or shortly after, March 4 2003.

The business traded ahead of expectations during the period.

Board appointments

We are pleased to announce the appointment, with effect 1 March 2003, of Messrs Zitulele Kombi, Peter Maw and Dods Brand as independent non-executive directors of the Massmart board. These appointments strengthen the board's functional competence, objectivity and ability to implement the recommendations of the King 2 Code of corporate governance. In addition, the executive director of Strategy and Finance, Mr Steven Leggatt, will relinquish his executive responsibilities but will remain on the board as a non-executive director available to consult to the company from time to time, specifically in respect of mergers and acquisitions.

Share buy back

In terms of the authority granted by shareholders at the annual general meeting on 28 November 2001, Massmart has acquired a total of 1 107 732 shares, representing 0,56% of shares now in issue, during the period under review. The shares were acquired at an average price of R16,89 and for a total consideration of R18,7 million by a wholly-owned subsidiary of Massmart and were held as treasury stock at 29 December 2002.

Prospects

Since mid 2002 we have been advising investors that a number of factors – most obviously first time contributions from acquisitions – resulted in disproportionately high second half sales and earnings in the six months to June 2002.

Furthermore, during the current financial year, we have advised shareholders on four occasions of the gradual decline in the growth of total sales, sales before acquisitions and comparable store sales. This downward trend – attributable mainly to a softening of consumer demand but latterly exacerbated by a decline in inflation – is further manifest in the sales growth for the 34 weeks to 23 February 2003 in which total sales grew 29%, sales before acquisitions grew 26% and comparable store sales grew 24%.

Although we anticipate a national Budget that will benefit consumers through tax cuts, and a reduction of interest rates towards mid-year, both of which will usher in a sustained period of confident consumer expenditure, there are a number of factors that cause us to anticipate a challenging retail environment in the current half-year:

- Consumer confidence and spending will be depressed by inflation, interest rates, continued high unemployment and to a lesser extent, global financial and geopolitical uncertainties.
- A sustained strong Rand may force retailers to clear overpriced imported merchandise bought during 2002 at a much weaker exchange rate, resulting in heightened competitive activity and pressure on gross margins
- Declining inflation will result in the same merchandise item producing lower sales and gross profits
- The strong Rand will erode earnings from foreign subsidiaries.

In response to these factors Massmart will trade aggressively, redoubling our attention to cost and asset management and the achievement of superior returns.

In the absence of any dramatic environmental developments, Massmart will produce a second half result at the forefront of the sector, but with sales and profit growth lower than the six-month period to December 2002.

Changed Dividend Policy and Dividend Declaration

Massmart's new dividend policy is to declare and pay an interim dividend representing a three times dividend cover but a total annual dividend of two and a half times cover, unless circumstances dictate otherwise.

Notice is hereby given that an interim dividend of 48,0 cents per share in respect of the six months ended 29 December 2002 has been declared payable to the holders of ordinary shares recorded in the books of the company on 20 March 2003. The last date to trade cum-dividend will therefore be 13 March 2003 and Massmart shares will trade ex-dividend from 14 March 2003. Payment of the dividend will be made on 24 March 2003. Share certificates may not be dematerialised or rematerialised between 14 March 2003 and 20 March 2003, both days inclusive.

On behalf of the board

Mark J Lamberti
Executive Chairman

Guy Hayward
Chief Financial Officer

26 February 2003

INCOME STATEMENT

	6 months ended December 2002 (Reviewed) Rm	6 months ended December 2001 (Unaudited) Rm	% Change	Year to June 2002 (Audited) Rm
Sales	**10 555,0**	8 020,2	*31,6*	16 709,2
Massdiscounters	**3 346,1**	2 615,5	*27,9*	5 285,2
Masswarehouse	**2 855,4**	2 143,3	*33,2*	4 459,8
Masscash	**2 951,2**	2 255,0	*30,9*	4 730,3
Masstrade	**1 402,3**	1 006,4	*39,3*	2 233,9
Trading profit before interest	**429,9**	297,3	*44,6*	538,8
As a % of sales	***4,1***	*3,7*		*3,2*
Massdiscounters	**213,4**	135,0	*58,1*	209,4
Masswarehouse	**87,3**	75,6	*15,5*	109,8
Masscash	**91,2**	62,2	*46,6*	167,2
Masstrade	**38,0**	24,5	*55,1*	52,4
Goodwill amortisation	**(22,2)**	(17,3)		(39,7)
Exceptional items	**–**	15,7		5,2
Net interest paid	**(11,9)**	(8,7)		(14,1)
Profit before tax	**395,8**	287,0	*37,9*	490,2
Taxation	**(126,3)**	(87,4)	*44,5*	(164,4)
Profit after tax	**269,5**	199,6	*35,0*	325,8
Associate company	**–**	(2,0)		(1,2)
Minorities	**(5,0)**	(2,4)		(2,9)
Net profit for the period	**264,5**	195,2	*35,5*	321,7
Headline earnings adjustments (after tax and minorities):				
Exceptional items	**–**	(10,9)		(1,3)
Shield bad debt on VAT settlement	**–**	–		(11,1)
Goodwill amortisation	**22,2**	17,3		39,2
Restraint of trade payments	**–**	–		7,9
Loss on sale of fixed assets	**0,5**	0,3		5,2
Headline earnings	**287,2**	201,9	*42,2*	361,6
Headline EPS (cents)	**145,4**	102,5	*41,9*	183,2
Diluted headline EPS (cents)	**141,8**	101,9	*39,2*	181,9
Attributable EPS (cents)	**133,9**	99,1	*35,1*	163,0
Diluted attributable EPS (cents)	**130,6**	98,5	*32,6*	161,8
Dividend (cents):				
– Interim	**48,0***	25,0*	*92,0*	25,0
– Final	**–**	–		36,0*
Ordinary shares (000's):				
– In issue	**196 822**	197 206		197 824
– Weighted-average	**197 547**	197 079		197 339
– Diluted weighted-average	**202 556**	198 193		198 793

**Declared and paid after the accounting period*

BALANCE SHEET

	December 2002 (Reviewed) Rm	December 2001 (Unaudited) Rm	June 2002 (Audited) Rm
Assets			
Property, plant and equipment	**522,3**	375,2	380,7
Goodwill	**369,7**	323,9	383,7
Investments and loans	**260,8**	209,3	229,5
Deferred tax	**166,9**	299,1	236,2
Inventories	**2 909,7**	2 151,4	1 981,9
Accounts receivable and prepayments	**1 468,7**	1 265,6	1 109,4
Cash and bank balances	**924,2**	793,9	623,5
Total	**6 622,3**	5 418,4	4 944,9
Equity and liabilities			
Shareholders' equity	**1 574,9**	1 376,1	1 414,0
Minority interests	**17,5**	14,0	12,7
Long-term liabilities – interest bearing	**273,6**	310,4	236,6
Other long-term liabilities and provisions	**33,6**	41,6	34,2
Deferred tax	**8,3**	5,5	11,1
Accounts payable and accruals	**4 511,4**	3 636,8	3 111,8
Bank overdraft and short-term borrowings	**203,0**	34,0	124,5
Total	**6 622,3**	5 418,4	4 944,9
Net asset value per share (cents)	**800,2**	697,8	714,8

CASH FLOW STATEMENT

	6 months ended December 2002 (Reviewed) Rm	6 months ended December 2001 (Unaudited) Rm	Year to June 2002 (Audited) Rm
Cash inflow from trading	**466,0**	357,2	637,7
Working capital movement	**89,6**	329,8	38,9
Cash flow from operations	**555,6**	687,0	676,6
Cash outflow from other operating activities	**(53,6)**	(53,3)	(103,9)
Dividends paid	**(71,3)**	(41,4)	(90,7)
Replacement of fixed assets	**(55,7)**	(51,0)	(37,0)
Investment in fixed assets	**(146,7)**	(11,6)	(73,1)
Other investing activities	**(20,2)**	(12,9)	(86,5)
Net financing activities	**37,3**	(254,6)	(233,9)
Net share buyback	**(17,3)**	–	–
Opening cash and cash equivalents	**550,3**	498,8	498,8
Closing cash and cash equivalents	**778,4**	761,0	550,3

STATEMENT OF CHANGES IN EQUITY

Opening balance	**1 414,0**	1 204,6	1 204,6
Prior year adjustment (note 2)	**(5,2)**	–	–
Exchange differences	**(6,1)**	16,7	7,9
Dividends paid	**(71,3)**	(41,4)	(90,7)
Net profit for the year	**264,5**	195,2	321,7
Shares issued/converted	**1,8**	–	5,5
Reduction of deferred tax asset	**(5,5)**	–	(38,3)
Net share buyback	**(17,3)**	–	–
Other	–	1,0	3,3
Closing balance	**1 574,9**	1 376,1	1 414,0

ADDITIONAL INFORMATION

Trading profit before items below:	**480,5**	346,0	645,0
– Dividends received	**1,0**	–	–
– Depreciation	**(51,6)**	(48,7)	(106,2)
Trading profit before interest	**429,9**	297,3	538,8
Capital expenditure:			
– Authorised and committed	**43,1**	5,2	41,4
– Authorised not committed	**25,3**	15,9	46,1
Contingent liabilities (note 2)	**4,6**	162,8	153,0
Operating lease commitments (2003-2013)	**4 224,4**	3 905,9	4 693,3

NOTES

1. Deducted from trading profit is R19,1 million in net realised and unrealised foreign exchange translation losses.
2. The adoption of AC133 in the year resulted in a restatement of opening retained earnings of R5,2 million and a loss in the current year of R5,4 million (not included in note 1). FECs which are now accounted for in terms of AC133 were previously reported as contingent liabilities.
3. These financial statements have been prepared in accordance with South African Statements of Generally Accepted Acounting Practice and on a basis consistent with prior periods, except for the adoption of AC133.
4. Due to Christmas trading, Massmart's earnings are weighted towards the six months to December.

*ThirtyPointThree percent is Massmart's 12 month return on shareholders' equity

Directorate: M J Lamberti (Executive Chairman), C S Seabrooke (Deputy Chairman), D G Barrett* (Deputy Chief Executive), G R C Hayward, W Kirsh, S Leggatt*, I N Matthews, D N M Mokhobo, M Msimang, M J Rubin, F Schukken** (Alternate D C Doijer**) *United Kingdom **Netherlands

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For more information www.massmart.co.za

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