Positioned for growth ...

Edcon

EDGARS CONSOLIDATED STORES LIMITED

FINANCIAL REPORT YEAR TO MARCH 2002

SALIENT FEATURES

- Comparable store sales rise by 7%
- Headline earnings per share increases by 42%
- Final dividend 81 cents per share compares with 64 cents last year
- Reduction in working capital of R186 million
- Gearing ratio reduces from 0,28 to 0,16
- Debtors book to be securitised

Edgars | abc | United Retail | Sales House | Jet | cuthberts | Smiley's | Manufacturing Division

COMMENT

THE RETAIL ENVIRONMENT

The past year has been one of economic uncertainty and upheaval for nations across the globe. South Africa has been no exception, with the most significant event being the collapse of the Rand in the last quarter of 2001. The full implications for inflation, of the decline in the currency, have yet to be felt throughout the economy, but they will certainly be profound for all consumers.

Domestic economic activity remained sluggish, although sales of Clothing, Footwear and Textiles (CFT) picked up somewhat in the Christmas season and in the first quarter of 2002. National CFT sales are estimated by the Retailers' Liaison Committee to have increased by 6% in the year to March 2002, while statistics indicate that clothing and footwear selling prices declined by 1% in that period.

GROUP RESULTS

It has been a rewarding year for Edcon. The three year programme to revitalise the entire organisation has been completed and the stage has now been reached where the key elements for sustainable growth in the years ahead are firmly in place.

Retail sales growth of just over 2%, or 7% on a comparable store basis, must be viewed against the background of lower CFT prices and the 5% reduction in the Group's retail space. A detailed analysis of sales revenue actually reflects CFT growth of almost 6%, but a steep fall in cellphone sales of 30%.

More importantly, the Group's progress is reflected in the 42% increase in headline earnings per share. This achievement has been made possible by an improvement in gross profit margin of 93 basis points, a limited increase in store costs, generally well controlled overheads, a 41% reduction in the net cost of credit and 26% lower net financing costs. Against this, there were high increases in information technology expenses and closure costs in the manufacturing division.

At the individual chain level, Edgars – with 4% less trading space – grew CFT sales by a pleasing 6%, and improved its gross profit conversion rate. Virtually no growth in store expenses and a reduction in other overheads facilitated a 30% rise in trading profit. Productivity measures in merchandise, space and staff all reflect meaningful improvements. Closing stocks and prior season carry overs were well below those of last year, while fresh winter inputs are achieving projected sell-off rates.

In United Retail – the Group's discount channel, incorporating Jet, Sales House, Cuthberts and Smiley's Wearhouse – extensive real estate changes had a negative impact on sales and profitability. Nevertheless, in spite of trading through 7% less space, United reported CFT sales growth of 5%, but its cellular sales declined sharply by 36%, as a consequence, *inter alia,* of the decision to discontinue selling airtime on credit. United's gross profit margin has in fact strengthened and this, coupled with a decline in overheads, facilitated the 4% growth in trading profit.

The quality of the debtors' books continues to improve and, prior to billing in March this year, 85% of customers were current and able to purchase, compared with 82% at the same time last year. Lower bad debt compensated for a fall in finance charge income while pleasing progress from Edcon's financial services division accounted for the significant decline in the net cost of credit.

A disappointing result from some of the Group's manufacturing operations, including a clean-out exercise, and the costs of closing several of their operations, are included in the R28 million loss from manufacturing and other operations.

Dire economic circumstances in Zimbabwe remain most concerning. In spite of a particularly good performance from Edgars Zimbabwe, its results have not been consolidated this year, as there is simply no foreign currency available in Zimbabwe to extract and, therefore, to account for any benefits by way of dividend payments. In order to facilitate meaningful comparison, last year's figures have been restated to exclude Edgars Zimbabwe.

In terms of the Group's long-standing policy of covering dividends 2,6 times, a final dividend of 81 cents per ordinary share has been declared, bringing total dividends for the year up to 117 cents, as compared with 100 cents in the previous year.

CASH FLOWS AND FINANCIAL POSITION

Improved merchandise management, resulting in a noteworthy 16% decline in year end inventories, coupled with enhanced debtor collections and higher interest free funding, facilitated the R186 million reduction in working capital requirements. This, together with cash flows from trading of R530 million, allowed the Group to repay interest bearing debt of R239 million as well as to fund the cost of repurchasing 10% of the issued share capital for R142 million. The 31% improvement in the overall wealth created by the Group through cash value added of some R2 billion, is particularly encouraging, as is the 10% increase in cash equivalent earnings per share to 727 cents. These earnings were all realised in cash, as reflected by the cash flow per share of 1 080 cents – up dramatically from 92 cents last year. Closing gearing at only 0,16 was well below the previous year's 0,28. Furthermore, the accounts receivable owned and financed off balance sheet by Nedcor, were reduced by R141 million to R1,3 billion.

SECURITISATION

Edcon has conventionally been characterised as a retailer. However, with a debtors' book under management of over R3 billion, it is also a significant credit provider. For many years the Group has endeavoured to unlock value by separating these two distinct activities. Further to comments made in both the 2000 and 2001 Annual Financial Statements, the Group has made significant progress towards the achievement of the long term strategy of securitising a significant portion of its receivables. Accordingly, the Board has approved a securitisation transaction which is expected to take place during July.

A credit rating of Edcon, as a corporate, as well as a detailed analysis of the account receivable assets expected to be securitised, is being performed by an international rating agency. Preliminary feedback indicates an overall rating for Edcon, post the securitisation, within the key investment grade category, while the senior notes, which represent the majority of the paper to be issued by the securitisation vehicle, are expected to be awarded an Aaa rating.

The transaction is expected to be income enhancing for Edcon while at the same time limiting the Group's credit and interest rate risks. Cash generated from the disposal of the securitised assets will be used to repay debt, both on and off balance sheet, and to fund future expansion opportunities. Further details of the transaction will be provided in the Annual Report.

PROSPECTS

Despite recent buoyancy in National clothing sales, it is unlikely that the reduction in personal taxes announced in the Budget will compensate for the full inflationary impact of the devaluation in the currency, higher interest rates and rising fuel costs. Discretionary disposable income is, therefore, expected to remain under severe pressure throughout the coming year and, in consequence, clothing purchases will be constrained. As it is now likely that inflation in the sector will reach double digits for the first time in many years, national unit sales of clothing may well decline in the year ahead.

Against this background, a modest increase in Edcon sales in nominal terms can be expected, but the current positive momentum of the turnaround programme throughout the Group's businesses should still facilitate a meaningful rise in earnings per share for the year ahead.

For and on behalf of the board

W S MacFarlane
CHAIRMAN

S M Ross
CHIEF EXECUTIVE OFFICER

Income Statement

	52 weeks to March 2002 (audited) Rm	52 weeks to March 2001 (restated excl. Zimbabwe) Rm	Change %
Retail sales revenue	**6 709,8**	6 557,4	2
Cost of sales	**4 264,1**	4 227,9	
Gross profit	**2 445,7**	2 329,5	5
Store costs	**1 381,1**	1 367,7	1
Cost of credit	**55,2**	93,7	(41)
Other net operating costs	**680,8**	610,1	12
Trading profit	**328,6**	258,0	27
Net financing costs	**63,5**	85,8	(26)
Profit before taxation	**265,1**	172,2	
Taxation	**93,4**	51,3	
Earnings attributable to ordinary shareholders	**171,7**	120,9	42
SEGMENTAL ANALYSIS			
Retail sales revenue			
Clothing, Footwear and Textiles			
Edgars	**3 939,4**	3 722,1	6
United Retail	**2 339,0**	2 223,4	5
	6 278,4	5 945,5	6
Cellular products			
Edgars	**185,8**	230,2	(19)
United Retail	**245,6**	381,7	(36)
	431,4	611,9	(30)
Total	**6 709,8**	6 557,4	2
Trading profit Edgars	**296,4**	228,5	30
United Retail	**115,5**	110,7	4
Credit and Financial Services	**(55,2)**	(93,7)	(41)
Manufacturing and other	**(28,1)**	12,5	
Total	**328,6**	258,0	
Retail space (m²) Edgars	**391 566**	406 296	(4)
United Retail	**289 495**	311 705	(7)
	681 061	718 001	(5)
Number of facias Edgars	**166**	199	
United Retail	**557**	425	
	723	624	
Weighted average number of ordinary shares in issue, excluding treasury shares (000)	**56 667**	57 445	
Earnings per ordinary share (cents)			
attributable earnings basis	**303**	211	44
headline earnings basis	**304**	214	42
cash equivalent basis	**727**	650	12
Dividends per ordinary share (cents)			
interim	**36**	36	
final	**81**	64	
Total	**117**	100	

Cash Flow Statement

	52 weeks to March 2002 (audited) Rm	52 weeks to March 2001 (restated excl. Zimbabwe) Rm
Cash retained from operating activities		
Trading profit (excluding dividends received)	**325,1**	256,9
Depreciation and amortisation	**198,7**	203,8
Dividends received	**3,5**	1,1
Other non-cash items	**2,7**	2,9
Cash "EBITDA"	**530,0**	464,7
Reduction in working capital requirements	**185,7**	(229,4)
Cash generated from operating activities	**715,7**	235,3
Interest received	**8,8**	6,8
Financing costs paid	**(72,3)**	(92,6)
Taxation paid	**(40,0)**	(95,5)
Cash inflow from operations	**612,2**	54,0
Dividends paid	**(57,2)**	(76,3)
Net cash retained	**555,0**	(22,3)
Cash utilised in investment activities	**(159,8)**	(109,2)
Cash effects of financing activities		
Decrease in shareholder funding	**(141,5)**	2,0
Decrease in interest bearing debt	**(238,7)**	208,6
Net cash outflow from financing activities	**(380,2)**	210,6
Increase in cash and cash equivalents	**15,0**	79,1
Cash and cash equivalents at the beginning of the year	**180,5**	99,3
Currency adjustments	**20,0**	2,1
Cash and cash equivalents at the end of the year	**215,5**	180,5
Cash flow per share (cents)	**1 080**	92

FINAL CASH DIVIDEND

Notice is hereby given that the final ordinary dividend (No. 111) of 81 cents per share in respect of the 52 weeks ended 30 March 2002 has been declared payable to the holders of ordinary shares appearing in the records of the company at the close of business on Friday, 5 July 2002. 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 the dividend	Friday, 28 June 2002
Date trading commences ex the dividend	Monday, 1 July 2002
Record date	Friday, 5 July 2002
Date of payment	Monday, 8 July 2002

Certificated shareholders may not dematerialise their share certificates between Monday, 24 June 2002 and Friday, 5 July 2002, both dates inclusive.

On behalf of the board

D J Viviers
GROUP SECRETARY

Johannesburg
16 May 2002

Balance Sheet

	At March 2002 (audited) Rm	At March 2001 (restated excl. Zimbabwe) Rm
ASSETS		
Non-current assets		
Operating assets	**825,8**	711,7
Trademarks	**—**	3,8
Other	**89,9**	74,4
Total non-current assets	**915,7**	789,9
Current assets		
Inventories	**993,2**	1 175,8
Trade accounts receivable	**1 757,8**	1 789,7
Other accounts receivable and prepayments	**269,0**	276,9
Cash and cash equivalents	**215,5**	180,5
Total current assets	**3 235,5**	3 422,9
Total assets	**4 151,2**	4 212,8
EQUITY AND LIABILITIES		
Capital and reserves		
Ordinary shareholders' equity	**2 296,8**	2 305,3
Minority interest	**0,6**	0,4
Total shareholders' funds	**2 297,4**	2 305,7
Interest bearing debt	**575,0**	818,8
Total capital employed	**2 872,4**	3 124,5
Interest free liabilities		
Accounts payable	**1 104,3**	934,1
Deferred taxation	**174,5**	154,2
Total interest free liabilities	**1 278,8**	1 088,3
Total equity and liabilities	**4 151,2**	4 212,8
Gearing ratios		
Net interest bearing debt/total shareholders' funds	**0,16**	0,28
Total liabilities/total shareholders' funds	**0,81**	0,83
Future capital expenditure	**Rm**	Rm
Contracted	**6,5**	5,7
Authorised but not contracted	**151,0**	163,1
Net equity per ordinary share (cents)	**4 431**	4 013

Cash value added statement

	52 weeks to March 2002 (audited) Rm	52 weeks to March 2001 (restated excl. Zimbabwe) Rm	Change %
Cash generated			
Cash derived from customers	**6 727,2**	6 391,5	
Cash payments outside the group to suppliers of materials, merchandise, facilities and services	**(4 706,2)**	(4 853,1)	
Wealth created through cash value added	**2 021,0**	1 538,4	31
Cash utilised to:			
Remunerate employees for their services	**890,5**	926,9	
Pay direct taxes to the state	**40,0**	95,5	
Provide lenders with a return on monies borrowed	**72,3**	92,6	
Provide lessors with a return for the use of their premises	**406,0**	369,4	
Provide shareholders with cash dividends	**57,2**	76,3	
Cash disbursed among stakeholders	**1 466,0**	1 560,7	
Net cash retained	**555,0**	(22,3)	

Statement of changes in ordinary shareholders' equity

	Share capital and premium Rm	Non-distributable reserves Rm	Retained surplus Rm	Total Rm
Restated balance at 31 March 2001	593,2	41,9	1 670,2	2 305,3
Earnings attributable to ordinary shareholders			171,7	171,7
Ordinary dividends paid			(57,2)	(57,2)
Transfer from non-distributable to distributable reserves		(2,0)	2,0	—
Foreign currency translation reserve		7,8		7,8
Revaluation of fixed assets net of deferred tax		6,7		6,7
Decrease in reserve relating to lifo adjustment		(0,3)		(0,3)
Derivative valuation adjustment		4,3		4,3
Share buy back	(141,5)			(141,5)
Balance at 30 March 2002	451,7	58,4	1 786,7	2 296,8

This report has been prepared in accordance with the Group's published and consistently applied accounting policies which comply with South African Statements of Generally Accepted Accounting Practice and International Accounting Standards. As mentioned in the interim report there are currently severe restrictions on the repatriation of dividends from Zimbabwe, consequently, the results of Edgars Stores Limited Zimbabwe have not been consolidated in the year under review. In order to facilitate meaningful analysis, all comparative figures, based on the audited financial statements as at 31 March 2001, have been restated by excluding Edgars Zimbabwe. Dividends from Edgars Zimbabwe will be brought to account on a cash receipt basis. The impact of this decision on key disclosures, if applied retrospectively to figures reported last year, is as follows:

	March 2001 Restated (excl. Zimbabwe)	As reported (incl. Zimbabwe)
Retail sales (Rm)	6 557,4	6 844,8
Earnings attributable to ordinary shareholders (Rm)	120,9	150,1
Net assets (Rm)	3 124,5	3 207,3
Headline earnings per share (cents)	214	268
Gearing	0,28	0,25

Edcon

Edgars Consolidated Stores Limited
Registration number: 1946/022751/6
Incorporated in the Republic of South Africa
ISIN number: ZAE000018388
Share code: ECO

Independent non-executive directors: W S MacFarlane *(Chairman)* A J Aaron T N Eboka Z B Ebrahim J D M G Koolen* P L Wilmot *(* Netherlands)*
Executive directors: S M Ross** *(Chief Executive)* M R Bower Dr U Ferndale J L Spotts** K C van Aardt *(**USA)* **Group secretary:** D J Viviers
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Registered office: Edgardale, Press Avenue, Crown Mines, Johannesburg 2092 PO Box 100, Crown Mines 2025 Fax: (011) 837-5019 Telephone: (011) 495-6000
Auditors: Ernst & Young, Wanderers Office Park, 52 Corlett Drive, Illovo 2196 **Sponsors:** Cazenove South Africa (Pty) Ltd First Floor, Moorgate, Dunkeld Park, 6 North Road, Dunkeld West PO Box 412468, Craighall 2024

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

BASTION GRAPHICS