MASSMART

Dedicated to Value

LISTED5YEARS

Reviewed consolidated results for the 52 weeks ended June 2005

Massmart is a unique, managed portfolio of 12 wholesale or retail chains, each focused on high-volume, low margin, low cost distribution of mainly branded consumer goods for cash, in 10 countries in sub-Saharan Africa. The Group is the third largest distributor of consumer goods in Africa and the leader in general merchandise, home improvement, wholesale food and liquor.

Sales increase	Trading profit increases	Headline earnings increase	Headline earnings before acquisitions increase	Headline EPS increases	Cash flow from trading increases	Dividend increases
12%	19%	16%	12%	16%	13%	15%
to R26 561 million	to R1 009 million	to R679 million	to R642 million	to 341,0 cents	to R1 151 million	to 183 cents per share

Overview

We are pleased to record yet another year of improved sales and earnings. These results mark Massmart's 33rd consecutive half year of real sales growth over 8% and our 14th consecutive half year of headline earnings per share growth, which has compounded annually at 34,8% over the past five years, to increase 345,8% since the Group's listing on the JSE Limited on 4 July 2000.

The highlights of the year were:

- Sales exceeded R26 billion, 5,8% of which was from 17 foreign stores
- In real terms, comparable store and comparable member sales grew 7,5% and sales before acquisitions grew 11,5%, with estimated average deflation of 2,2%
- 44% of the year's growth was organic
- Trading profit exceeded R1 billion for the first time
- Pre and post interest trading profit margins increased to 3,80% and 3,72% respectively
- Full year cash flow from operations exceeded R1,2 billion
- Return on equity increased from 42,8% to 44,6%
- The store network was increased to 219 (867 624 m^2) with the acquisition and opening of 62 new stores with estimated annual sales of R2,6 billion
- Federated Timbers, De La Rey and Servistar were acquired with effect from 1 June 2005
- The executive management team was strengthened through a number of new internal and external appointments.

Strategic overview and progress

The management of Massmart continues to implement the three pillar strategy, which has been at the heart of the Group's progress for 17 years: aggressive organic and acquisitive growth; value-adding collaboration between focused trading entities; and incentivisation for alignment.

Medium term performance is guided by our "Vision for Growth," a rolling three-year internal financial target resulting from the implementation of the above strategies, given effect through specific plans and objectives for: continued real sales growth from existing outlets; expansion into new categories and formats; new outlets; the relocation, enlargement and refurbishment of selected outlets, selected acquisitions that conform to Massmart's strategic and financial criteria and continued net margin growth.

The "Vision for Growth 2007" announced last August called for the opening of 50 stores, which would generate sales of R5 billion by June 2007. Excellent progress towards this objective was made during the reporting period with nine new stores opened and 53 acquired with combined estimated sales of R3,8 billion by 2007. New plans have been put in place to mitigate the effect of lower than forecast inflation and targets have been revised to adjust for the effects of lease smoothing and IFRS.

This year's annual review resulted in Vision 2008, which will see a number of strategic and operational performance improvements emphasising growth in Massmart's higher margin businesses, including the opening of 35 additional new stores between July 2005 and June 2008 with estimated sales of R3,2 billion.

Performance

This year's performance was shaped by five major factors.

The first, a buoyant middle to upper income consumer market, which provided the foundation for an excellent performance from the Massdiscounters and Masswarehouse divisions targeted at that market.

The second, deflation in imported or dollar-priced products, which undermined sales growth and profitability, particularly in Masscash, whose wholesale customers' response to promotional activity was muted by their reluctance to increase inventories in a climate of falling inflation.

The third, the parlous economic state of the lowest income consumers, particularly those in rural areas, who purchase basic food from the retailers and wholesalers served by Masscash. The impact of this poverty is difficult for shareholders to gauge as no other public company wholesales into this market place.

The fourth was the underperformance of the previous Masstrade division comprising Shield and Furnex, which returned to profitability in the second half, but produced a result well below the previous year and our medium term targets.

The final factor was the clarification by the South African Institute of Chartered Accountants on 2 August 2005, requiring South African companies to adopt the international interpretation of International Accounting Standards regarding the treatment of operating leases. Although there is no cash impact, the adoption of this interpretation depressed headline earnings by R54 million (R51 million in 2004) most of which was attributable to Masswarehouse which, by virtue of Makro's 20-year leases and the aggressive organic development of Builders Warehouse, has a newer average lease profile than the other divisions. Unless stated otherwise, these results and the restated 2004 accounts reflect the new interpretation.

Massmart's sales growth declined in the second half as we implemented the policy announced in February, to curtail sales growth in low return business of higher risk. Sales growth before acquisitions was 9,3%. Acquisitions, comprising Trident for a full year, Cell-Shack, one cash and carry outlet and one month's contribution from the Federated Timbers, De La Rey and Servistar acquisitions contributed sales of R988 million. Comparable store and member growth of 5,3% was depressed by an increase in deflation and the impact of the stronger Rand on foreign sales. General merchandise, including home improvement, grew 17,8% and food and liquor 6,9%. Massmart's 2,2% estimated average deflation on selling prices was the weighted average of 4,9% deflation in general merchandise and 0,2% inflation in food and liquor.

Trading profit before interest and acquisitions grew by 15,4% to R967 million. Headline earnings per share before acquisitions grew by 11,8% to 322,8 cents per share.

Industry statistics and the reported sales of competitors indicate that Massmart gained market share, particularly in home improvement and wholesale food.

Operational review

Massdiscounters – comprises retail general merchandise discounters Game (61 stores), which trades in South Africa, Namibia, Botswana, Zambia, Uganda, Mozambique and Mauritius, and Dion (11 stores), which trades in the Gauteng province of South Africa. Divisional comparable store sales grew by 3,6% with estimated deflation of 4,3%.

Game South Africa and Dion enjoyed good comparable store growth with growth in the core categories of appliances, home electronics and computers well ahead of those reported by competitors. Foreign Game stores performed well in local currency. Five new stores with estimated annual sales of R312 million were opened during the year, adding 17 688 m^2 to the division. Despite the negative effects of legislated lower finance charges from September 2004, and the impact of the operating lease adjustment, exceptional control of margin and working capital resulted in Massdiscounters exceeding its medium term annual profit before tax return on sales target (revised upwards to 6% last year), moving closer to our 7,4% international benchmark.

Masswarehouse – comprises the 12-store Makro warehouse club trading in food, general merchandise and liquor, 12 Builders Warehouse outlets trading in

DIY and builders hardware and eight Tile Warehouse outlets trading in tiles and sanitaryware, all in the major metropolitan areas of South Africa. Divisional comparable store sales grew 14,6% with estimated deflation of 1,8%.

As Makro stabilised in the second half, following the re-opening of the Strubens Valley store and the relocation of the Pretoria West store to Wonderboom, the chain demonstrated its unique capabilities as South Africa's leading warehouse club, by almost doubling the rate of sales growth on the first half. The creative recruitment of new cardholders and innovative merchandising produced quality sales that translated into profit growth well ahead of sales growth for the full year as a result of sound control of margin and working capital.

The Builders Warehouse and Tile Warehouse chains made solid progress with the implementation of their strategies and plans, to register the highest levels of sales growth, comparable sales growth and profit growth in the Group. Investment in new stores (two were acquired, two were opened and one relocated), systems and people has positioned the chain for fast growth and the assumption of a leading position in Massmart's home improvement portfolio.

Further to our stated strategic objective to become a major participant in the national distribution of home improvement products, Federated Timbers, De La Rey and Servistar were acquired to augment our growing footprint in the sector. Following approval by The Competition Commission, the acquisitions were included in these results from 1 June 2005 contributing sales of R138 million and profits before tax of R6 million.

Although profits were subdued by the new operating lease interpretation, Masswarehouse made progress towards its profit before tax return on sales target, revised upwards to 5% last year, the result of a weighted application of international benchmarks.

Masscash – comprises 58 CBW and seven Jumbo wholesale cash and carry outlets trading in South Africa, Lesotho, Namibia, and Botswana, and voluntary buying organisations, Shield (serving 885 independent food outlets) and Furnex (serving 830 independent furniture and appliance outlets). Divisional comparable store and member sales decreased by 0,5% with estimated deflation of 1,3%.

The last quarter saw a reversal of the steady decline in CBW's sales growth resulting from deflation and the move away from low return, high risk business. CBW's profits for the year were eroded by a decline in trading margin, largely attributable to deflation of over 10% in commodities which constitute 27% of the chain's sales.

While Jumbo enjoyed a pleasing rate of sales growth, profits were depressed by aggressive trading activity and a performance below expectations by the Devland and Nelspruit stores. Under an entirely new management team a pleasing start has been made to the refurbishment of the flagship Crown Mines store and the repositioning of the chain.

Following the restructuring announced in August 2004, the emphasis in Shield and Furnex (previously Masstrade – see note 5) throughout the reporting period has been on the reinstatement of the structures, people, processes and controls necessary to mitigate risk and provide a platform for the growth of quality returns. This approach resulted in a substantial decline in sales but an improvement in profits and the state of the debtor's book in the second half. These companies will make steady progress towards producing acceptable returns over the coming year.

The Masscash profit before tax return on sales declined relative to its 3% target.

	June 2005 (Reviewed) Rm	Restated (note 6) June 2004 (Reviewed) Rm	*% change*	As previously reported June 2004 (Audited) Rm
Sales	**26 561,4**	23 787,7	*11,7*	23 787,7
Massdiscounters	**7 396,6**	6 783,5	*9,0*	6 783,5
Masswarehouse	**8 575,9**	7 066,5	*21,4*	7 066,5
Masscash (note 5)	**10 588,9**	9 937,7	*6,6*	9 937,7
Trading profit before interest and tax	**1 009,4**	850,8		923,5
As a % of sales	**3,8%**	*3,6%*		*3,9%*
Massdiscounters	**488,2**	344,1	*41,9*	356,6
Masswarehouse	**321,3**	223,3	*43,9*	277,8
Masscash (note 5)	**199,9**	283,4	*(29,5)*	289,1
Trading profit before tax*	**1 030,2**	871,6		944,3
As a % of sales	**3,9%**	*3,7%*		*4,0%*
Massdiscounters	**487,2**	327,7	*48,7*	340,2
Masswarehouse	**345,7**	249,3	*38,7*	303,9
Masscash (note 5)	**197,3**	294,6	*(33,0)*	300,2

** Trading profit before tax is before corporate interest paid of R41,8 million (2004: R28,0 million), goodwill impairment/amortisation and exceptional items.*

Acquisitions

Further to the announcement of 26 April 2005, we advise that all conditions related to the R403,8 million acquisition of 84,1% of the 42 store Moresport sporting speciality group have been fulfilled, other than the approval by The Competition Commission which is expected before the end of September 2005.

Acquisition funding

Subsequent to the financial year-end, Massmart entered into two medium-term amortising loans of R250 million each. This loan funding was required for the purchase considerations, all paid in June 2005, for three acquisitions in the building and home improvement sector. It is Massmart's intention to raise a further R500 million through the issue of permanent preference shares to finance the Moresport acquisition. In the event that The Competition Commission approves this transaction, the capital raising process will commence during September 2005 based on documentation which will be sent to shareholders shortly. If the acquisition is declined by The Competition Commission the Board may not proceed with this capital raising.

Divisional structure

In order to facilitate more focused management, relevant collaboration and clearer understanding by stakeholders, Massmart will comprise four divisions from 1 July 2005, each containing those chains with similar target markets and business models.

The divisions will be:

- The retail discount division Massdiscounters, which will house Game, Dion and, if approved by The Competition Commission, Moresport;
- The home improvement division Massbuild, which will house Builders Warehouse, Federated Timbers, Servistar, De La Rey and Tile Warehouse;
- The warehouse club division Masswarehouse, which will house Makro; and
- The mainly food wholesale division Masscash, which will house CBW, Jumbo, Shield, Furnex and Cell-Shack.

In terms of sales, profitability and branding, each of these divisions will enjoy Southern African leadership in their business model.

Board and Executive Committee changes

Arising from the past and planned growth of Massmart and in anticipation of the divisional structure described above, Executive Committee members Grant Pattison and Fanus Nothnagel have been appointed to the Board as Deputy Chief Executive Officer and Chief Operating Officer respectively and the Executive Committee has been enlarged with the appointments of Aubrey Cimring as Deputy Chief Financial Officer, and Richard Potash and Kevin Vyvyan-Day as Divisional CEO's.

Massmart's people

There are now 21 859 Massmart employees whose diverse expertise and extraordinary talent translates ideas into a value proposition for all stakeholders. Their commitment and loyalty is exemplified by their 4 039 colleagues who have been associated with the Massmart entity that employs them for 10 years or more.

We thank them all for their part in these results and welcome those who chose to become part of Massmart over the last year.

Prospects

For five years South African retail has enjoyed the buoyancy of middle to upper income consumer markets. Driven by structural factors (including education, employability, employment equity, Black Economic Empowerment, the re-rating of domestic property prices and government spending) and cyclical factors (including the strong Rand, low inflation and low interest rates), consumer confidence peaked during 2004 at the highest levels since these statistics have been recorded.

While there has been a gradual downward trend in retail sales growth as reported by Stats SA since October 2004, Massmart's strategies and budgets have been founded on the belief that the South African economy is being irrevocably transformed and that good retail growth will persist for some time, in the absence of a marked deterioration in exogenous factors – the oil price being of particular concern at present.

Our confidence in our country and our company is evident in a record R495 million capital expenditure programme planned for the current year, planned to add at least 147 388 m^2, in support of budgeted sales exceeding R30 billion.

For the eight weeks to 21 August 2005, total sales grew by 16,2%, sales before acquisitions grew 9,0% and comparable store sales grew 8,0%, with profit growth significantly ahead of sales growth and last year.

Dividend and distribution policy

Massmart's dividend policy is to declare and pay an interim and final dividend representing a two times dividend cover unless circumstances dictate otherwise. This final dividend has however, been calculated using headline earnings before the lease adjustment referred to in Note 6. In the next financial year, dividends will be calculated relative to headline earnings per share after the lease adjustment.

Notice is hereby given that a final dividend of 72 cents per share in respect of the period ended 26 June 2005 has been declared payable to the holders of ordinary shares recorded in the books of the company on Friday 16 September 2005. The last day to trade cum-dividend will therefore be Friday 9 September 2005 and Massmart shares will trade ex-dividend from Monday 12 September 2005. Payment of the dividend will be made on Monday 19 September 2005. Share certificates may not be dematerialised or rematerialised between Monday 12 September 2005 and Friday 16 September 2005, both days inclusive.

In terms of the requirements of the Companies Act, the directors confirm that after the payment of the distribution, Massmart will be able to pay its debts as they become due in the ordinary course of the business, and its consolidated assets, fairly valued, will exceed its consolidated liabilities.

On behalf of the board

Mark J Lamberti
Deputy Chairman and
Chief Executive Officer

Guy Hayward
Chief Financial Officer

24 August 2005

Income statement

	Year ended June 2005 (Reviewed) Rm	Restated (note 6) Year ended June 2004 (Reviewed) Rm	% change	As previously reported Year ended June 2004 (Audited) Rm
Sales	**26 561,4**	23 787,7	*11,7*	23 787,7
Gross profit	**3 649,0**	3 140,1	*16,2*	3 140,1
Depreciation	**(156,9)**	(133,5)	*17,5*	(133,5)
Goodwill impairment/amortisation	**(72,4)**	(74,6)	*(2,9)*	(74,6)
Employment costs	**(1 649,4)**	(1 416,6)	*16,4*	(1 416,6)
Occupancy costs (note 6)	**(644,2)**	(563,7)	*14,3*	(491,0)
Other net operating costs	**(189,1)**	(175,5)	*7,7*	(175,5)
Operating profit	**937,0**	776,2	*20,7*	848,9
Exceptional items (note 2)	**–**	5,0		5,0
Net interest paid	**(21,0)**	(7,2)	*191,7*	(7,2)
Profit before tax	**916,0**	774,0	*18,3*	846,7
Taxation	**(307,0)**	(253,9)	*20,9*	(275,5)
Profit after tax	**609,0**	520,1	*17,1*	571,2
Minorities	**(2,2)**	(8,9)		(8,9)
Net profit for the year	**606,8**	511,2	*18,7*	562,3
Reconciliation of net profit for the year to headline earnings				
Net profit for the year	**606,8**	511,2		562,3
Exceptional items (note 2)	**–**	(6,0)		(6,0)
Goodwill impairment/amortisation	**72,4**	74,6		74,6
(Profit)/loss on disposal of fixed assets	**(0,6)**	3,3		3,3
Headline earnings	**678,6**	583,1	*16,4*	634,2
Headline EPS (cents)	**341,0**	293,1	*16,3*	318,8
Diluted headline EPS (cents)	**329,5**	282,7	*16,6*	307,5
Attributable EPS (cents)	**304,9**	256,9	*18,7*	282,6
Diluted attributable EPS (cents)	**294,6**	247,9	*18,8*	272,6
Dividend/distribution (cents):				
– Interim	**111,0**		*82,0*	61,0
– Final	**72,0**		*(26,5)*	98,0
– Total	**183,0**		*15,1*	159,0
Ordinary shares (000's):				
– In issue	**199 641**	199 191		199 191
– Weighted-average	**199 010**	198 951		198 951
– Diluted weighted-average	**205 944**	206 244		206 244

Balance sheet

	June 2005 (Reviewed) Rm	Restated (note 6) June 2004 (Reviewed) Rm	% change	As previously reported June 2004 (Audited) Rm
Assets				
Property, plant and equipment	**918,9**	570,1	*61,2*	570,1
Goodwill	**1 149,4**	616,7		614,0
Investments and loans	**283,1**	249,7		249,7
Deferred tax	**394,2**	353,0		146,5
Inventories	**2 658,0**	2 356,5	*12,8*	2 356,5
Accounts receivable and prepayments	**1 853,5**	1 861,4		1 997,8
Cash and bank balances	**841,1**	1 105,8		1 105,8
Total	**8 098,2**	7 113,2		7 040,4
Equity and liabilities				
Shareholders' equity	**1 616,2**	1 429,8	*13,0*	1 850,2
Minority interests	**36,5**	31,7		31,7
Long-term liabilities – interest bearing	**147,1**	201,3		201,3
Other long-term liabilities and provisions	**509,5**	488,2		34,8
Deferred tax	**97,5**	89,1		64,9
Accounts payable and accruals	**5 166,0**	4 713,5	*9,6*	4 697,9
Bank overdraft and short-term borrowings	**525,4**	159,6		159,6
Total	**8 098,2**	7 113,2		7 040,4
Net asset value per share (cents)	**809,6**	717,8	*12,8*	928,9

Cash flow statement

	Year ended June 2005 (Reviewed) Rm	Year ended June 2004 (Audited) Rm
Cash inflow from trading	**1 151,3**	1 015,2
Working capital movement	**97,9**	255,3
Cash flow from operations	**1 249,2**	1 270,5
Taxation paid	**(334,4)**	(124,2)
Net interest paid	**(21,0)**	(5,5)
Investment income	**35,2**	19,0
Dividends paid and share premium distribution	**(416,4)**	(218,7)
Net replacement of fixed assets	**(253,3)**	(74,8)
Investment in fixed assets	**(156,4)**	(263,3)
Businesses acquired	**(684,4)**	(89,9)
Other investing activities	**(40,6)**	(7,3)
Net financing activities	**0,5**	(39,8)
Foreign exchange losses taken to statement of changes in equity	**5,4**	(4,2)
Opening cash and cash equivalents	**1 025,2**	563,4
Closing cash and cash equivalents	**409,0**	1 025,2

Statement of changes in equity

Opening balance	**1 429,8**	1 666,1
Prior period adjustment (note 6)	**–**	(369,3)
Exchange differences	**4,5**	(7,8)
Dividends paid and share premium distribution	**(416,4)**	(218,7)
Net profit for the year	**606,8**	511,2
Shares issued	**18,8**	12,8
Reduction of deferred tax asset	**–**	(94,9)
Net movement of treasury shares	**29,5**	(29,5)
Share trust loss	**(56,8)**	(40,1)
Closing balance	**1 616,2**	1 429,8

Additional information

Capital expenditure		
– Authorised and committed	**114,6**	41,3
– Authorised not committed	**230,5**	168,3
Acquisition commitment	**480,0**	–
Contingent liabilities	**1,5**	2,2
Operating lease commitments (2005 – 2022)	**4 862,1**	4 355,8
US dollar exchange rates – period end	**6,73**	6,34
– average	**6,21**	6,84

Notes

1. Added to trading profit is R6,6 million in net realised and unrealised foreign exchange translation gains (2004: R19,9 million loss) and a translation gain on open forward exchange contracts at June 2005 of R23,3 million (2004: R11,3 million loss).
2. Exceptional items in the prior year comprise a profit on sale of buildings of R24,2 million in Masscash and a net R19,2 million loss on building due to destruction by fire in Masswarehouse. These items were previously included in trading profit.
3. These financial statements have been prepared in accordance with AC127 (Interim Financial Reporting), using accounting policies that are in line with South African Statements of Generally Accepted Accounting Practice and on a basis consistent with prior periods, except for the implementation of AC140 Business Combinations (note 4), the change in definition for segmental reporting for which the comparatives have been restated (note 5), and the reinterpretation of AC105- Leases for which comparatives have been restated (note 6).
4. AC140 was implemented in the current reporting period. In accordance with the statement goodwill is no longer amortised and comparatives have not been restated. All acquisitions since 31 March 2004 have been accounted for in line with AC140. An impairment loss of R72,4 million was recorded in Masstrade due to the reduced profitability of the Furnex business model.
5. For segmental reporting purposes, Masstrade has been included in the Masscash division. The Masstrade results are:

	June 2005			Restated June 2004			As previously reported June 2004		
	Sales	**PBIT**	**PBT**	Sales	PBIT	PBT	Sales	PBIT	PBT
Masstrade	**3 201,0**	**21,3**	**13,8**	3 288,4	61,7	57,4	3 288,4	61,4	57,1

6. Following the circular 7/2005 issued by SAICA on 2 August 2005, a clarification of the reinterpretation of AC105-Leases by South African companies, has resulted in a reduction to opening retained earnings in 2004 of R369 million and a decrease of R51 million and R54 million in headline earnings in 2004 and 2005 respectively. The 2004 income statement and balance sheet have been restated.
7. Due to Christmas trading, Massmart's earnings are weighted towards the six months to December.
8. These results have been reviewed by auditors Deloitte & Touche and their unqualified review opinion is available for inspection at the registered office.

Directorate: CS Seabrooke (Chairman), MJ Lamberti* (Chief Executive and Deputy Chairman), MD Brand, ZL Combi, GRC Hayward*, JC Hodkinson**, P Langeni, IN Matthews, P Maw, DNM Mokhobo, F Nothnagel*, G Pattison*, MJ Rubin * Executive ** United Kingdom

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