MASSMART

Dedicated to Value

Reviewed Consolidated Results for the year ended 29 June 2003

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.

22%	39%	33%	30%	32%	15%	59%
Sales increase to R20 370 million	Trading profit increase to R748 million	Headline earnings increase to R480 million	Headline earnings before acquisitions increase to R464 million	Headline EPS increase to 242,4 cents	Cash flow from operations increase to R775 million	Dividends increase to 97,0 cents

Overview

Massmart's sixth consecutive year of sales and profit growth was achieved successfully, despite a second half in which the residual consequences of exchange rate volatility presented unprecedented challenges to the management of sales, margin, inventory and foreign earnings.

The highlights of the year were:

- Sales exceeded R20 billion for the first time, almost doubling since listing three years ago.
- Comparable store and member sales grew 17,6%, 19,5% when adjusted for the 53rd week in the previous year.
- Record sales and pre- and post-interest trading profits from all divisions.
- Excellent expense control resulted in record Group pre-interest operating profit as a percentage of sales of 3,67% and post-interest operating profit as a percentage of sales of 3,49%.
- Firm second half margins despite aggressive promotion, markdowns and stock clearance activity.
- A substantial improvement in working capital management in the second half.
- An improvement in return on equity from 27,6% to 31,2%.
- The integration of last year's Furnex acquisition and the current year acquisition of Builders Warehouse and Tile Warehouse.
- The strengthening of the Board with the appointment of a non-executive chairman and three non-executive directors.

Strategy and implementation

Since 1990, Massmart's growth and profitability has been reliant on the achievement of an appropriate balance between two major imperatives. The first is strategically aligned, organic and acquisitive growth through trading divisions constituted on the basis of similar target markets and business models. The second, collaboration between these divisions, which results in profitability and returns greater than could otherwise be achieved.

The success of this endeavour is attributable to the 16 763 people who choose to follow the leadership of a growing, multi-disciplinary cadre of executives whose quest is to learn and contribute to the art and science of retail and wholesale distribution, in a manner that benefits all stakeholders.

During the previous financial period we advised shareholders of a "Vision for Growth", a three-year performance goal, resulting from strategies and plans to sustain high quality growth and returns at the forefront of the sector.

During the past year this Vision for Growth was carried forward and extended through to June 2007. Detailed research and analysis resulted in two important developments. The first is a commitment to open or acquire at least 44 stores in Southern Africa over that period (at least ten in the current year). The second arises from a detailed investigation, which commenced in December 2002, into the viability of expansion beyond the African continent. The conclusion of this study is that such expansion is not necessary to secure the required growth and although all intercontinental opportunities will be evaluated, Massmart will not actively seek growth beyond Africa before 2007.

Environment

The lagging effects of the sharp deterioration of the Rand against the currencies of South Africa's trading partners in late 2001, its equally dramatic recovery to date and the consequent impact on inflation and interest rates, resulted in distinctly different trading conditions in Massmart's first and second halves.

In the first half, sales growth was enhanced by rising inflation, higher volumes resulting from improving consumer confidence, and direct and indirect export opportunities arising from a relatively weak Rand, which also enhanced foreign sales reported in Rands.

As the four interest rate increases of 2002 took effect around December, volume growth slowed, concurrent with a firming Rand, which curtailed exports and rendered certain imported stocks on hand uncompetitive. Inflation declined sharply and retail consumers held back in anticipation of promotional activity and lower imported prices. Wholesale customers correctly deemed it prudent to reduce stock holdings, on the assumption of declining prices.

The impact of these changing trends differed across Massmart's broad geographic and product portfolio. Certain product categories, which produced peaks of 40% sales growth around October 2002, were showing no or slightly negative growth by May 2003. Highly competitive, directly imported general merchandise and liquor with long lead-times became overpriced as the year progressed, as did indirect imports or products with a dollar-influenced cost. Within the food category the cost prices of selected products were driven higher by shortages arising from drought, exports and feeding schemes in neighbouring states. Finally, the now well-publicised, despicable speculation on maize futures drove up the price of South Africa's staple starch for millions of poor consumers.

Within this environment, the management of prices, promotions, margins, inventories and expenses assumed unprecedented levels of complexity, mitigated only by exceptional management information, thorough analysis, and a rapid response.

Performance

Massmart's high real sales growth decelerated gradually through the year stabilising around April. Sales before acquisitions grew 18,7% and comparable store growth was 17,6%. Enhanced slightly by the acquisition of Furnex in January 2002 and Builders Warehouse and Tile Warehouse in March 2003, general merchandise grew 24,6%. Food sales grew 19,2% and liquor sales grew 27,8%.

Massmart's internal inflation for the full year was estimated to be 10%. By virtue of product mix (i.e. no produce or bread and very little meat) Massmart's food inflation was 11% while general merchandise inflation was 9% and liquor inflation 8%. Inflation in the final quarter to June slowed substantially. Internal inflation is currently estimated to be 5%, comprising 8% in food, 2% in general merchandise and 6% in liquor.

Industry statistics and the reported sales of competitors indicate that Massmart continued to register market share gains.

Trading profit before interest and before acquisitions grew 34,8% to R714 million. Headline earnings before acquisitions were R464 million or 234,3 cents per share.

Massdiscounters – comprises general merchandise discounters Game (55 stores) and Dion (11 stores). Aggressive merchandising and marketing resulted in very strong performance from Game in South Africa with pleasing volume growth in foreign countries undermined by translation losses. Despite this, the division achieved comparable store sales growth of 17,3%, with operating efficiencies leading to continued progress towards its medium-term targeted profit before tax return on sales of 5%. The appreciation of the Rand relative to Zambia and Mauritius, resulted in a foreign exchange loss of R31 million compared to a profit of R3 million in the previous year. As promised, the overstocking which occurred in late 2002 has been rectified.

Masswarehouse – comprises the 12 store Makro warehouse club trading in food, general merchandise and liquor, 6 Builders Warehouse outlets trading in DIY and builders hardware and 5 Tile Warehouse outlets trading in tiles and sanitary ware. Comparable store sales grew 13,9%.

An excellent performance from Makro's first new store in six years and exceptional multifaceted management in the second half, resulted in a record profit before interest and tax margin and a profit before tax margin very close to the previous year despite the lower profitability from the new outlet. The chain's only freestanding Makroffice outlet was closed in June 2003.

Builders Warehouse and Tile Warehouse, acquired effective 1 March for a consideration of R174 million, contributed sales of R191 million and, following the application of Massmart's conservative accounting policies, operating profits of R15,6 million and profit before tax of R16,7 million.

The dedicated application of high volume, low price operating principles and the decision to relocate selected Makro outlets and to rapidly expand the Builders Warehouse and Tile Warehouse chains, will ensure continued progress from Masswarehouse's record result towards the divisions medium-term targeted profit before tax return on sales of 4%.

Masscash – comprises 46 CBW and 6 Jumbo wholesale cash and carry outlets. Comparable store sales grew 19%.

CBW enjoyed an excellent year with exceptional customer, expense and working capital management and two new stores, resulting in profit growth more than double that of sales.

Jumbo maintained its high profitability but absolute profits declined as gross margins were sacrificed to retain market share at its flagship store, located in the Crown Mines area, now a highly concentrated, competitive node of cash and carry distribution, where VAT evasion oftentimes constitutes an additional competitive threat. Since year-end the Isipingo store has been closed and this, together with at least one new store opening and one relocation planned for the current year, will ensure Jumbo's progress towards a more balanced contribution from each store.

The division once more increased its profit before tax margin, exceeding its recently increased medium-term target of 4%.

Masstrade – comprises voluntary buying organisations Shield (serving 494 independent food traders) and Furnex (serving 674 independent furniture and appliance traders). Comparable member growth was 24,4%.

The decision to cease trading with a major customer, together with numerous systems, process and organisation changes pursuant to the transformation of Shield and the creation of Masstrade, did not prevent Shield from producing real sales growth. Tight cost control and the widening of the customer base resulted in record pre- and post-interest profits, substantially ahead of sales growth. Furnex, now fully integrated into the new division, produced an excellent result in its first full year.

Masstrade moved closer towards its medium-term profit before tax return on sales target of 3%.

	29 June 2003 (Reviewed) Rm	30 June 2002 (Audited) Rm	% *Change*
Trading profit before tax*	711,9	549,8	*29,5*
As a % of sales	*3,5*	*3,3*	
Massdiscounters	227,0	178,0	*27,5*
Masswarehouse	173,1	130,0	*33,2*
Masscash	234,0	185,6	*26,1*
Masstrade	77,8	56,2	*38,4*

**Trading profit before tax is before corporate interest paid of R14,6 million (2002: R25,1 million), goodwill amortisation and exceptional items.*

Prospects

There is widespread evidence of a reduction in the economic volatility that distorted underlying performance and presented serious challenges for South African retailers and wholesalers of consumer goods over the past eighteen months.

A more stable Rand, albeit at a level which prejudices exports and tourism, lower inflation and falling interest rates, creates a platform for more confident forward planning and the demonstration of retail and wholesale acumen.

Massmart has budgeted very low sales growth in the first quarter, increasing gradually as the anniversary of last year's sales growth decline is reached towards the end of 2003, with moderate real growth in 2004 as lower interest rates take effect. All divisions will trade aggressively within tight expense and working capital budgets with a view to optimising market share and returns on equity. While recognising the difficulty and arrogance of forecasting in the new millennium, we remain confident that the strategies, structures and people of Massmart will ensure performance at the forefront of the sector.

In the seven weeks to the 17 August, Massmart's profit growth is in line with expectations, substantially ahead of the sales growth of 12%. The next trading statement will be on release of the annual report.

Dividend policy and declaration

Massmart's 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 a final dividend of 49,0 cents per share in respect of the year ended 29 June 2003 has been declared payable to the holders of ordinary shares recorded in the books of the company on 12 September 2003. The last date to trade cum-dividend will therefore be 5 September 2003 and Massmart shares will trade ex-dividend from 8 September 2003. Payment of the dividend will be made on 15 September 2003. Share certificates may not be dematerialised or rematerialised between 8 September 2003 and 12 September 2003, both days inclusive.

On behalf of the board

Mark J Lamberti
Chief Executive Officer

Guy Hayward
Chief Financial Officer

19 August 2003

Income statement

	Year ended June 2003 (Reviewed) Rm	Year ended June 2002 (Audited) Rm	% Change
Sales	**20 369,5**	16 709,2	*21,9*
Massdiscounters	**6 229,3**	5 285,2	*17,9*
Masswarehouse	**5 704,7**	4 459,8	*27,9*
Masscash	**5 740,1**	4 730,3	*21,4*
Masstrade	**2 695,4**	2 233,9	*20,7*
Trading profit before interest	**747,7**	538,8	*38,8*
As a % of sales	**3,7**	3,2	
Massdiscounters	**297,4**	209,4	*42,0*
Masswarehouse	**160,1**	109,8	*45,8*
Masscash	**208,8**	167,2	*24,9*
Masstrade	**81,4**	52,4	*55,3*
Goodwill amortisation	**(49,5)**	(39,7)	
Exceptional items (note 1)	**6,7**	5,2	
Net interest paid	**(50,4)**	(14,1)	
Profit before taxation	**654,5**	490,2	*33,5*
Taxation	**(215,2)**	(164,4)	*30,9*
Profit after taxation	**439,3**	325,8	*34,8*
Associate company	**–**	(1,2)	
Minorities	**(10,0)**	(2,9)	
Net profit for the year	**429,3**	321,7	*33,5*
Reconciliation of net profit for the year to headline earnings			
Net profit for the year	**429,3**	321,7	
Exceptional items	**2,3**	(12,4)	
Goodwill amortisation	**48,9**	39,2	
Restraint of trade payments	**–**	7,9	
(Profit)/loss on sale of fixed assets	**(0,5)**	5,2	
Headline earnings	**480,0**	361,6	*32,7*
Headline EPS (cents)	**242,4**	183,2	*32,3*
Diluted headline EPS (cents)	**235,6**	181,9	*29,5*
Attributable EPS (cents)	**216,8**	163,0	*33,0*
Diluted attributable EPS (cents)	**210,7**	161,8	*30,2*
Dividend (cents):			
– Interim	**48,0**	25,0	*92,0*
– Final (declared and paid after the financial year-end)	**49,0**	36,0	*36,1*
Ordinary shares (000's):			
– In issue	**198 587**	197 824	
– Weighted-average	**198 050**	197 339	
– Diluted weighted-average	**203 763**	198 793	

Balance sheet

	June 2003 (Reviewed) Rm	June 2002 (Audited) Rm	% Change
Assets			
Property, plant and equipment	**546,2**	380,7	
Goodwill	**499,7**	383,7	
Investments and loans	**277,8**	229,5	
Deferred tax	**157,1**	236,2	
Inventories	**2 236,7**	1 981,9	
Accounts receivable and prepayments	**1 507,0**	1 109,4	
Cash and bank balances	**612,1**	623,5	
Total	**5 836,6**	4 944,9	
Equity and liabilities			
Shareholders' equity	**1 666,1**	1 414,0	
Minority interests	**22,4**	12,7	
Long-term liabilities – interest bearing	**173,8**	236,6	
Other long-term liabilities and provisions	**106,2**	34,2	
Deferred tax	**25,7**	11,1	
Accounts payable and accruals	**3 734,8**	3 111,8	
Bank overdraft and short-term borrowings	**107,6**	124,5	
Total	**5 836,6**	4 944,9	
Net asset value per share (cents)	**839,0**	714,8	*17,4*

Cash flow statement

	Year ended June 2003 (Reviewed) Rm	Year ended June 2002 (Audited) Rm	% Change
Cash inflow from trading	**838,5**	637,7	*31,5*
Working capital movement	**(63,6)**	38,9	
Cash flow from operations	**774,9**	676,6	*14,5*
Taxation paid	**(77,4)**	(90,9)	
Net interest paid	**(50,4)**	(14,1)	
Investment income	**11,0**	1,1	
Dividends paid	**(166,6)**	(90,7)	*83,7*
Net replacement of fixed assets	**(59,6)**	(42,0)	
Investment in fixed assets	**(216,7)**	(73,1)	
Business acquired	**(173,6)**	(44,5)	
Other investing activities	**(59,3)**	(37,0)	
Net financing activities	**30,8**	(233,9)	
Opening cash and cash equivalents	**550,3**	498,8	
Closing cash and cash equivalents	**563,4**	550,3	*2,4*

Statement of changes in equity

	Year ended June 2003 (Reviewed) Rm	Year ended June 2002 (Audited) Rm	% Change
Opening balance	**1 414,0**	1 204,6	*17,4*
Prior year adjustment (note 3)	**(6,1)**	–	
Exchange differences	**(10,5)**	7,9	
Dividends paid	**(166,6)**	(90,7)	*83,7*
Net profit for the year	**429,3**	321,7	*33,5*
Shares issued	**14,9**	5,5	
Reduction of deferred tax asset	**(5,5)**	(38,3)	
Share trust (loss)/income and other	**(3,4)**	3,3	
Closing balance	**1 666,1**	1 414,0	*17,8*
Additional information			
Trading profit before items below:	**855,5**	645,0	
– Depreciation	**(107,8)**	(106,2)	
Trading profit before interest	**747,7**	538,8	
Capital expenditure:			
– Authorised and committed	**103,1**	41,4	
– Authorised not committed	**47,5**	46,1	
Contingent liabilities (note 3)	**13,3**	258,0	
Operating lease commitments (2004 – 2013)	**4 223,6**	4 177,1	

Notes

1. Exceptional items comprise a bad debt recovery relating to the prior year VAT fraud settlement (R9,0 million gain) and an impairment on the investment in Affinity Logic (R2,3 million loss).
2. Deducted from trading profit is R27,3 million in net realised and unrealised foreign exchange translation losses (2002: R3,4 million gain).
3. The adoption of AC133 in the year resulted in a restatement of opening retained earnings of R6,1 million and a net loss in the current year of R0,7 million. FEC's which are now accounted for in terms of AC133 were previously reported as contingent liabilities.
4. These financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and on a basis consistent with prior periods, except for the adoption of AC133.
5. These results have been reviewed by Auditors, Deloitte and Touche, and their unqualified review opinion is available for inspection at the registered office.
6. Due to Christmas trading, Massmart's earnings are weighted towards the six months to December.
7. Share Buy Back – In terms of the authority granted by shareholders, Massmart has acquired a total of 1 417 454 shares during the period under review, representing 0,7% of the shares now in issue. The shares were acquired at an average price of R16,92 for a total consideration of R24,0 million by a wholly owned subsidiary of Massmart and were sold to the Massmart Share Trust during the year.
8. A comprehensive management presentation is available on the Massmart website.

Directorate: CS Seabrooke (Chairman), MJ Lamberti (Chief Executive and Deputy Chairman), DG Barrett*, MD Brand, ZL Combi, GRC Hayward, W Kirsh, S Leggatt*, IN Matthews, P Maw, DNM Mokhobo, M Msimang, MJ Rubin, F Schukken** (Alternate DC Doijer**) *United Kingdom **Netherlands

Massmart Holdings Limited JSE Code – MSM, ISIN – ZAE000029534, **Company Registration Number** – 1940/014066/05 **Registered Office** – Massmart House, 16 Peltier Drive, Sunninghill Ext 6, 2157, **Company secretary:** A Cimring **Auditors** – Deloitte and Touche

For more information: www.massmart.co.za

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