

MASSMART

Dedicated to Value Retailing

Interim Unaudited Results for Six Months to 31 December 2000

Massmart is a management group, invested in a portfolio of focused but collaborative retail and wholesale distribution formulae, each reliant on operational excellence as the foundation of price leadership, in the distribution of mainly branded consumer goods.

Turnover: R6 171m



Trading Profit: R194m



Headline Earnings: R145m



Headline EPS: 73,8c



Cash Flow from Operations: R421m



Overview

Despite testing external trading conditions and difficulties with the conclusion of a major internal consolidation initiative, we are pleased to report strongly improved profits and returns, well ahead of expectations and the comparable period last year.

These results strongly reflect Massmart's strategic imperative to secure quality sales at a higher margin and cash flow.

The most noteworthy features of the period were:

- 4 new stores
- Continued market share gains in all major product categories
- Improved pre- and post-interest operating profit to sales
- Strong cash generation
- Improved trading margins in all divisions
- Excellent results from Makro and CCW
- Unsatisfactory merchandise and marketing management in Massdiscounters
- Sales of R212m through the eShield B2B internet portal
- The dilution of earnings per share arising from the issue of 40m new shares for cash

Strategy and Portfolio

The strategies and structures of Massmart have been designed to deliver exceptional value to customers through high volume, low price, focused formats, which collaborate to enhance procurement, reduce costs and penetrate markets.

Makro

A chain of 14 large warehouse club outlets situated in South Africa and Zimbabwe, trading in food, liquor and general merchandise at wholesale prices.

Massdiscounters

A chain of 67 discount stores, offering a wide range of general

merchandise under the Dion and Game banners, to value seeking consumers in South Africa, Namibia, Botswana and Zambia.

Shield

A voluntary buying association assisting 268 independent wholesalers and 270 independent retailers to procure food more efficiently in South Africa, Namibia, Botswana, Lesotho and Swaziland.

CCW

A peri-urban and rural chain of 19 cash and carry warehouses, located in South Africa, Lesotho and Namibia, distributing basic food, groceries and liquor to lower income consumers.

Environment

As the South African consumer market evolves, much is being made of specific factors shaping the profile of discretionary spending.

In our view, commentators have failed to adequately highlight the more general negative impact of unemployment and AIDS on lower income consumption, or the deleterious effect of low confidence levels on higher income earners. The former has resulted in a desperation ameliorated only by the willingness of the employed to support extended families. The latter has dulled the shopping intensity of the upper income LSM 7 and 8 groups, which account for approximately 19% of all households, 70% of household income and 83% of discretionary spending excluding services, food and clothing.

There is a growing disparity between the consumption patterns of South African consumers and the retail infrastructure designed to serve them. South Africa has too much retail space per capita and astute retailers will initiate and profit from the rationalisation, consolidation and realignment of retail assets over the coming years.

Estimated real retail sales, as reported by the Central Statistical Services, grew 3,1% in the six months to December 2000 compared to 1,9% in the same period in 1999.

Operating Results

Massmart's sales growth, 0,7% of which was attributable to the 4 new stores opened during the period, exceeded national retail sales growth. The implied growth of market share was gratifying in the light of an internal inflation rate of approximately 4%. Food grew 11%, liquor 4% and general merchandise including apparel 9%.

Massmart Holdings is a management company dedicated to enhancing the individual and collective performance of its subsidiaries. To reflect this and to more accurately report subsidiary performance, all corporate costs have been allocated to the subsidiaries on a basis consistent with the effort devoted by the holding company. Comparatives have been restated.

	Six Months to December 2000 Rm	Six Months to December 1999 Rm	% Change	Year to June 2000 Rm
Trading Profit Before Tax	192,8	166,8	16	235,4
<i>As a % of Turnover</i>	<i>3,12</i>	<i>2,95</i>		<i>2,21</i>
Makro	75,0	54,0	39	83,4
Massdiscounters	71,3	71,3	-	76,6
Shield	25,3	24,1	5	42,4
CCW	21,2	17,4	22	33,0

Divisional Highlights

Makro - Comparable store sales growth of 9% arising from innovative merchandise and marketing management and excellent control of margins, assets and costs resulted in a strong growth of profits and improved pre- and post-interest returns on sales.

Massdiscounters - The consolidation of Game and Dion under one management team over the past two years has resulted in a more balanced portfolio of general merchandise discount stores, a lower cost base and higher profitability than would otherwise have been achieved.

Numerous changes of senior management have been required to achieve this, most notably the appointments of Grant Pattison as Managing Director, Steve Glendenning as Organisation Development Director responsible for human resources and information technology, and Neville Hatfield as General Manager Merchandise.

The merger was particularly disruptive to the merchandise division, which experienced changes to leadership, structure and systems, all of which contributed to less than optimal merchandising and marketing in the period under review. Comparable store sales growth of 1% fell short of expectations, an increase in slow moving stock necessitated increased provisions and slower stock turns resulted in higher interest costs. The division has now been stabilised with processes reinstated to ensure the controls and trading aggression which are hallmarks of Game and Dion.

Shield - The division experienced a difficult period as the lower end of the market served by Shield's customers came under pressure. This contributed to the muted sales growth which was also attributable to the decision to maintain the company's excellent control of debtors by focussing on higher quality sales.

Sales of R212m were generated through eShield, the company's internet enabled trading platform, which is now being used by 236 members. Profits were depressed by the R2m cost investment in

eShield, which will render returns when the majority of members have adopted the service and legacy systems are abandoned.

CCW - Comparable store sales growth of 14% and the opening of a new outlet in Rustenburg produced a strong growth in sales. Margins, expenses, shrinkage and working capital were well controlled resulting in a strong growth in profits and improved pre- and post-interest returns on sales.

South African Revenue Services (SARS)

The speculation surrounding the SARS investigation of the electronics industry has prompted Massmart to review all systems and procedures relating to VAT and Customs and Excise duties. All internal controls have been found robust and further external controls of suppliers have been instituted to ensure total compliance within the company's sphere of control.

There is currently no investigation of Massmart by SARS and the Directors are not aware of any non-compliance internally or in the supplier base. Nevertheless, Massmart is committed to co-operating with SARS to ensure compliance and therefore equitable trading in the distribution trade.

Prospects

Massmart's particular approach to mass distribution is well suited to the changing market place which is Southern Africa today.

The following factors will result in a second half contribution relatively higher than in previous years:

- Structural expense reductions, implemented in Massdiscounters early in the first half, will have a significant impact on the traditionally lower second half earnings
- Makro has now established a sales to expense ratio which ensures higher profitability in the second half
- The merchandise and marketing issues in Massdiscounters are being resolved

Against a background of continued economic recovery, we remain confident that Massmart will produce a growth in earnings per share ahead of the retail sector, in line with our expectations on listing.

Johannesburg Stock Exchange - STRATE

In order to facilitate an orderly transition ahead of Massmart's migration to STRATE, the Directors intend to implement STAR, a service offered by Mercantile Registrars, to assist shareholders to validate and dematerialise their Massmart shares prior to migration to STRATE. A circular setting out the relevant details and any action required will be posted to shareholders during the next few weeks.

Dividend

Notice is hereby given that an interim dividend of 15,0 cents per share in respect of the period ended 31 December 2000 has been declared payable to the holders of ordinary shares registered in the books of the company at the close of business on 16 March 2001. Dividend cheques will be posted on or about 23 March 2001.

On behalf of the Board

Mark J Lamberti - Executive Chairman

Steve Leggatt - Chief Financial Officer

19 February 2001

INCOME STATEMENT

	Notes	Six Months to December 2000 (Unaudited) Rm	Six Months to December 1999 (Restated & Audited) Rm	% Change	Year to June 2000 (Audited) Rm
Turnover		6 171,4	5 650,8	9	10 634,6
Makro		2 252,4	2 072,6	9	3 922,6
Massdiscounters		2 253,2	2 078,0	8	3 844,7
Shield		948,7	936,4	1	1 724,0
CCW		717,1	563,8	27	1 143,3
Trading Profit Before Interest		193,5	161,4	20	211,3
<i>As a % of Turnover</i>		<i>3,14</i>	<i>2,86</i>		<i>1,99</i>
Makro		63,3	44,6	42	49,9
Massdiscounters		89,8	82,2	9	100,1
Shield		21,1	20,1	5	33,6
CCW		19,3	14,5	33	27,7
Exceptional Items	1	(19,7)	(0,4)		(9,8)
Net Financing Income / (Cost)		7,0	(42,9)		(57,2)
Profit Before Tax		180,8	118,1	53	144,3
Taxation	2	48,0	31,9		37,4
Profit After Tax		132,8	86,2	54	106,9
Associate Company		0,8	1,2		1,0
Minorities		3,4	3,1		4,0
Attributable Income		130,2	84,3	54	103,9
Heading Earnings		144,7	81,9	77	110,4
Proforma Headline Earnings	3	144,7	103,5	40	132,0
Headline EPS (cents)	4	73,8	67,2	10	79,5
Proforma Headline EPS (cents)	3	73,8	66,3	11	84,5
Diluted Headline EPS (cents)		73,8	66,3	11	79,3
Attributable EPS (cents)		66,4	69,2	(4)	74,8
Dividend (cents)		15,0*	-		9,4*

*Declared and paid after the period

BALANCE SHEET

	Notes	December 2000 (Unaudited) Rm	December 1999 (Restated & Audited) Rm	June 2000 (Restated & Audited) Rm
Assets				
Property, Plant and Equipment		387,1	329,7	340,4
Investments and Loans		171,3	136,0	151,9
Deferred Tax		257,4	288,0	281,1
Inventories	1	520,4	623,8	1 355,7
Accounts Receivable		1 004,3	902,7	827,9
Net Cash and Bank / (Short Term Borrowings)		633,7	257,2	(88,0)
Total		3 974,2	3 537,4	2 869,0
Equity and Liabilities				
Shareholders' Equity		1 204,4	586,5	596,5
Minority Interests		18,1	13,8	14,6
Long Term Liabilities and Provisions		69,4	101,6	84,3
Deferred Tax		4,6	-	8,9
Accounts Payable and Provisions		2 677,7	2 835,5	2 164,7
Total		3 974,2	3 537,4	2 869,0
Net Asset Value (cents)		611,1	375,7	379,8

CASH FLOW STATEMENT

	Six Months to December 2000	Six Months to December 1999 (Restated & Audited)	Year to June 2000
	(Unaudited) Rm	(Audited) Rm	(Audited) Rm
Cash Inflow from Trading	229,7	185,8	263,9
Working Capital Movement	190,8	132,1	(191,3)
Cash Outflow from Other Operating Activities	(13,4)	(55,1)	(84,4)
Dividends Paid	(18,5)	-	-
Investment In and Replacement of Fixed Assets	(125,6)	(84,6)	(158,0)
Financing Activities	458,7	(105,1)	(102,3)
Opening Cash and Cash Equivalents	(88,0)	184,1	184,1
Closing Cash and Cash Equivalents	633,7	257,2	(88,0)

STATEMENT OF CHANGES IN EQUITY

Opening Balance	596,5	91,4	91,4
Exchange Differences	1,9	0,2	2,1
Intangibles Written-off	-	(423,0)	(430,9)
Deferred Taxation on Trademarks Written-off	(6,5)	80,1	71,0
Net Retained Income	137,1	421,0	431,0
Shares Issued / Converted	475,4	416,8	431,9
Closing Balance	1 204,4	586,5	596,5

ADDITIONAL INFORMATION

Trading Profit Before Items Below:	219,6	180,9	253,1
- Dividends Received	13,3	11,5	23,8
- Depreciation	(39,4)	(31,0)	(65,6)
Trading Profit Before Interest	193,5	161,4	211,3
Capital expenditure:			
- Authorised and Committed	5,1	0,3	0,6
- Authorised not Committed	33,5	14,3	109,6
Contingent Liabilities	57,8	52,9	82,7
Ordinary Shares (000's):			
- In Issue	197 077	156 127	157 077
- Weighted Average	195 984	121 838	138 769
- Fully Diluted Weighted-Average	196 211	156 232	139 116

RESTATEMENT OF DECEMBER 1999 RESULTS

Shareholders are reminded of the changes in accounting policy that affected the financial results up to June 2000. For clarity, the previously published December 1999 results prepared in terms of the old accounting policies, are reconciled to the restated figures below:

Previous Profit after Tax	96,8
Exclude Share of Associate Company Earnings	(1,2)
Impact of Changes in Accounting Policy:	
- Leave Pay	(3,4)
- Post-retirement Medical Aid	(1,8)
- Deferred Tax	(4,2)
Restated Profit After Tax	86,2

NOTES

1. Exceptional items to December 2000 comprise mainly certain IT asset write-offs in Massdiscounters.
2. The group's average tax rate has been reduced by certain non-taxable income.
3. Proforma headline earnings show the earnings for the periods to December 1999 and June 2000 assuming the convertible debentures had been converted from 1 July 1999, i.e. with after-tax debenture interest added back. Proforma headline EPS shows the impact of the higher number of issued shares assuming that the convertible debentures had been converted.
4. On 4 July 2000, 40m ordinary shares were issued for net cash proceeds of R475m. This has diluted Massmart's headline and attributable earnings per share for the six months to December 2000 by approximately 7 cents per share. Excluding the impact of the capital raising, headline EPS grew by 22%.
5. These financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice.
6. Due to Christmas trading, Massmart's earnings are weighted towards the six months to December.