

MASSMART

Dedicated to Value

Annual Report 2008

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Massmart is a managed portfolio of nine wholesale and retail chains, each focused on high-volume, low-margin, low-cost distribution of mainly branded consumer goods for cash, in 14 countries in sub-Saharan Africa through four divisions comprising 242 stores.

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Sustainability Report IBC

Stakeholders' Guide

Massmart recognises that its business must serve all of its stakeholders. This guide will direct you to the parts of this annual report that specifically address the interests of different stakeholder groups.

1. Shareholders

Massmart has over 10 800 shareholders in South Africa and abroad ranging from major institutions to individuals.

- Chairman's report **pg 19**
- CEO's review **pg 23**
- CFO's review **pg 27**
- Group Financial Statements **pg 103**
- Seven-year Review **pg 39**

2. Employees

Massmart employs over 25 000 people across its operations. Many thousands more rely on our employees for their livelihoods.

- Sustainability Report **IBC**
- Operational Review **pg 55**
- CEO's review **pg 23**
- Corporate Governance **pg 87**

3. Communities

Massmart operates from 220 sites in South Africa and 22 sites in 12 other sub-Saharan countries and is integrally involved with the communities around its operations

- Sustainability Report **IBC**
- Corporate Governance **pg 87**
- Operational Review **pg 55**
- Chairman's report **pg 19**

4. Customers

Each year millions of customers transact with Massmart

- Operational Review **pg 55**
- CEO's review **pg 23**
- Chairman's report **pg 19**
- Group Financial Statements **pg 103**
- Sustainability Report **IBC**

5. Suppliers

Massmart sources goods and uses the services of approximately 4 000 active suppliers

- Group Financial Statements **pg 103**
- Operational Review **pg 55**
- CEO's review **pg 23**
- CFO's review **pg 27**
- Sustainability Report **IBC**
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Staff meeting at the new Makro in Silver Lakes in Pretoria before the day's trading begins. The store opened in October 2007, and set a new opening-day sales record.

Massmart highlights and achievements

Total sales **R39,8bn**

an increase of 14 percent

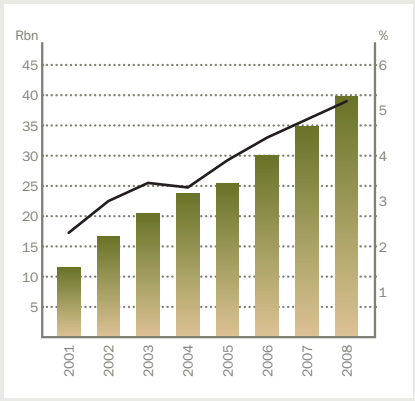
Operating profit **R2,1bn**

an increase of 25 percent

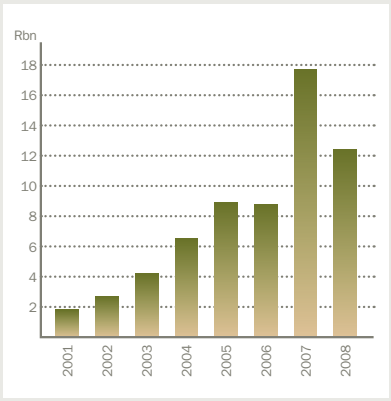
Return on equity **53,0%**

up from 52,3 percent

Sales and operating margin



Market capitalisation



Achievements

Massmart ranked **first in FM's 2008 Top Companies** survey

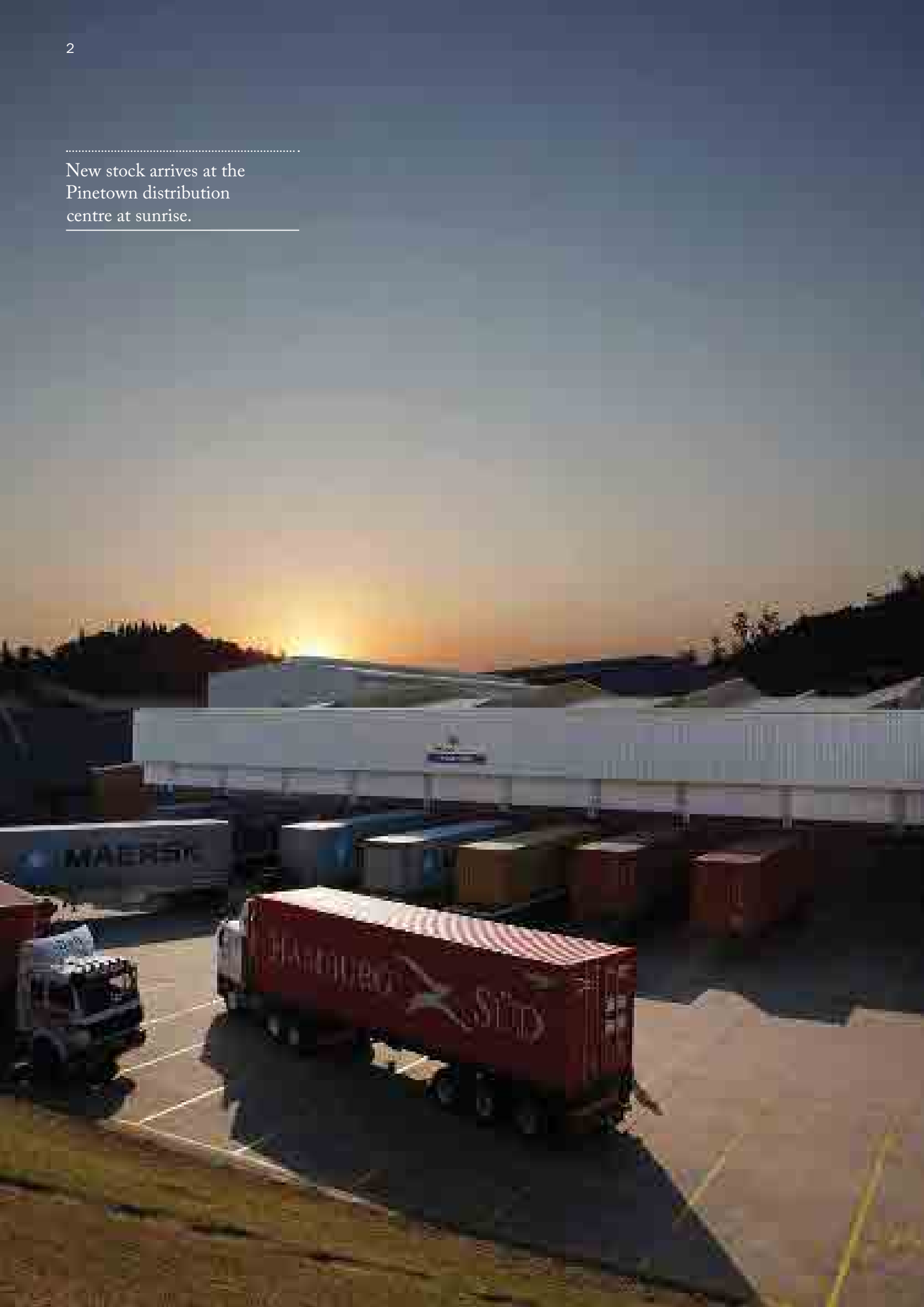
Massmart ranked **top of JSE Retail sector in the FM/Empowerdex 2008 Top Empowerment Companies Survey**

Massmart only company to achieve **Top Performer Status in 2007 JSE SRI-Index medium environmental impact category**

Massmart ranked **fourth in Ernst & Young 2008 Excellence in Corporate Reporting Awards**

Winner of the Best Sustainability Report, Non-extractive Industries, in the Association of Chartered Certified Accountants 2008 sustainability reporting awards

New stock arrives at the Pinetown distribution centre at sunrise.



Vision and mission

Vision

Customers will regard Massmart's wholesale and retail formats as their first choice when buying those categories of merchandise offered by the formats.

Suppliers will regard Massmart as a valued partner in accessing and understanding their end-consumers.

Career retailers will regard Massmart as the preferred employer in the distribution industry.

Investors will regard Massmart as a portfolio rendering superior growth and total returns at relatively lower risk than alternative wholesale and retail investments.

The community will regard Massmart as a sensitive, caring, trustworthy South African corporation.

Mission

Massmart is a South African-based globally competitive regional management group, invested in a portfolio of differentiated, complementary, focused wholesale and retail formats, each reliant on high volumes and operational excellence as the foundation of price leadership, in the distribution of mainly branded consumer goods for cash.

The Group actively seeks the continual improvement of performance in the portfolio and its parts, through strategic and structural clarity, high market shares, excellent management, principle-driven ethical leadership, cost-effective technology and the sharing or agglomeration of capabilities, knowledge, resources, influence and information.

To this end, thought leadership, individual and collective performance, and collaboration throughout the Group are appropriately rewarded, with executive management incentivised predominantly on Group performance.

The Group continuously improves the performance of its portfolio of businesses through strategic and structural clarity, high market shares, excellent management and technology, and the sharing of knowledge and resources.

Financial highlights

Group summary*	53 weeks 2008 Rm	52 weeks 2007 Rm	Change %
Sales	39 783,6	34 807,6	*14,3*
EBITDA	2 387,6	1 940,5	*23,0*
Headline earnings – 53 weeks	1 319,4	1 083,3	*21,8*
Headline earnings – 52 weeks	1 261,8	1 083,3	*16,5*
Headline earnings before the BEE transaction**	1 409,0	1 146,5	*22,9*
Cash generated from operations	2 321,7	1 898,1	*22,3*
Ordinary share performance	**Cents/ share**	Cents/ share	*Change %*
Headline earnings – 53 weeks	663,0	540,4	*22,7*
Headline earnings – 52 weeks	634,1	540,4	*17,3*
Dividends	386,0	320,0	*20,6*
Net asset value	1 359,8	1 113,5	*22,1*
Financial statistics	**%**	%	
Trading margin	5,3	4,9	
Return on capital employed	73,3	66,1	
Return on shareholders' equity	53,0	52,3	
Debt: equity	9,8	18,0	

* See explanatory notes forming part of the Seven-year Review on pages 42 to 53.
** See note 10 in the annual financial statements on page 125 for further details.

Further reading

More detail can be found in the Seven-year Review 39

SEVEN-YEAR REVIEW

Sustainability highlights

- Retained Unisa Centre for Corporate Citizenship to provide ongoing sustainability advice.
- Increased BBBEE score from 35,67% to 49,44% leading to ranking as most empowered listed retailer.
- Implemented free diabetes and cholesterol blood screening for permanent staff.
- Revised food safety policy to include independent testing of nationally branded foodstuffs.
- Hosted import supplier workshops in Xiaman, Taipei, Hong Kong and Shenzhen to improve supply chain efficiency.
- Published a Massmart buyers' guide to environmentally responsible procurement.
- Developed Eco-wise customer advocacy programme to promote environmentally responsible consumerism.
- Calculated and published Group's scope 2 and scope 3 carbon emissions.
- Launched pilot e-waste recycling scheme in partnership with Fujitsu Siemens.

Further reading

Massmart has moved the Sustainability Report into a separate brochure that can be found in the inside back cover IBC

SUSTAINABILITY REPORT

Business model

Massmart Group

Massmart has evolved a business model that empowers its Divisions to take trading decisions suited to their individual operating needs but within a strategic operating and financial framework set by the Group.

This has several advantages. The framework guarantees consistent compliance with the best governance standards and national legislative requirements. It commits each Division to implementing Massmart's core strategy of being a high-volume, low-margin distributor of quality branded consumer goods for cash, and ensures expansion plans add net value to the Group rather than cannibalising existing operations. At the same time, Divisions can extract maximum value from being part of a larger Group with greater access to goods and services or negotiating better terms and rebates with suppliers and service providers. The Divisions are differentiated as retail or wholesale formats that address different customer and market profiles.

The model is put into operation through four structural entities: Massmart Holdings, the shareholder of the operating Divisions that consolidates the Group's financial, treasury, tax and company secretarial functions and is headed by the Group CEO; Channel, where Divisions can share best practice and develop mutually beneficial collaborative efforts; Shared Services, which handles those activities identified by Channel that are more cost-effective to share across Divisions; and the four operating Divisions themselves.

Decentralised decision-making is given effect through a Group Executive Committee reporting to the Group CEO. The Committee's members comprise the CEOs of Massmart's four operating divisions and a Group Executive from each of Massmart Holdings, Channel and Shared Services. Massmart Holdings Executives are also represented on each of the four Divisional Boards as non-executive Directors.

Massmart Holdings

Massmart Holdings performs the Group management and advisory role and defines the strategic and broad operating principles that guide the Group's activities. Its functions include budget approval and capital allocation, store site location, executive appointments, development and retention, corporate affairs, human capital and internal audit. A business intelligence unit collates and analyses divisional data to inform Group strategy and decision-making.

Massmart Channel

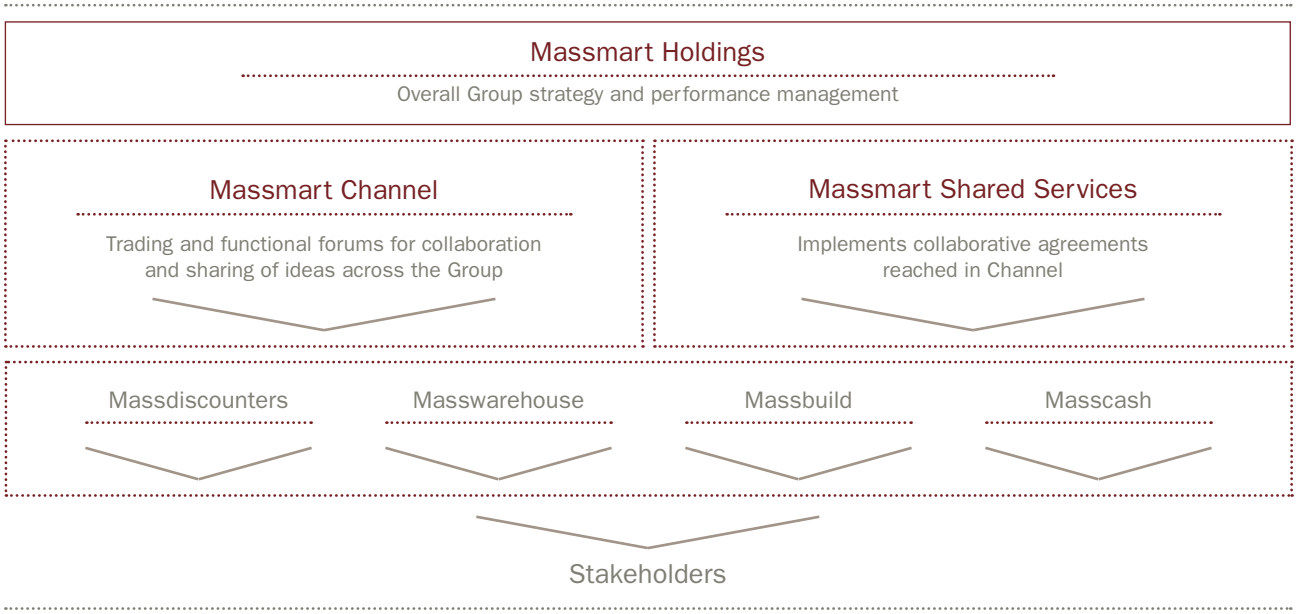
Massmart Channel consists of formal trading and functional forums where ideas on collaboration across Divisions are shared. Trading forums cover Food and Liquor, General Merchandise, and Cellular. Functional forums include Technology, Information and Process (TIP), Operations and Human Resources. Forums are headed by divisional CEOs, who are all members of the Group Executive Committee. Directors and Executives from the Divisions attend forums in their specific areas of competence. Once consensus is reached on a collaborative proposal, the Executive Committee approves whether it should be rolled out across the Group.

Massmart Shared Services

Massmart Shared Services implements collaborative agreements reached by Channel. The most important are Group supplier negotiations for all products sold across the Group. Shared Services also handles the Group's Payroll functions, the Shipping and associated treasury functions for direct imports, and managing private or exclusive brands shared across Massmart's trading divisions.

Massmart Divisions

Massmart's Divisions comprise Mass-discounters, Masswarehouse, Massbuild and Masscash. Each has a dedicated management team focusing on a particular retail or wholesale format, merchandise proposition and customer base, and is empowered to take trading decisions within a strategic framework and governance structure defined by the Group.



Group profile

Divisions	Chains	Stores and outlets	Countries	Product categories
Massmart Group				
Massdiscounters General merchandise discounter	game	84 stores	SA, Botswana, Namibia, Mauritius, Mozambique, Uganda, Zambia, Nigeria, Ghana, Malawi, Tanzania	General merchandise and FMCG
	DION WIRED	6 stores	SA	Electrical appliances
Masswarehouse Warehouse club discounter	makro	13 warehouse clubs	SA, Zimbabwe (2 stores not consolidated)	Food/liquor/ general merchandise
Massbuild Home improvement retailer and building materials supplier	builders warehouse HOME IMPROVEMENT A TO Z	22 stores	SA	Home improvement supplies/tools/ building materials
	builders express HOME & GARDEN CENTRE	18 stores	SA	Home improvement supplies/tools/ building materials
	builders TRADE DEPOT BUILDING MATERIAL SUPPLIES	28 stores	SA	Building materials/ tools
Masscash Food wholesaler and buying association	CBW	65 stores	SA, Lesotho, Namibia, Botswana	Food/liquor/ groceries
	JUMBO Cash and carry.	6 stores	SA, Lesotho, Namibia, Botswana	Food/groceries/ ethnic cosmetics
	Shield	527 member outlets	SA, Botswana, Namibia, Swaziland	Food/groceries

Financial highlights*

Highlights

Sales
R39,8bn
EBITA
R2,2bn

- Total sales were 98,8% in cash sales and 7% from African stores
- Headline earnings grew 23% and exceeded R1,3bn

Sales
R10 407m
EBITA
R725m

- Real total sales growth of 7,7%
- Comparable sales (52 weeks) grew 7,6% with inflation of 2,7%
- Dion Wired increased to six stores
- Original Dion format now closed

Sales
R10 104m
EBITA
R640m

- Real total sales growth of 9,7%
- Comparable sales (52 weeks) grew 10,5% with inflation of 7,2%
- Opened first new store in four years
- Two stores achieved sales of R1bn each

Sales
R5 663m
EBITA
R390m

- Real total sales growth of 6,9%
- Comparable sales (52 weeks) grew 9,0% with inflation of 7,5%
- Finalised Massbuild management team and structures

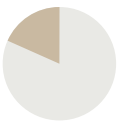
Sales
R13 610m
EBITA
R402m

- Real total sales growth of 2,1%
- Comparable sales (52 weeks) grew 14,3% with inflation of 13,3%
- Integration of CBW, Jumbo and Shield finalised
- Began acquiring sites for hybrid strategy rollout
- New point-of-sale IT system rollout commences

* All figures shown are for 53 weeks unless stated otherwise.

Operations

Chains	Key sales drivers
game DION WIRED	Product inflation Price perception Interest rates Consumer confidence and disposable income New stores
makro	Product inflation Price perception Interest rates Consumer confidence and disposable income New stores
builders warehouse HOME IMPROVEMENT A TO Z builders express HOME & GARDEN CENTRE builders TRADE DEPOT BUILDING MATERIAL SUPPLIES	Interest rates Residential property prices and housing growth Consumer confidence and disposable income Price perception New stores Selected acquisitions of existing sites
CBW JUMBO Cash and carry. Shield	Food inflation, particularly commodities Social grants New stores Selected acquisitions of existing sites

	Group contribution	Sales per m² (R'000)	Trading space (m²)	Capital expenditure (Rm)
		37	1 012 784	**573**
	 26% Sales  33% EBITA	**31**	338 285	**209**
	 26% Sales  30% EBITA	**86**	117 859	**154**
	 14% Sales  18% EBITA	**18**	309 633	**119**
	 34% Sales  19% EBITA	**46**	247 007	**91**

Looking forward

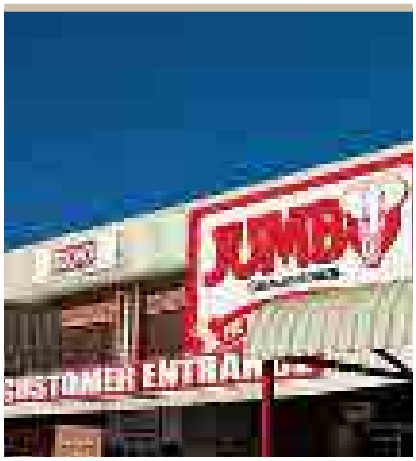
Chains	Growth vectors
	Maintain trading aggression Expand trading space Develop greenfield opportunities Realise supply chain efficiencies Expand private brands Pursue acquisitions Sustainability
game DION WIRED	New Game outlets in South Africa and Africa Develop Dion Wired Realise supply chain efficiencies Private brands Financial services
makro	New stores in South Africa Leverage customer relationship management capabilities Invest in supply chain capabilities Private brands
builders warehouse HOME IMPROVEMENT A TO Z builders express HOME & GARDEN CENTRE builders TRADE DEPOT BUILDING MATERIAL SUPPLIES	Complete Builders Trade Depot re-branding Extract benefits from IT and structural investments Optimise joint buying and merchandising benefits New Builders Warehouse stores in major centres New Builders Express stores in suburbs New Trade Depot stores through acquisition Invest in supply chain capabilities Private brands
CBW JUMBO Cash and carry. Shield	Refine and grow hybrid format Roll out point-of-sales IT system Manage for cash and returns Private brands

2011 net new stores target	2011 net new trading space target (m^2)	Medium-term targeted trading PBT return on sales	
25	**147 698**	**5,7%*** Target **5,1%** Current	**5,7%*** International benchmark
13	**37 543**	**8,0%** Target **7,5%** Current	**7,4%** International benchmark **Wal-Mart ex-food**
1	**14 700**	**7,0%** Target **7,2%** Current	**5,0%** International benchmark **Metro AG C&C**
7	**71 681**	**9,0%** Target **7,6%** Current	**10,0%** International benchmark **Home Depot/ B&Q**
2			
1			
1	**23 774**	**3,0%** Target **3,2%** Current	**3,0%** International benchmark **Makro South America**









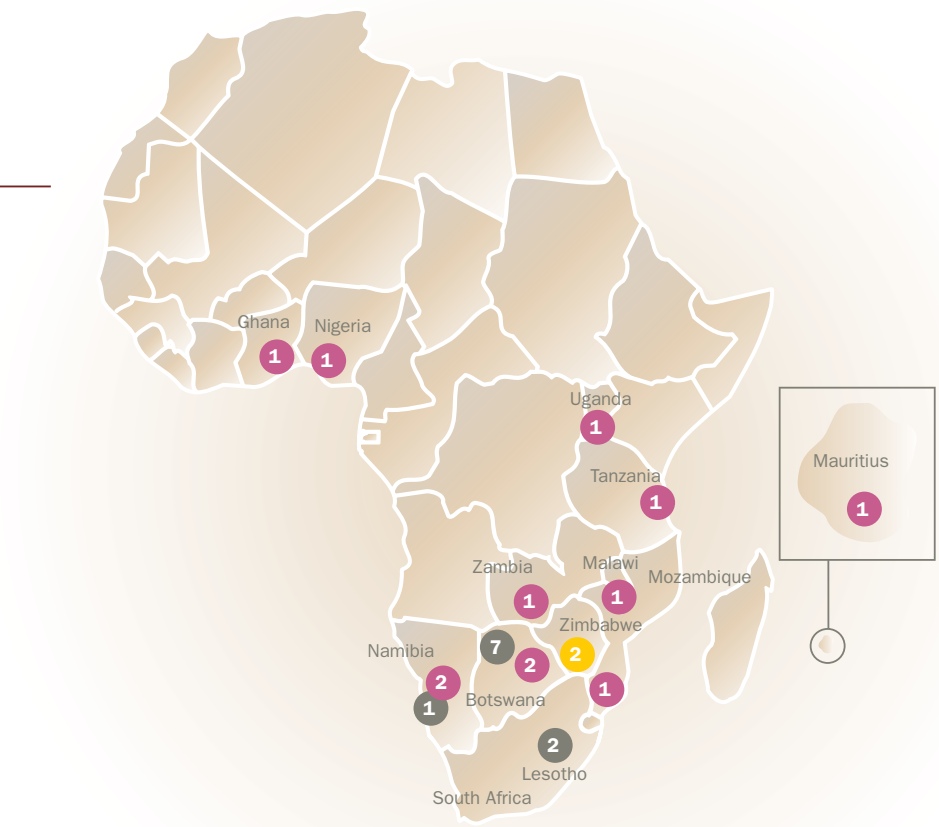
* Pro forma using June 2008 sales mix and target margins

Store region map

The distribution of Massmart stores in South Africa and throughout the rest of Africa.

International

A total of 24 stores



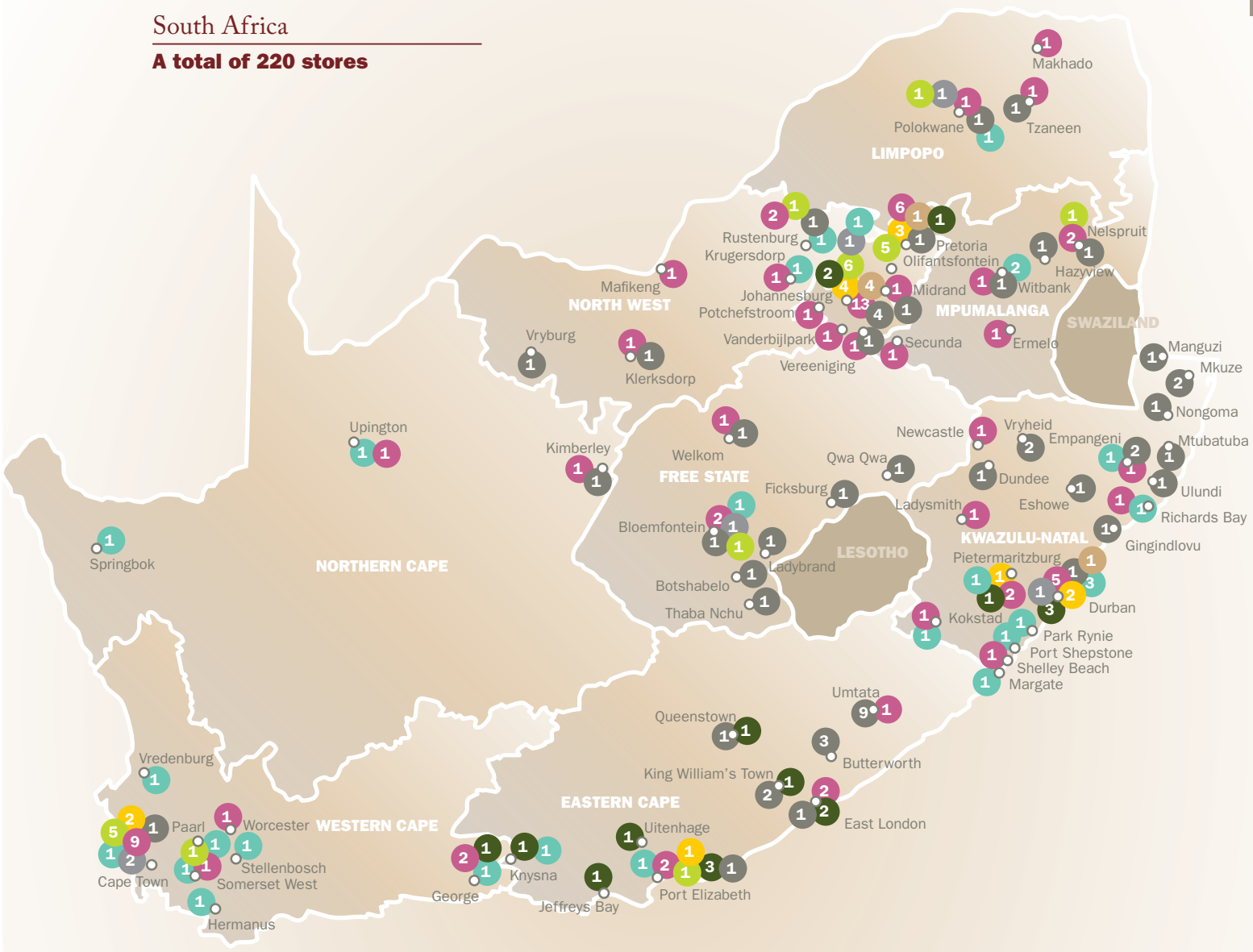
International stores

Chain Country	Number of stores	City
Game		
Botswana	2	Francistown and Gaborone
Ghana	1	Accra
Malawi	1	Blantyre
Mauritius	1	Quatre Bornes
Mozambique	1	Maputo
Namibia	2	Oshakati and Windhoek
Nigeria	1	Lagos
Tanzania	1	Dar es Salaam
Uganda	1	Kampala
Zambia	1	Lusaka
Makro		
Zimbabwe*	2	Bulawayo and Harare
CBW		
Lesotho	2	Maseru x2
Namibia	1	Windhoek
Botswana	7	Francistown, Gaborone, Mahalapye, Maun x2, Palapye and Selebi Phikwe

* Two Makro Zimbabwe stores were not included in the table of stores on page 9 as their results have not been consolidated. See note 6 in the annual financial statements on page 123 for further details.

South Africa

A total of 220 stores



Divisional/chain store distribution

Stores by Chain	Inside South Africa	Outside South Africa	Total
Game	72	12	84
Dion Wired	6	—	6
Makro	13	—	13
Builders Warehouse	22	—	22
Builders Trade Depot	28	—	28
Builders Express	18	—	18
CBW	55	10	65
Jumbo	6	—	6
Total	220	22	242

Key to information

- Colour denotes the stores by chain
- Number denotes the number of stores in that specific region
- Denotes cities and towns

“It is not often that one finds a company where financial success is matched by demonstrated ethical commitment. Massmart may be viewed as providing tangible evidence for the assertion that well-managed companies are motivated to act ethically.”

SOURCE PREPARED BY ETHICS INSTITUTE OF SOUTH AFRICA FOR GLOBAL COMPACT CASE STUDY SERIES

Executive Directors



Grant Pattison (37)

BSc (Eng) (Hons) (UCT)

Chief Executive Officer, member of the Sustainability, and Strategy and Investment Committees.

Appointed 7 December 2004.

Grant graduated from the University of Cape Town as an electrical engineer. After four years with the Anglo American group and two years consulting with The Monitor Group, Grant joined Massmart as Executive Assistant to the Executive Chairman in 1998. He has since held various positions within the Group, including Managing Director of Massdiscounters and Masscash. He joined the Executive Committee in 2000 and the Board in 2004, becoming Deputy Chief Executive Officer in 2005, Chief Executive Officer Designate in 2006 and Chief Executive Officer on 1 July 2007.

Guy Hayward (43)

BCom, CTA (UCT), CA(SA)

Chief Financial Officer, member of the Risk, and Strategy and Investment Committees.

Appointed 15 May 2001.

Guy graduated from the University of Cape Town in 1986 and qualified as a chartered accountant after serving articles with Deloitte Haskins & Sells in 1989. He has held senior financial roles at Malbak, CNA Gallo and investment bank, Goldman Sachs, in London. He joined Massmart as Group Financial Executive in 2000 and was appointed Chief Financial Officer in 2001. Guy is also a Governor of Hilton College.

Non-executive Directors



Mark J Lamberti (58)

BCom, MBA (Wits), PPL (Harvard)

Chairman of the Board, member of the Remuneration and Nominations Committee and Chairman of the Strategy and Investment Committee.

Appointed 1 August 1988.

Following progress through a multi-functional retail career that began in 1975, Mark was appointed Managing Director of the ailing six-store Makro chain in 1988. After successful repositioning of the chain, he founded Massmart in 1990 to pursue an aggressive growth strategy in high volume, low gross margin, low expense retailing and wholesaling.

In 1996, he was appointed Executive Chairman of Massmart and from July 2003 CEO and Deputy Chairman of the Board. At the end of June 2007 he relinquished his executive role to become non-executive Chairman. His role as architect and leader of Massmart has been widely recognised with numerous awards including that of the Ernst & Young South African Entrepreneur of the Year in 2001.

Mark currently serves as Executive Chairman of Transaction Capital (Pty) Ltd, Chairman of Business Against Crime South Africa, and a director of Business Leadership South Africa.

His commitment to education has led to his involvement as a benefactor, director or adviser to a number of educational institutions, including the Wits Business School where he is an Honorary Professor and Chairman of the Advisory Board.



Chris Seabrooke (55)

BCom, BAcc, MBA, FCMA

Deputy Chairman of the Board and Lead Independent Director, member of the Remuneration and Nominations, Audit, and Strategy and Investment Committees.

Appointed 1 February 2000.

Chris has, over the years, been a director of over 20 JSE-listed companies. He is currently CEO of Sabvest Limited, Chairman of Metrofile Holdings Limited and Set Point Technology Holdings Limited, and a director of Datatec Limited. He is also a director of Net1 UEPS Technologies Inc, listed on Nasdaq in the USA. He is Chairman of Alternative Equity Partners Fund and a director of a number of unlisted companies including Primedia Holdings 1 (Pty) Ltd and Mineworkers Investment Company (Pty) Ltd. He is former Chairman of the South African State Theatre and former Deputy Chairman of both the inaugural National Arts Council and the founding board of Business & Arts South Africa.



Dods Brand (65)

Member of the Risk and Sustainability Committees.

Appointed 25 February 2003.

Dods was a career retailer from 1963 until his retirement in 1998 as Chief Executive of JSE-listed Moregro (Morkels Retail Group). He is Chairman and major shareholder of POSSE Consulting. He has served on the boards of a number of local and international listed entities and is currently an independent non-executive director of Avusa Limited and other private companies.



Zitulele ('KK') Combi (56)

Chairman of the Sustainability Committee.

Appointed 25 February 2003.

KK is currently the non-executive Chairman of Master Currency (Pty) Ltd, the executive Chairman of Thembeka Capital (Pty) Ltd, and a director of VAT Refund Administrators (Pty) Ltd, ABSA Advisory Board (Western Cape), Master Coin Limited, PSG Group, KLK Landbou Beperk, Iquad Group Limited, GRW Engineering (Pty) Ltd, Precrete-Nozala (Pty) Ltd, Vital Merchandising Services Holdings (Pty) Ltd and Combi and Co (Pty) Ltd. He is a member of the SA Institute of Directors, World Entrepreneur Academy, and World CEO Organisation. He has received numerous business and entrepreneurship awards in his career.



James ('Jim') Hodkinson (64)

Member of the Strategy and Investment Committee.

Appointed 25 August 2004.

During his long retail career, Jim was both Chairman and Chief Executive of B&Q plc, a subsidiary of Kingfisher plc. As Chief Executive of New Look plc, he transformed a family business to a public company with a multinational footprint. Currently, he is Chairman of Ultimate Products Limited and Furniture Village, both UK-based companies.



Phumzile Langeni (34)

BCom (Natal)

Member of the Sustainability and Audit Committees.

Appointed 25 August 2004.

Phumzile is Executive Chairperson of Afropulse Group (Pty) Ltd, a women-led investment and corporate finance house. She is currently the economic adviser to the Minister of Minerals and Energy. She was previously an executive director of dual-listed junior platinum miner, Anooraq Resources RSA (Pty) Ltd. Phumzile is a non-executive director of Imperial Holdings Ltd, Peermont Global (Pty) Ltd, the Mineworkers Investment Company (Pty) Ltd and the Port Regulator.



Nigel Matthews (63)

MA (Oxon), MBA (UCT)

Chairman of the Audit and Risk Committees, member of the Remuneration and Nominations Committee.

Appointed 1 November 2001.

During his career in the South African hotel and tourism industry, Nigel has served as Managing Director of Holiday Inn and executive Director of Rennies. He founded his own business, Sentry Group, which was sold to an international group in 2001. He is a non-executive director of City Lodge Hotels Limited, Sun International Limited and Metrofile Holdings Limited, and non-executive Chairman of The Fuel Logistics Group (Pty) Ltd, a privately owned logistics company.



Peter Maw (47)

BCom (Hons), CA(SA), HDip Tax Law

Member of the Audit, Risk, and Strategy and Investment Committees.

Appointed 25 February 2003.

Peter is a specialist in private equity and corporate finance and heads the private equity interests of the Oppenheimer family in South Africa. He was a founder of Primedia Limited and executive director from 1992 to 2003, responsible for all corporate finance activities. Peter remains a non-executive director and member of the Audit Committee of Primedia.



Dawn Mokhobo (59)

BA (Social Science)

Member of the Sustainability Committee.

Appointed 1 June 2002.

Dawn is a director of several companies, including Engen Limited, Nozala Holdings (Pty) Ltd and Sabvest Limited. She is also a director of the Financial Services Board Foundation Trust. She chairs African International Advisors, the Ombudsman's Council for Long-term Insurance, and is Deputy Executive Chairperson of Partnership Investments (Pty) Ltd.



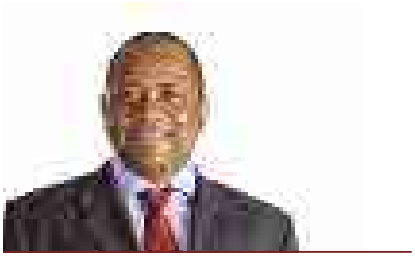
Michael Rubin (58)

BSc, MBA (UCT), MBA (Columbia)

Member of the Sustainability Committee.

Appointed 30 August 1990.

Michael worked as a specialised retail consultant in New York and Toronto for nine years and joined Massmart as Development Director in 1989. He left the Group in 1997 to pursue his interests in private equity management and property development.



Kuseni Dlamini (40)

BA (Hons)(KZN), MPhil (Oxon)

Chairman of the Remuneration and Nominations Committee.

Appointed 1 November 2006.

Kuseni Dlamini is the head of Anglo American South Africa and a member of the Executive Committee of Anglo American plc. He was Executive Chairman of Richards Bay Coal Terminal (RBCT) between 2005 and 2008. Kuseni previously worked for De Beers in South Africa and at its London office, and for AngloGold Ashanti's corporate office in Johannesburg.

After graduating cum laude with a BA (Honours) degree from Natal University in Durban, he went to Oxford as a Rhodes scholar, where he read for his MPhil degree. In March 2008, Kuseni was named a Young Global Leader by the World Economic Forum (WEF). During the same month, *Miningx* selected him as one of the top 100 most influential people in South African mining. In June 2008, South Africa's *Mail & Guardian* newspaper selected Kuseni as one of South Africa's top 200 young people you must take to lunch.



Dr Nolulamo ('Lulu') Gwagwa (49)

MSc (KZN), MSc (LSE), PhD (UCL)

Member of the Risk Committee.

Appointed 1 November 2006.

Lulu is Chief Operating Officer of Lereko Investments (Pty) Ltd. She was Deputy Director General in the National Department of Public Works, responsible for establishing the national public works programme, and completed a five-year term as the CEO of the Independent Development Trust. She has served on various government commissions, and is a non-executive director of FirstRand Limited, the Development Bank of Southern Africa and Sun International Limited.

Executive Committee



Grant Pattison (37)

BSc (Eng) (Hons) (UCT)

Chief Executive Officer, member of the Sustainability, and Strategy and Investment Committees.



Guy Hayward (43)

BCom, CTA (UCT), CA(SA)

Chief Financial Officer, member of the Risk, and Strategy and Investment Committees.



Jan Potgieter (39)

BCompt (Hons), CTA (Free State), CA(SA)

Divisional Chief Executive of Massdiscounters and Chairman of the Cellular Forum.

Jan's early career was spent in financial roles in various industries until becoming a business manager at Clover SA for three years. He then spent seven years at SA Breweries in senior financial roles, before joining the Massmart Group as Financial Director of Massdiscounters in 2005. In April 2007, he was appointed Managing Director of Massdiscounters and a member of the Massmart Executive Committee.



Kevin Vyvyan-Day (43)

BCom, BAcc (Wits), CA(SA)

Divisional Chief Executive of Masswarehouse, member of the Risk Committee and Chairman of the General Merchandise Forum.

After qualifying as a chartered accountant in 1989, Kevin consulted at both the Strategy Group (Deloitte) and Gemini Consulting. He joined UPD as Group Operations and Systems Director in 1995 and became Group Chief Executive Officer in 1996. Kevin joined Massmart as Divisional Chief Executive responsible for Makro and a member of the Massmart Executive Committee in 2005.



Aubrey Cimring (37)

BCom (Hons)(Wits), CA(SA)

Managing Director of Builders Warehouse, Deputy Divisional Chief Executive of Massbuild.

Aubrey was Financial Director at Choice Holdings Limited before joining Discovery Holdings Limited in the senior financial role. He joined Massmart as Group Financial Executive and Company Secretary in 2003, and was appointed to the Massmart Executive Committee in 2005. He was appointed Deputy Chief Financial Officer in 2005. In 2006, Aubrey joined the Massbuild division as Deputy Divisional Chief Executive and was appointed Managing Director of Builders Warehouse in 2007. He has resigned from the Group to emigrate and will leave on 14 November 2008.



Robin Wright (52)

BCom (Natal), CA(SA)

Divisional Chief Executive of Masscash and Chairman of the Food and Liquor Forum.

After graduating from Natal University with a BCom degree and qualifying with his CA(SA) in 1978, Robin spent six years in retailing and wholesaling at WG Brown before founding CCW in 1985. In 1998, he sold a controlling interest in CCW to Massmart and was appointed to the Massmart Executive Committee. He led the acquisition and integration of Browns and Weirs, and has spearheaded the growth of the Division to become South Africa's leading food wholesaler.



Gareth ('Joe') Owens (59)

Divisional Chief Executive of New Formats.

Joe joined Makro in 1971. He worked for the Checkers Group from 1978 to 1988 after which he returned to Makro as Merchandise Director. He was appointed Managing Director of Makro in 1993, Divisional Chief Executive of Makro in 1999, Divisional Chief Executive of Massbuild in 2005 and Divisional Chief Executive of New Formats in February 2008. Joe has 37 years of mass merchant, general merchandise and FMCG experience.



Jay Currie (34)

BSc (Natal)

Group Commercial Executive and Chairman of the TIP and Operations Forum.

Following a period managing Mala Mala Game Reserve and founding a small IT solutions provider, Jay joined Business Connexion as a network engineer before taking a position with Massdiscounters as IT Technical Manager in November 1999. He was appointed to the Massdiscounters board in 2002 as IT Director. In addition to his IT responsibilities, he assumed responsibility for the supply chain of Massdiscounters in 2003 and was appointed to the Massmart Executive Committee as Group Commercial Executive in 2006.



Pearl Maphoshe (40)

BA (Hons), HDipEd (Durban-Westville), MA (London)

Group Human Capital Executive, Chairperson of the HR Forum and member of the Sustainability Committee.

Pearl has worked for Telkom and Old Mutual. Prior to joining Massdiscounters, Pearl worked for Umgeni Water as General Manager: Corporate Services. Prior to assuming responsibility for Human Capital on the Massmart Executive Committee from August 2007, Pearl was Director of Human Resources at Massdiscounters. She brings broad experience in managing and developing human capital to the Group.



Brian Leroni (44)

BA (Wits), MPhil (Stellenbosch)

Group Corporate Affairs Executive and member of the Sustainability Committee.

Brian's work experience includes executive positions at Masstores (Pty) Ltd, an associate partner at Andersen Consulting (now Accenture) and Marketing Director at CNA. He joined Massmart as Group Projects Executive in September 2004 and was appointed Group Corporate Affairs Executive in September 2005. Brian joined the Massmart Executive Committee in July 2007.

Massmart's investment proposition

Massmart is a South African retail and wholesale distributor, with 220 stores in South Africa and 22 stores elsewhere in sub-Saharan Africa.

Massmart's investment proposition can be summarised as:

Strategic and structural clarity

- Through four focused divisions, each a leader in its target market and business model
- Where additional value is created through inter-divisional collaboration
- And behaviour is aligned through short- and long-term incentives
- While adhering strictly to organic and acquisitive growth criteria

Management depth, quality and diversity

- The 49 Group and Divisional Executives hold 87 degrees, have an average of 15 years of retail experience, an average age of 43 years, and 14% of whom are African, Coloured or Indian

Diversification

- Merchandise – Massmart is the third largest distributor of consumer goods in Africa, and is the leading retailer of general merchandise, liquor, home improvement and building supplies, and the leading food wholesaler
- Formats – trading through a variety of formats
- Customers – serving all mass-market consumers
- Geography – operating in 14 sub-Saharan African countries

Low risk

- Earnings underpinned by high cash generation
- Limited balance sheet financial leverage
- Conservative through-the-cycle store opening plans

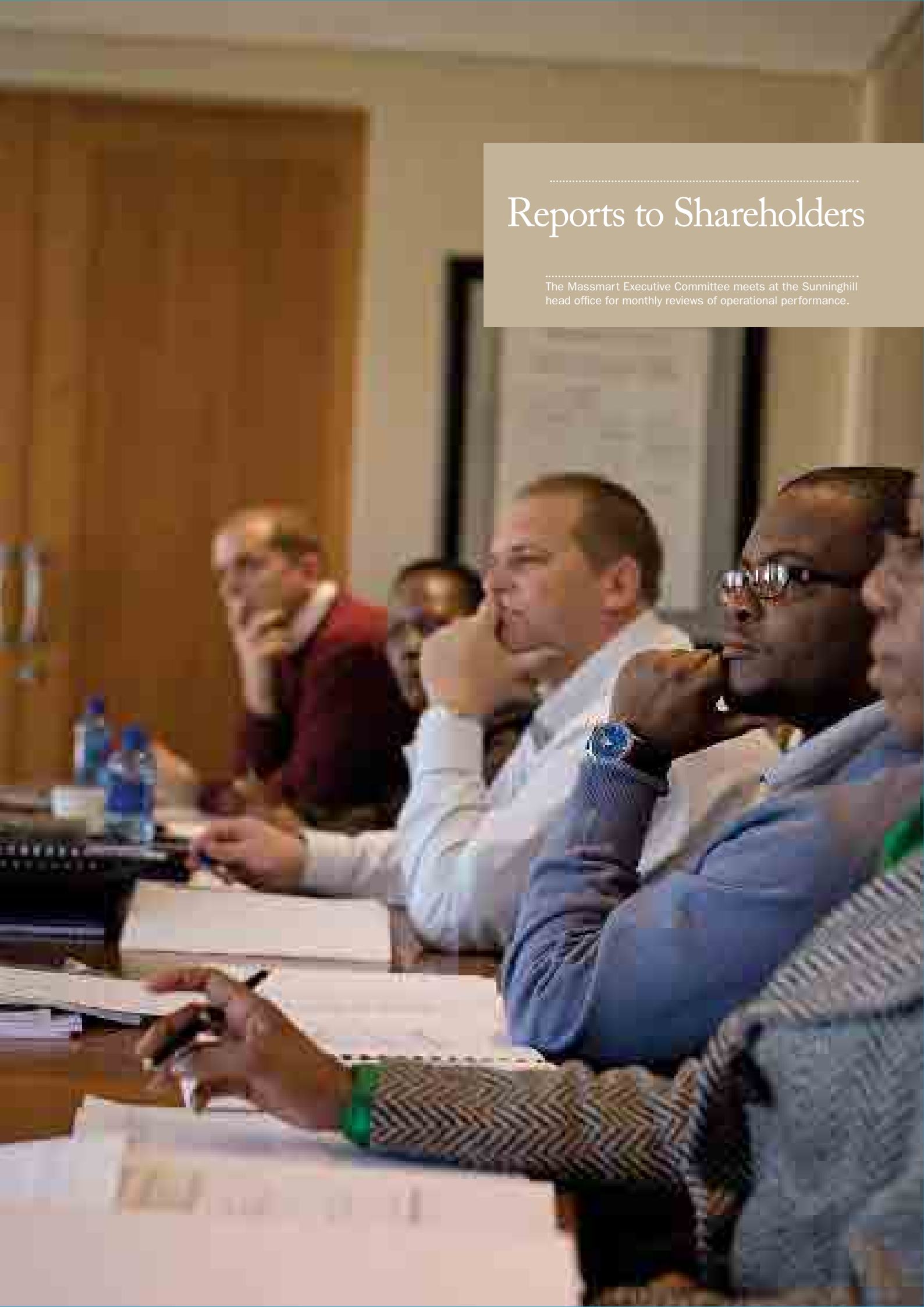
Good governance

- Board composition – two executive and 12 non-executive directors, 11 of whom are independent
- Long record of good disclosure
- Compliant with King II Report and the JSE SRI criteria
- Member of the Ethics Institute of Southern Africa

Growth

- Continuously improving the productivity of capital, space and labour
- Strengthening supply chain activities
- Upweighting Group private label efforts
- Inter-divisional collaboration
- Complementing store growth through targeted acquisitions and greenfields opportunities
- Consistent merchandise innovation

Reports to Shareholders



The Massmart Executive Committee meets at the Sunninghill head office for monthly reviews of operational performance.

“Over the past year we increased sales per store, per employee and per square metre…and we decreased operating expenses as a percentage of sales.”

MARK J LAMBERTI NON-EXECUTIVE CHAIRMAN

Chairman's report

In this environment and time, it is easy to be diverted from the primary purpose of a large business in a transforming society. The demands on the time, attention and resources of South African business are legion, with every constituency making claims founded frequently on interests that are diametrically opposed to the development of industry and commerce. We cannot be distracted by this.

With the average lifespan of a company still far from that of a human being, we at Massmart regard survival as our primary objective, reflected most obviously in the preservation and growth of your capital. The fact that we have been able to exceed this minimum requirement over the past year with a 53% return on average shareholders' equity and a 73% return on capital employed, is attributable to four things: strategic clarity; leadership; a quest for excellence in every aspect of our endeavour; and a proven commitment to satisfying the legitimate needs of all stakeholders. In addition to its fiduciary obligations as defined by the law and good governance practice, the Board of Massmart applies its collective competence to these issues.

Strategic clarity

We are clear that the sole objective of our strategic thought and action is the achievement of competitive advantage. For many years we have done this through the continual improvement of a high-volume, low-margin, low-expense business model that has enabled us to provide exceptionally low prices on an extensive range of products, to a broad spectrum of society in 14 sub-Saharan countries.

Over the past year we increased sales per store, per employee and per square metre, we reduced gross margins at the product level and we decreased operating expenses as a percentage of sales. Customer response to the consequent lower prices was evident in real comparable store sales growth in all Divisions – the ultimate vindication of a retail trading strategy. Concurrently, and notwithstanding our mass market position as one of Africa's largest distributors of consumer goods, we have mitigated risk by being selective in our choice of markets, sites, categories, products and payment methods. Finally, by virtue of productivity improvements, we have again grown profits ahead of sales to establish an 18-year compounded annual growth rate of 56,0% in sales, 75,8% in profit before tax and 26,7% in net asset value since the Group's founding in 1990.

Massmart's annual three-year strategic review ensures that there is continuity and coherence in the Group's strategic thinking, and this year the Board was delighted by the prospects for revenue and profit growth arising from the new initiatives tabled in Vision 2011, covered in detail in the Chief Executive Officer's review.

An important development since year-end has been the formation of the Strategy and Investment Committee of the Board. Although the Group's high cash generation will further reduce its low gearing over the coming year, it is likely that the number and size of opportunities facing the Group will require capital rationing decisions unlike those we have previously faced. The Strategy and Investment Committee was formed to enhance the quality of such decisions by facilitating a robust analysis and evaluation of options by the Board and executive management.



"We are clear that the sole objective of our strategic thought and action is the achievement of competitive advantage."

MARK J LAMBERTI CHAIRMAN OF THE BOARD

Leadership

For many years Massmart has adopted an innovative and oftentimes unconventional approach to human capital development in general, and leadership in particular. Nowhere was this more evident than in the CEO succession process. The ease with which all Massmart stakeholders have adapted to and embraced Grant's leadership is both a vindication of the process that the Board adopted and a tribute to his technical ability, business acumen and leadership stature.

The Executive Committee, the most senior executive decision-making body in Massmart, and their direct reports, constitute a young leadership cadre with the necessary formal education, retail and wholesale experience, and tenure to sustain performance and growth. The enhancement of their skills and those of the next generation of managers is carefully monitored and addressed in career and succession plans, which inculcate a developmental and performance ethos, while striving without compromising competence, for defined racial and gender targets throughout the Group. We can think of no greater insult than telling someone in Massmart that they hold their positions because of their race or gender.

The skills shortage in our country is no longer a matter of opinion. South Africa has too few competent managers, leaders, professionals and technicians of every race, gender and creed to meet our need. This need is being fuelled not just by South African factors such as transformation, rapid economic growth, the continued emigration of young graduates seeking international experience, and by some escaping the high crime rate. It is also being fuelled by the worldwide exit from the workplace of my generation – the baby boomers, by a decline, other than in India and South East Asia, of graduates in the quantitative disciplines, and by the fact that the market for top-level executives has become one of the world's few truly global markets.

Massmart's response to this has been to increase investment in education, training and to fast-track executive development programmes which accelerate individuals' competence and confidence to take the hard commercial decisions associated with accountability and responsibility for profits, assets and people. We intend to redouble these efforts.

"While the achievement of excellence is reward in itself, we are humbled by the public recognition of our accomplishments over the past year."

The quest for excellence

Every business is particularly good at something. Great businesses are good at many things. The reasons are obvious. As people imbibe the processes, practices and focus that lead to success in one aspect of an organisation's endeavour, lower standards of performance are exposed elsewhere and the motivation to address these is increased. Over time the quest for excellence becomes a way of life.

David Susman, the founder of Woolworths and one of South Africa's greatest retailers, described this as "divine dissatisfaction", a state of being pleased with progress, but never satisfied. This philosophy is deeply ingrained in the leadership of Massmart and evidence of continual learning is abundant.

While the achievement of excellence is reward in itself, we were humbled by the public recognition of our accomplishments over the past year.

The following were the most notable of these:

- First in the Financial Mail Top Companies Survey
- Top of the JSE retail sector in the Financial Mail/Empowerdex 2008 Top Empowerment Companies Survey
- The only company to achieve Top Performer Status in the 2007 JSE SRI-Index medium environmental impact category
- Massmart's 2007 Annual Report was ranked fourth in the Ernst & Young Excellence in Corporate Reporting Awards
- Massmart's 2007 Sustainability Report was ranked Best Sustainability Report, Non-Extractive Industries in the Association of Chartered Certified Accountants (ACCA) 2008 Sustainability Awards.

These awards are a tribute to every employee of Massmart and in my mind are almost equal in the quest for excellence, to the letters I receive from customers acknowledging a particularly satisfying shopping experience.

Satisfying stakeholders

The Massmart Vision lays out our objectives in our relationship with stakeholders.

We believe that our commitment to you as one of Massmart's 10 817 owners are fulfilled only by ensuring enduring, productive relationships with other stakeholders and by establishing a reputation as a trusted, patriotic corporation in touch with the evolving needs and aspirations of our unique society. To this end we invest time, effort and money in canvassing and responding to the needs of our current and prospective stakeholders.

Whenever possible, we interact proactively with consumer bodies, industry forums, organised labour, non-governmental organisations, political parties, thought leaders and law makers on matters of importance to the performance and future of our business and industry.

We are committed to playing a constructive practical role in the normalisation of our society and we see no better way to do this than through collaborative and influential relationships with stakeholders.

Finally, and possibly most importantly, we recognise the importance of our stewardship of the planet. We have measured our carbon footprint and are determined to reduce it.

Governance

Our compliance with the letter and spirit of good governance practice is reported on fully elsewhere, compromised only by the Board's decision to appoint me non-executive Chairman. My independence – as defined in the governance literature – is negated by my tenure and prior role as CEO. Both I and the Board are mindful of this, and Chris Seabrooke's role as non-executive Deputy Chairman and Lead Independent Director is one taken seriously and utilised when necessary by all. We encourage shareholders to do the same.

Notwithstanding the above, the skills and diversity of the Board are well matched to your Company's needs, and the allocation of committee responsibilities ideally aligned to the qualifications and experience of the Chairpersons and members involved. The Board's independence is assured by 11 of its 14 members being independent non-executive directors, as are the Chairs of the Audit, Remuneration and Nominations, Risk, and Sustainability Committees.

Appreciation

Massmart is a large, complex organisation that in the past year handled billions of transactions, millions of customers and over two hundred thousand line items through 242 large stores in 14 countries.

The relative ease with which this happens belies the risks associated with this scale and complexity and it would not be possible without the wisdom of a diligent Board, the leadership of a talented CEO, whose performance in his first year has been flawless, the creativity and energy of an extraordinary executive and managerial group, the loyalty and competence of our 24 308 employees, and the support of our suppliers, bankers and professional advisers. On behalf of the Board I thank them all.

On a personal note, I record my appreciation for the support and counsel of my Board colleagues throughout the year and their presentation of a 20-year service award at the August 2008 Board meeting. That scroll meant more to me than any of you can imagine.

Looking forward

Economic cycles are a business reality. Massmart's superior relative performance over the past year reinforces your Board's conviction that the assets, resources, capabilities, controls and leadership of Massmart have been configured to withstand the less-than-favourable trading conditions that will prevail in the short term, and to prosper in the better times that will inevitably follow.

Further reading

Vision and mission can be found at the beginning of the report 3

MASSMART AT A GLANCE

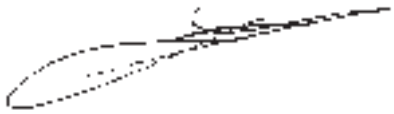
"We are committed to playing a constructive practical role in the normalisation of our society and we see no better way to do this than through collaborative and influential relationships with stakeholders."

Presidential transitions are a democratic reality. Your Board is concerned that ours is proving to be as divisive as it is. In contrast to the past, and despite despicable but thankfully isolated racial incidents, the basis of division in South Africa today is not race, but political allegiance. Were it not coloured by attacks on the constitution, the judiciary and the rule of law, the reckless public rhetoric surrounding this could be dismissed as electioneering. It is not, and the unashamed assault on the pillars of our democracy cannot be tolerated under any guise of national interest.

In difficult times, criticism of capitalism is a social reality. Business must respond. Confronted with critique that seeks to vilify all businesses based on the behaviour of very few, and legislators who place votes above efficiency, the South African business community must stand proud as the unapologetic bastion of free market economic activity and growth, the major creator of employment (unionised or not), and the originator of a corporate and personal tax base that funds our institutions of democracy, pays our politicians and civil servants, and creates a social safety net for the most disadvantaged.

Ours is a region of extraordinary opportunity and challenge. The opportunity is in the abundance of our natural resource, the challenge is in the underdevelopment of our human resource. Business has a central role to play in redressing the latter by investing time, effort and resources to enhance education and training, accelerate the acquisition of skills and experience, develop competent leaders, and more broadly share power and profits at all levels of our organisations. Finally we must engage and collaborate more generously with government and civil society to address all matters of national concern, very few of which will be solved without the innovation, creativity and focus resident in business.

Massmart stands ready to play its part.



Mark J Lamberti
Chairman of the Board

1 October 2008

Chief Executive Officer's review

It is a pleasure to present my report on my first year as CEO of Massmart. Even though it was a challenging year, we managed to deliver a strong overall performance thanks to a balanced contribution from the four Divisions. The economic cycle was clearly gaining downward momentum, but we proved that the Group is able to ride through the troughs.

The year began with my taking on the role of CEO after a three-year succession process and ten years with the Group. The process ensured that I have been able to take on the role well prepared for the challenges of managing the Group. My thanks are due to Mark Lamberti, who left the CEO position to become Chairman, the rest of the Board and the Executive Committee for their support and confidence. I remain inspired by the calibre of the team at Massmart.

Environment

Many challenges tested the country over the past year, some fuelled globally and some locally. The political temperature rose as the ruling party elected new leadership, shifting the balance of power. Crime remained a serious issue, though some victories were scored in bringing it under control. Maintaining and growing the country's infrastructure came under close scrutiny as a result of load-shedding by Eskom.

Food and energy inflation continued to drive general inflation, forcing interest rates higher and putting the middle-income consumer under pressure. It also put low-income consumers, who are living hand to mouth and struggling daily to feed their families, under even greater pressure. This has challenged both government and ourselves to redouble efforts to provide support to those who cannot support themselves.

Financial performance

The economic environment was reflected in the trading patterns across the Group. Food and liquor sales grew 17,1%, general merchandise sales growth was steady at 11,2%, while home improvement sales grew 14,4%, although this growth slowed during the year.

For the 53 weeks to 29 June 2008, total sales grew 14,3%. Comparable store sales – which measures sales in stores that were open for the full financial year and the year before – grew at 13,1%. Operating profit increased 24,6% and profit before tax increased at a slightly slower rate of 24,1%. The difference was largely due to increased interest costs because of higher interest rates and a slightly worse working capital position during the year. A lower net tax rate and fewer shares in issue boosted headline earnings per share by 23,8% before accounting for our Thuthukani empowerment scheme.

Analysis of the financial results is complicated by the 53-week period, which is compared to the 52-week period the year before. To better understand the operating performance relative to the prior year, we need to review the results for the 52 weeks to 23 June 2008. For that period, total sales grew 11,9% and comparable store sales grew 10,8%. Operating profit increased 17,7% and profit before tax increased 20,7%.

A further consideration is the impact of foreign exchange gains on these financial results. Because of the accounting treatment of various items on the income statement and the balance sheet, the movement of the Rand exchange rate can cause large (mostly unrealised) losses or profits. For the period, translation gains amounted to R62,5 million, or 3,7% of the growth in operating profit. Therefore, a truer reflection of performance is that operating profits grew 12,5%, maintaining operating margin from the previous year.

The Chief Financial Officer's review provides a detailed financial analysis.



"We are pleased with the performance of the Group across all areas, although we still see much room for improvement in our pursuit of world-class standards."

GRANT PATTISON CHIEF EXECUTIVE OFFICER

Operating performance

For the 52-week period, Masswarehouse and Masscash produced strong profit growth while Massdiscounters and Massbuild did well to grow profits at or near their rate of sales growth. The Divisional figures below represent the growth for the comparable 52-week period. A fuller discussion of each Division's performance is in the Operational Review.

Further reading

More detail on the Divisions can be found in the Operational Review 55

OPERATIONAL REVIEW

Massdiscounters

Massdiscounters consists of the 83-store General Merchandise retail discounter Game and the six-store hi-tech retailer Dion Wired. Game trades in South Africa, Namibia, Botswana, Zambia, Uganda, Mozambique, Mauritius, Malawi, Tanzania, Nigeria and Ghana.

Massdiscounters had a challenging year although much progress was made in implementing various initiatives that will pay off in years to come. Sales increased 7,5% (7,6% on a comparable store basis) and profit before tax by 9,5%. In South Africa, comparable sales grew throughout the year thanks to investment in trading aggression and a shift in focus towards value. African sales and profits performed at substantially higher levels than in South Africa. Locally, the National Credit Act reduced the Division's trading profit by an estimated R30 million.

However, future growth is on track thanks to investment in several areas. African expansion gained momentum with at least ten new potential sites identified, two of which were recently approved. The debtors book was sold and outsourced the day after the financial year-end. The original Dion brand was finally removed through store closures and conversions, while a new regional distribution centre was recently commissioned in Cape Town. The Dion Wired format was also successfully established as a profitable national brand focused on the high-tech consumer market, and three new stores were opened. Four new Game stores were opened and two Dion stores converted to the Game format. Two other Dion stores were closed and five Game stores closed.

The team is in good shape with a new Financial Director and HR Director settled in.

"…Massdiscounters and Massbuild did well to grow profits at or near their rate of sales growth."

Masswarehouse

Masswarehouse consists of the 13-store Makro warehouse club, trading in food, general merchandise and liquor in South Africa. A further two Zimbabwean stores are not consolidated in the results.

Masswarehouse had a good operating year. Sales increased 14,7% (10,5% on a comparable store basis) and profit before tax 34,4%. Margins, cost and stock remain under tight control. Its unique formula demonstrated its resilience in the tightening economic environment while management responded to trading opportunities faster than competitors.

The new Silver Lakes Makro store had a record opening and subsequent trading has been pleasing, although the performance of food is below expectations. Cannibalisation has been within forecast levels.

A major upgrade to the SAP ERP system was also implemented faultlessly.

We believe that there is potential for at least four more Makro stores to be opened in South Africa. The challenge, however, is to identify new properties that are well situated at appropriate prices. We continue to pursue opportunities.

Massbuild

Massbuild consists of 68 outlets trading in DIY, home improvement and builders' hardware, under the Builders Warehouse, Builders Express and Builders Trade Depot brands in South Africa.

Sales increased 12,4% (9,0% on a comparable store basis) and profit before tax by 7,8%. Trade Depot had a particularly good year with sales up 12,6% and profit before tax up 27,4%.

Activities during the year were focused on stabilising the structure of the business, processes and control following the previous year's rapid consolidation of brands and systems. During the year the Massbuild head office was removed and Builders Express was consolidated within Builders Warehouse. A number of processes and systems were upgraded and improved, including those handling imports, supply chains and stock management. One new Builders Warehouse store and three new Builders Express stores were opened.

The teams at both Warehouse and Trade Depot are now complete and performing well.

Masscash

Masscash consists of 71 Cash and Carry stores trading in South Africa, Lesotho, Namibia and Botswana, and Shield, a voluntary buying association.

The Division had an exceptional year. Sales increased 13,2% (14,3% on a comparable store basis) and profit before tax by 38,5%. The performance was driven by high food inflation of 13,3% for the year and by benefits extracted from the merger of CBW, Jumbo, Shield and Cell-Shack the previous year. Food inflation fed into sales and trading margin, while the merger successfully eliminated costs.

"…Masswarehouse and Masscash produced strong profit growth…"

There were two main strategic thrusts for the year: to test the rollout of a new in-store system and to implement the hybrid strategy. The system rollout test was successful and final approval for the rollout has been given. By the end of this financial year we should have all the Cash & Carry stores on one system with one stock master file – a major achievement.

The hybrid strategy aims to develop a store format that includes both retail and wholesale food. This gained momentum with the acquisition of ten stores with combined R1,0 billion in annual turnover that are awaiting competition authority approval and a further five stores that are still being negotiated.

The Masscash team is in good shape. During the period Operations Director Fred Cresswell moved to the Trade Depot business. This resulted in a reshuffle in which Neville Dunn moved from Financial Director to Operations Director and Dino Holmes from Financial Manager to Financial Director. We are in the process of appointing a new Financial Manager.

Progress on vision 2011

Vision 2011 covers our focus on leadership and transformation, supply chain, private label, financial services, organic growth, new formats and sustainability, all of which represent the headlines of our three-year rolling strategic plans.

Emigration and the general skills shortage is seen as a priority risk in the Group, so we are focusing on building our skills base internally. The year saw 42 executives and senior managers participate in Massmart University programmes and the participation of all senior management across the Group in a diversity management programme. Another ten executives participated in a Walton College of Business programme during the year. In total, 17 black graduates completed our in-house programme and were appointed to roles across the Group, while a further 17 are already in the pipeline. We have planned to increase the intake to 25 per year. Our annual Black Economic Empowerment scorecard saw an improvement by 13 percentage points in our self-assessed rating to 49%, making Massmart a level 6 contributor.

"The completion of the regional distribution centre in Cape Town marks a new era of logistics for Massmart…"

The completion of the regional distribution centre in Cape Town marks a new era of logistics for Massmart, but we still have much to learn. We have also learnt a lot in space planning by examining best practice overseas and a trial is under way of a new methodology. We have also established automatic replenishment systems in all retail divisions.

A complete rework was undertaken of some of the Group's private label brands – those brands which are exclusive to Massmart – and the foundation has been set to improve the quantity and quality of our participation in some of the biggest consumer brands in Africa. We now have the ambition to become one of the leading owners of consumer goods brands in South Africa.

On the financial services front, we completed the sale of the Massdiscounters book just after year-end and will look for leverage opportunities across the Group in future.

Our organic growth has continued, and will continue to ensure we have an up to date, optimally structured portfolio. The latest review of our store opening opportunities shows potential for unweighted space growth of 5,1%, 6,0% and 3,5% in 2009, 2010 and 2011 respectively. That suggests a net 25 new stores across the Group, including 147 698m^2 and R3,66 billion in annualised turnover. That scenario excludes any acquisitions. However, our efforts to deliver on that opportunity have been frustrated by bureaucracy and unrealistic price expectations for land, resulting in slower store opening progress than the potential suggests.

Our greenfield formats have done well – Dion Wired has now established six stores and is profitable. We have identified further sites and are talking to landlords.

Further reading

For detail on new stores target and new trading space target refer to the 'Looking forward' section 6

MASSMART AT A GLANCE

We also continue to look for more growth in Africa. During the year we found a number of fantastic sites on the continent and we are working on further store openings. We have also established a New Formats division and have made exciting progress with preparations to enter new categories with new formats.

We also continue to look out for acquisitions that comply with our strategic objectives. We have identified targets and continue to evaluate opportunities as they arise.

Sustainability is the final area in our vision for 2011. We have made good progress in improving our BEE scoring and we now rank as the most empowered listed retailer. We received a number of plaudits for our Sustainability Report. We have also now calculated the carbon footprint in the Group and are working on ways to improve it, including a pilot e-waste recycling project begun during the financial year. We also continue to build environmental awareness in our procurement processes and are bringing suppliers on board to improve overall energy consumption, packaging use, food sourcing and water consumption.

Prospects

Trading in the new financial year has been good. The resilience of Massmart through previous economic cycles gives us confidence that we will continue to perform well relative to our competitors trading in similar categories. This short-term cycle presents both opportunities and threats as consumers adjust their purchasing behaviour to accommodate higher food, energy and interest costs. Parts of the Group will benefit as consumers 'trade down' to take advantage of our value proposition relative to other retailers. Other parts of the Group will have to adjust to the new environment. We are closely monitoring the effects of the interest rate cycle on our relatively new home improvement business.

"In the 13 weeks to 28 September 2008, total sales increased 13,1% and comparable sales increased by 11,8%."

We are confident in the medium- to long-term scenario for the South African consumer economy. It will continue to benefit from a growing middle class, a general shortage of housing, the social spending programme and the downstream economic benefits from the country's infrastructure investments.

Africa also continues to provide opportunities as its economies respond to improved governance and higher commodities prices.

We are pleased with the performance of the Group across all areas, although we still see much room for improvement in our pursuit of world-class standards.

Given the current economic environment, we are cautious about the year ahead but are confident that our business model will prove its resilience. We remain excited about the opportunities that are available to ensure medium- to longer-term growth.

Appreciation

In my first year as CEO I have benefited from the support of the Executives and Board and thank them for their contribution to the CEO hand-over process. I am very grateful for their ongoing commitment to the Group and their exceptional contribution to our success.

I am well aware that financial success is a lagging indicator of human performance. Every one of our 24 308 employees has contributed to the Group's performance, evident particularly during a time of tightening retail conditions. Thank you.



Grant Pattison
Chief Executive Officer

1 October 2008

Chief Financial Officer's review

We continually strive to improve the quality and relevance of Massmart's public financial reporting. It is also necessary to ensure that our technical disclosure is of the highest standard, while keeping the details and explanations clear and simple even as the accounting standards become increasingly complex and technical. We believe these efforts were recognised earlier this year when the Massmart 2007 Annual Report was judged fourth overall and awarded an Excellent rating, the second consecutive such rating, in the Ernst & Young 2008 Excellence in Corporate Reporting Awards.

Financial targets

The Group has clearly stated medium-term financial targets or measures that we believe represent optimal performance levels within the income statement, balance sheet, or the combination of both. Certain of these targets are 'stretch targets' that will only be achieved in the medium term and are 'through-the-cycle' targets meaning that during a strongly negative or positive economic environment, we may under- or over-perform against those targets.

These target ratios are shown below.

Medium-term target ratios	Definition
ROS > 5,5%	Return on sales (ROS) is the ratio of operating profit before tax to sales
ROE > 35%	Return on equity (ROE) is the ratio of headline earnings to average ordinary shareholders' equity
Gearing < 30%	Gearing is the ratio of average long-term interest-bearing debt to average ordinary shareholders' equity
Dividend cover of x 1,7	Dividend cover represents the ratio of headline earnings to dividends paid to ordinary shareholders

Return on sales (ROS)

This ratio combines all the key income statement elements, being sales, gross margin, supplier income, expenses (including depreciation and amortisation), and net interest. Every important financial aspect of the retail or wholesale business model is therefore captured in this ratio. In addition, the largest asset investment in the Divisions is net working capital (being inventory and trade receivables), less the associated funding liability (in trade payables). The relative success of management's impact on net working capital will therefore be reflected in changed net finance charges or receipts from one year to the next.

The Divisional ROS targets can be found in the 'Looking forward' section on page 6 and the Operational Review on pages 60 to 83. As a Division reaches new levels of trading or operating efficiency that we believe are permanent, then that Division's target ROS is increased. The Group's target ROS is derived by applying each Division's target ROS to its actual sales.

In the 'Looking forward' section we refer to trading ROS. The difference between trading profit before tax and EBITA is the corporate net interest of R293,6 million (2007: R185,9 million) and the IFRS 2 charge of R67,1 million (2007: R54,3 million) relating to the BEE transaction.



"…the Massmart 2007 Annual Report was judged fourth overall and awarded an Excellent rating…"

GUY HAYWARD CHIEF FINANCIAL OFFICER

Progress to date – Massmart's current ROS is 5,3% (prior year 4,9%). Massmart has grown its ROS every year since 2000 and we believe that the target of 5,5% remains achievable in the medium term.

Return on equity

Massmart is committed to delivering superior returns to shareholders. The Group's medium-term targets are to exceed a 35% return on average ordinary shareholders' equity.

Progress to date – Massmart's current return on average shareholders' equity is 53,0% (2007: 52,3%).

The Divisions are responsible for delivering *operational* returns, being the returns to net working capital and non-current assets excluding goodwill and trademarks. In addition to these operational returns, Massmart, through the Board and Executive Committee, is responsible for delivering *investment* returns that will also include the book value of intangibles (raised on acquisitions or otherwise), as well as setting the Group's gearing levels that will influence returns to shareholders and the overall risk profile.

As part of this, the Divisions are recapitalised annually by Massmart with non-interest-bearing shareholders' funds that are equivalent to the book value of long-term assets in each Division. Each therefore must fund its net working capital position through cash or interest-bearing debt, depending upon the characteristics of that business model. This process enables divisional returns to be evaluated and compared on a consistent basis across the Group, and from one year to the next. This policy has not yet been rigidly applied in CBW owing to minority shareholders in that business.

Depending upon the purchase price, retail and wholesale acquisitions tend to generate significant accounting goodwill owing to the relatively low net asset values of those business models. Adjusting for goodwill and trademarks previously written off in 2001 (ie reversing accounting write-offs previously allowed under GAAP), the Group's return on average shareholders' equity is 41%.

Gearing

Given the Group's high cash generation and our preference for leasing rather than owning most stores, it is difficult to permanently and meaningfully gear (ie maintain a net interest-bearing debt position) the Group over the long term. Massmart prefers some level of gearing, up to a maximum of 30%, in order to leverage the return on shareholders' equity but without introducing excessive financial risk to the Group. It should be noted that our stores' lease obligations represent a significant form of permanent gearing (these lease obligations currently represent a discounted present value of approximately R3,2 billion). As regards financing any acquisitions, depending on that company's cash profile and cash generation ability, this gearing ratio may be increased, but probably to no higher than 50%.

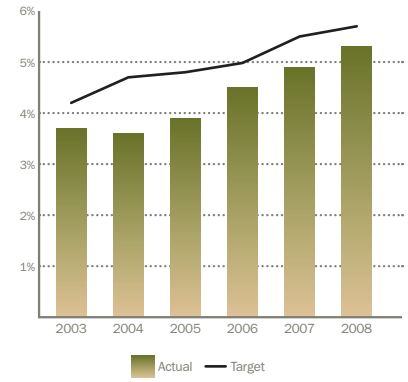
As the period-end balance sheet tends to be unrepresentative of the Group's average net cash or debt position during the year (showing higher cash balances as monthly creditors are paid after month-end), the Group's gearing levels can be calculated using the net interest paid (or received) for the period as a proxy.

Progress to date – the Group's gearing was 9,8% (2007: 18,0%) for the financial year.

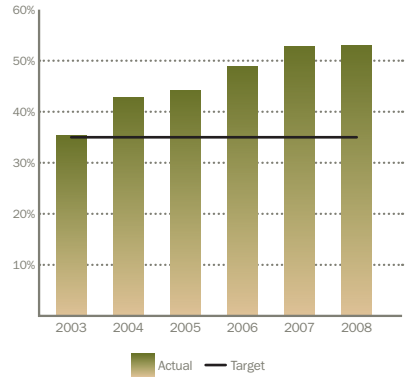
Dividend cover

Massmart's current dividend policy is to pay total annual cash distributions representing a x 1,7 dividend cover ratio, unless circumstances dictate otherwise. The reference point for the calculation is headline earnings, which includes the effect of the Thuthukani IFRS 2 change and associated dividend. This ratio is not a target – because it is already being achieved – but is disclosed to give shareholders clarity on future dividend levels. The Board believes that this dividend cover ratio is appropriate given the Group's current and forecast cash generation, planned capital expenditure and gearing levels.

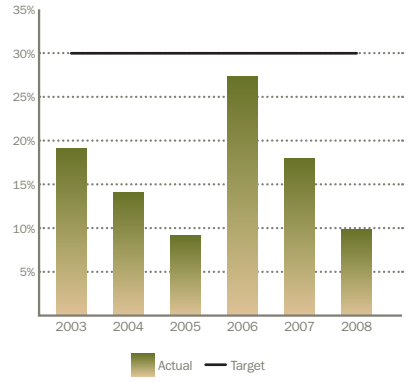
Return on sales



Return on equity



Gearing



The Board has no desire to build up a cash reserve and so will, where practical, reduce dividend covers and/or may execute a share buyback – depending upon the current share price and our view of its valuation – in order to return surplus cash to shareholders.

Historical dividend cover ratios:

	2008	2007	2006	2005	2004	2003
Dividend cover	x 1,7	x 1,7	x 2,0	x 2,0	x 2,0	x 2,5

"…immediately following the close of the 2008 financial year, the Massdiscounters' consumer credit business… was sold for cash…"

Acquisitions

There were no major acquisitions concluded during the financial year.

Disposals

With effect from the day immediately following the close of the 2008 financial year, the Massdiscounters' consumer credit business and associated debtors book was sold for cash of R174 million. This disposal therefore has no effect on the 2008 financial figures, apart from the net asset position associated with that business being reflected as 'Assets held for sale.' For 2009 this disposal will have no effect on the Group's financial performance but thereafter should contribute positively to Massdiscounters' profit.

Accounting policies

There were no significant changes in accounting policies during the year.

Since 2007, the results for Makro Zimbabwe have been deconsolidated as Massmart can no longer be said to be controlling the day-to-day management of that business following legislative changes in that country. Control is defined as "the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities". The financial effect is minimal.

For more details, see note 6 in the annual financial statements on page 123.

Further reading

The accounting policies can be found in the Group Financial Statements 113

GROUP FINANCIAL STATEMENTS

Black Economic Empowerment staff equity issue

Massmart's Black Economic Empowerment (BEE) staff equity issue was effective from October 2006 and so its financial impact had not yet fully annualised in the 2008 financial year.

Full details on this BEE staff equity issue were published in the June 2006 shareholders' circular but the main financial points are repeated below:

- Equity representing 10% of the Massmart ordinary issued shares, pre-dilution, or 9,1% post-dilution, was issued.
- There were two categories of participant, being the General Staff and Scarce Skills, and separate trusts were formed for both.
- Although the underlying instrument is effectively an option with a strike price of R49,98, the actual legal instruments are two classes of preference shares. The reason preference shares were used was to give the participants voting rights and, in one case, a right to dividends as explained below.
- The first category, 'A' preference shares, was a once-off issue to the General Staff trust, called the Thuthukani Trust, for the benefit of all 14 500 permanent employees in the Group at that time. These shares have voting rights equal to those of ordinary shares and have a right to dividends on the following basis: 25% of the ordinary dividend in year 1 (being 2007), 50% of the ordinary dividend in year 2 (2008), 75% of the ordinary dividend in year 3 (2009), and 100% of the ordinary dividend in year 4 (2010). These 'A' preference shares are converted into Massmart ordinary shares, for the direct use or benefit of each beneficiary, in three equal annual tranches commencing on 1 October 2010.
- The second category, 'B' preference shares, was issued to the Scarce Skills Trust for the benefit of current and future black managers in the Group – and so there will be ongoing issues from this Trust. These shares have voting rights but do not attract dividends. These shares can convert into Massmart ordinary shares, for the direct use or benefit of each beneficiary, in four equal annual tranches commencing from the end of the second year of the issue date.

At the effective date, the total IFRS 2 *Share-based Payment* charge arising from this BEE staff issue was R373 million. In terms of IFRS 2, this amount must be amortised over the life of the scheme, being six years, commencing from 1 October 2006. The current year's charge was R67 million (2007: R54 million, for a nine-month period) and the charge for 2009 is anticipated to be R75 million. Current South African tax legislation does not allow any tax deduction associated with this non-cash charge.

Using the total IFRS 2 charge of R373 million relative to the Group's market capitalisation at the same date suggests that the total likely dilution to ordinary shareholders of this transaction will be 3,3%. This total, however, does not take into account forfeitures by employees which will reduce the dilution effect. In terms of IFRS 2, the BEE transaction is not yet dilutive, owing to the adjusted strike price, including the IFRS 2 charge, being higher than the average share price over the year.

Impact of the 53rd week

Like most major international retailers, Massmart runs its internal accounting and administrative timetable using the retail calendar which treats each financial year as an exact 52-week period. This has the effect of a day per year being 'lost' which is then caught up every seventh year by including a 53rd week in the financial calendar. This is not an 'artificial' week – the Group's earnings and cash are higher as a result of trading during this week.

"All figures in this report are for the 53-week period, unless noted otherwise."

This additional week includes sales, the associated gross margin and a limited amount of variable expenses. The estimated impact of the 53rd week is shown below.

- Sales were R826 million. Total sales growth for the 52-week period was therefore 11,9%.
- Profit before taxation of R86 million. Growth in profit before taxation for the 52-week period was therefore 18,7%.
- Headline earnings of R56 million. Growth in headline earnings for the 52-week period was therefore 16,5% and growth in headline earnings per share 17,3%.
- During the 53rd week the Group's monthly supplier payment cycles commenced, which had the effect of reducing the amount of creditor funding in our working capital.

The 53rd week has two other major consequences, namely that the final dividend declared in this second half is higher than would usually be the case, and that growth in the second half of the 2009 financial year will appear relatively muted compared to this 27-week period.

All figures shown in this report are for the 53-week period, unless noted otherwise.

Income statement

This review covers the consolidated income statement and the related notes.

Sales

The Group's average product inflation rate for the 2008 financial year was 7,5%. Our General Merchandise prices for the financial year, using the Group's sales mix, averaged inflation of 1,1%. Food inflation remained high, particularly in commodities where price inflation was as high as 20% in certain categories. Combined product inflation for the Group's Food and Liquor was 12,5%, while Home Improvement reported inflation of 7,5%.

Although there is some pressure on product prices from South African core inflation rising, this is expected to abate slightly from the first quarter of calendar 2009 owing to the base-effect. We are expecting average Group inflation to be 7% for the 2009 financial year.

Total sales of R39 784 million increased by 14,3% over 2007. Comparable stores' sales growth for the 52-week period was 10,8%, non-comparable stores added 1,5% and the 53rd week added another 2,0%.

Further reading

The consolidated income statement and related notes can be found in the Group Financial Statements 109

GROUP FINANCIAL STATEMENTS

Detailed commentary on Divisional-specific issues can be found in the Operational Review 55

OPERATIONAL REVIEW

During the financial year the Group opened 12 new stores and closed eight stores, thereby increasing its trading area by an unweighted 1,9% to 1 012 784m² (unweighted meaning that the new space has not been proportionately adjusted if only open for part of the financial year). Although 7,3% new space was opened, the closure of the original Dion format stores resulted in significantly lower growth in net space.

"During the financial year the Group opened 12 new stores and closed eight…"

Details of stores changes are:

- In Massdiscounters, one Game store was opened in Gauteng, one in KwaZulu-Natal, one in North West and one in the Eastern Cape.
- Also in Massdiscounters, four new-format Dion Wired stores were opened: three in Johannesburg and one in Durban.
- Makro opened a new store, for the first time in three years, in Silver Lakes, to the east of Pretoria.
- In Masscash, the Jumbo store in Nelspruit was closed.
- In Massbuild, Builders Warehouse opened a store in Nelspruit and Builders Express opened three stores in the Johannesburg area.

Gross profit

Gross profit of R7 302,2 million reflects an 18,35% gross margin that is just higher than the prior year's 18,31%. Two factors influenced this: lower gross margins in Massdiscounters as we invested in product pricing to improve our price perception, and slightly higher gross margins in CBW owing to food inflation in that business.

The Group's gross margin will always be dependent upon the sales mix across the Divisions and the required trading aggression occasioned by competitor activity, but is expected to improve marginally over time owing to the increased contribution from the faster growing Massbuild division. Gross profit includes rebates and other forms of income earned from suppliers as well as ongoing revenue from sales of cellular products and airtime.

Other income

Other income of R161,2 million (2007: R157,1 million) comprises royalties and franchise fees from in-store third parties, property rentals, investment income excluding interest, finance charges from Massdiscounters' consumer credit book, and sundry management and administration fees.

Further reading

Other income is shown in more detail in note 3 in the Group Financial Statements 121

GROUP FINANCIAL STATEMENTS

Expenses

Total net expenses of R5 378,3 million (2007: R4 855,7 million) represent 13,5% of sales, an improvement on the prior year's 14,0% of sales. Included in 'Other operating costs', however, is a net unrealised gain on foreign exchange transactions and translations of R62,5 million (2007: R41,4 million loss). Adjusting for these amounts changes the expense ratios to 13,68% for 2008 and 13,83% for 2007, still reflecting better expense management performance. There are other large items included in total expenses that are discussed in more detail below.

Owing to ongoing store refurbishments and new stores, the depreciation and amortisation charge of R302,5 million (2007: R267,2 million) increased ahead of sales growth, and will continue to increase as it reflects the higher capital costs of this expansion. Makro, Game and Builders Warehouse have been refurbishing their stores, resulting in higher depreciation charges, compounded by the new Makro store with new capital expenditure of R61 million.

As a result of the annualisation of depreciation arising from the capital expenditure on new stores in 2007/08, and that arising from the new store expenditure scheduled for 2009, the Group's depreciation charge for 2009 will grow by more than the rate of sales growth.

Employment costs, the Group's single largest cost category, of R2 736,2 million (2007: R2 449,8 million) are 11,7% higher than the prior year. Included in these figures are IFRS 2 *Share-based Payment* charges totalling R109,1 million (2007: R73,3 million) which are significantly higher owing to the annualising of the IFRS 2 charges associated with the Thuthukani BEE Staff Scheme. Excluding this IFRS 2 charge, total employment costs are 10,5% higher than the prior year and, at 6,6% of sales, an improvement on last year's equivalent figure of 6,8%. The Group employed 0,5% fewer employees (on a full-time equivalent basis) compared to 2007, despite several new stores, as IT-driven in-store labour scheduling improved the use and rotation of our employees during their working days. Most of this reduction occurred in the fourth quarter of the financial year.

For the forthcoming financial year the Group's salary increases are between 8% and 10% and the wage increases, which have all been finalised, are in a similar range.

"For the forthcoming financial year…wage increases…have all been finalised…"

Occupancy costs, the Group's second biggest operating cost, increased by 13,8% to R962,7 million (2007: R846 million). As a percentage of sales, this figure, at 2,42%, is very similar to the prior year equivalent of 2,43%. Total net trading space increased by 1,9%. The lease-smoothing accounting policy applicable to operating leases (thereby affecting store leases) has the effect of keeping comparable-store lease charges broadly equal from one year to the next, and so any increase between the years would be from new stores. Another effect of this accounting policy is that annual lease escalations no longer increase the Group's lease charge. Adjusting for the non-cash lease-smoothing adjustment in both years shows that annual cash occupancy costs increased by 12,8%.

The three major cost categories described above represent almost 74% of the Group's total expenses.

Other significant items

As noted above, included in operating profit is a net unrealised gain on foreign exchange transactions and translations of R62,5 million (2007: R41,4 million loss). In the current year this entire amount is equivalent to the realised and unrealised exchange differences from Massdiscounters' African stores (2007: R18 million loss). A further net translation loss of R23 million (2007: R7 million loss) arose during the year primarily from IAS 39 *Financial Instruments: Recognition and Measurement* adjustments relating to forward-exchange contracts held at Massmart, but this was offset by an unrealised gain of R23 million (2007: R16 million loss) that arose on translation of offshore assets held at Massmart Corporate.

When a new store is opened, a large amount of once-off or exceptional operating costs can be incurred in preparing the store (including temporary staff, marketing initiatives, special promotions, signage, amongst others). These costs are referred to as store pre-opening costs and in 2008 amounted to R51 million (2007: R48 million), of which R12 million related to the opening of the new Makro store.

Operating profit

Group operating profit of R2 085,1 million (2007: R1 673,3 million) is 24,6% ahead of the prior year and improved from 4,8% to 5,2% of sales. On a 52-week basis, Group operating profit would have been R1 992 million, a 19,1% increase over the prior year and representing 5,0% of the 52-week sales.

This improvement arose from different actions across the Divisions but can broadly be summarised as: sales growth exceeding cost growth; good cost control in Massdiscounters, Makro and CBW; slightly increased gross margins in CBW and slightly lower gross margins in Massdiscounters. Given the anticipated cost increases described above and the expected lower level of sales volumes in 2009, cost control and efficiency remain key imperatives for the Group.

Net finance costs

Net interest paid of R64,1 million (2007: R44,4 million) increased owing to higher commercial interest rates and higher levels of inventory carried for most of the financial year. Although significant funds were expended on capital expenditure and share buybacks in 2008, these did not exceed the expenditure on similar items in the prior year. The lower dividend cover implemented in February 2007 has reduced the Group's net cash position by R160 million, compared to the position had the previous higher dividend cover been maintained.

Included in 2007 was a once-off R18,1 million interest charge relating to a settlement reached between Massmart, a major financial institution and the South African Revenue Service (SARS).

Taking into account anticipated capital expenditure and excluding any unforeseen developments or new initiatives, the Group will remain net geared for two years. Using long-term interest-bearing debt, the Group was 9,8% geared (2007: 18,0%).

Further reading

More detail on net finance costs can be found in note 7 in the Group Financial Statements 123

GROUP FINANCIAL STATEMENTS

Taxation

The total tax charge of R662,9 million (2007: R554,8 million) represents an overall tax rate of 32,8% (2007: 34,1%). For several years two factors have caused the Group's tax rate to be higher than the standard South African corporate rate, the first is the charge from the Secondary Tax on Companies (STC), payable on net dividends paid, and the second is the effect of significant non-deductible expenses, specifically the IFRS 2 charge. In the current year, STC added 3,4% (2007: 3,6%) to the tax rate while the non-deductible IFRS 2 charge had a further adverse effect of 1,7% (2007: 1,5%).

Further reading

More detail on the Group's taxation charge is in note 8 in the Group Financial Statements 124

GROUP FINANCIAL STATEMENTS

Excluding the impact of STC and IFRS 2, Massmart expects its future effective tax rate to be at or near the South African corporate rate of 28%, although higher tax rates in certain foreign jurisdictions may marginally increase this.

Massmart is not concerned about any specific element of historical tax risk in the Group, but there is the uncertainty that material adjustments arising from potentially unfavourable tax assessments from the past tax returns, some of which have not yet been assessed by SARS, could impact future after-tax earnings. In addition, SARS can re-open any tax assessments within three years of issuing such assessment.

Headline earnings

Headline earnings of R1 319,4 million (2007: R1 083,3 million) are 21,8% greater than the prior year. Adjusting for the IFRS 2 charge arising from the Thuthukani BEE scheme, which has not yet annualised but will do so from the 2009 financial year, increases revised headline earnings to R1 409 million (2007: R1 146 million) representing growth of 22,9%.

Headline earnings per share (HEPS) of 663,0 cents is 22,7% higher than the 2007 HEPS of 540,4 cents. Following the share buyback during the year, the weighted-average number of shares is below last year and so the growth in headline earnings per share (HEPS) at 22,7% was higher than the growth in headline earnings. After adjusting for the potential future conversion of 4,9 million share options, the diluted HEPS is 647,2 cents.

Further reading

More details on the headline earnings reconciliation and the weighted-average number of share workings are in note 10 in the Group Financial Statements 125

GROUP FINANCIAL STATEMENTS

It should be noted that under IFRS 2 the approximately 20 million 'A' and 'B' preference shares issued under the Thuthukani BEE scheme are not yet included in the diluted headline earnings calculation. In terms of the IFRS 2 rules, the approximately 17,9 million Thuthukani preference shares currently in issue are only included in the diluted earnings per share calculation when Massmart's average share price in any given financial year exceeds R79,66 per share. As noted earlier, however, the total dilution to ordinary shareholders expected from this BEE transaction is 3,3%.

Balance sheet

This review covers the consolidated balance sheet and the related notes.

Further reading

The consolidated balance sheet and related notes can be found in the Group Financial Statements 110

GROUP FINANCIAL STATEMENTS

Non-current assets

Property, plant and equipment of R1 392,9 million (2007: R1 123,8 million) and goodwill of R1 362,3 million (2007: R1 346,8 million) together represent the greatest proportion of the Group's non-current assets.

Over the past few years Massmart has been refurbishing and building new stores and during this year expenditure of R508,0 million (2007: R391,3 million) was spent on property, plant and equipment. Of this, R243 million (2007: R124 million) was replacement capital expenditure, while the balance of R265 million (2007: R268 million) was invested in new capital assets, including new stores.

Goodwill increased by R15,5 million, reflecting the goodwill from the acquisition of certain of the CBW store managers' minority interests. Under IFRS all goodwill must be tested annually against the value of the business units with which it is associated and, if overstated, that goodwill must be impaired.

The figure of R132,0 million (2007: R130,2 million) in 'Other intangibles' primarily represents computer software that IFRS requires to be disclosed in this category. In terms of IFRS the 'depreciation charge' arising from this asset category is classified as an amortisation charge.

Capital expenditure for 2009 is budgeted to be R627 million and, *inter alia*, reflects the investment in eight new stores that are scheduled to be opened during the 2009 financial year, representing new space growth of 5,1%. As can be seen in the graph, despite the growth of the Group and the acceleration in new stores and refurbishments, capital expenditure since 2003 has generally represented 1,0% to 1,5% of Group sales.

Investments and other financial assets

Investments of R311,3 million (2007: R241,2 million) comprise mainly a R243,2 million (2007: R168,2 million) investment in an international treasury, shipping and trading business unit, revalued to reflect the foreign-denominated net assets within that module. The R45 million shown as a bare dominium revaluation represents the Group's proportionate share of the market value of the bare dominiums in certain Makro stores.

The held-to-maturity investment of R560,7 million and the associated liability represents a ten-year investment structure that terminates in February 2009.

Other financial assets include executive and employee loans of R226,7 million (2007: R173,4 million), that being primarily of loans totalling R174,4 million (2007: R127,1 million) attracting zero percent interest and owed by participants in the Massmart employee share purchase trust. This loan amount reduces as employees sell their shares and repay the associated loans, and increases where executives elect to own Massmart shares, funded with these loans, rather than options issued by the trust. The finance lease deposit of R45 million is related to the financing of the Makro Strubens Valley store.

Deferred tax

The deferred tax asset of R415,2 million (2007: R432,8 million) arises primarily from numerous temporary differences, including tax deductions on trademarks, the operating lease liability arising from the lease-smoothing accounting policy, and unutilised assessed losses. This net asset will reduce over time as the associated tax benefits are utilised.

One of the consequences of the reduction in the South African corporate tax rate during 2008 was that the proportionate release of the net deferred tax asset reduced the net benefit to the Group's tax charge for this financial year.

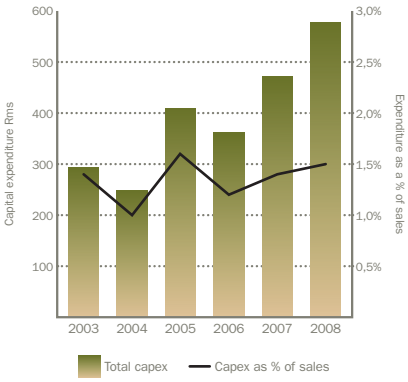
Current assets

Net inventories of R4 758,6 million (2007: R4 027,3 million) represent approximately 53 days' sales (using the historic basis), just higher than the prior year's figure of 52 days. Inventory levels were deliberately increased in two Divisions. In response to the supply constraints currently being experienced by major South African food suppliers, both Masscash and Makro are carrying more food inventory to avoid out-of-stock situations. Makro was also carrying slightly higher inventory at year-end in anticipation of a potential IT information 'black-out' during the SAP upgrade that went live on 29 and 30 June 2008. The combined effect of these issues is that year-end inventory levels were higher by about R230 million, representing 2,5 days of sales.

In general, Massdiscounters, being a retail discounter with 90 stores, has the highest inventory levels and its sales days in inventory are almost double those for Massmart's wholesale businesses (Makro and Masscash). Builders Warehouse also has higher inventory days given the broader and deeper merchandise range in those stores. As a result of good in-store planning and buying disciplines, Builders Warehouse's year-end inventory was lower than that of the prior year.

The net inventory of General Merchandise at R2 183,7 million (2007: R1 987,3 million) represents almost half of total Group inventory. This is to be expected given the higher inventory days in that category.

Capital expenditure



Further reading

The following sections can be found in the Group Financial Statements:

Property, plant and equipment (note 11)	126
Goodwill (note 12)	128
Other intangible assets (note 13)	129
Investments (note 14)	130
Other financial assets (note 15)	132
Deferred taxation (note 16)	133
Inventory (note 17)	134
Trade receivables with additional IFRS 7 disclosure (note 18)	135
Asset held for sale (note 19)	135

GROUP FINANCIAL STATEMENTS

Total trade receivables and prepayments, net of provisions, is R1 764,2 million (2007: R1 876,5 million) and is 6,0% lower than the prior year's figure. Included here are net trade accounts receivable of R1 074,7 million (2007: R980,8 million), which increased by only 9,6%, well below the rate of sales growth. This reduction is the result of improved debtors collection at Shield (in Masscash). Although trade credit is offered to certain customers in all Massbuild businesses and in Masscash, it is well controlled, often insured with a credit risk insurer, and kept within the Group's parameters, and does not affect the Group's working capital. The improved situation is also reflected in lower allowances for doubtful debts at year-end, which reduced from 9% of total trade receivables to 5,3% at year-end.

In the current year the total consumer accounts receivable is Rnil (2007: R283,4 million). This consumer credit, being hire-purchase and revolving credit, is found only in Massdiscounters and was sold to the independent financial services provider, RCS, immediately after the close of the 2008 financial year-end. For this reason, in the current year this balance has been shown as an 'Asset held for sale.' For more detail, refer also to the commentary on credit risk in the Financial risks section on page 159.

Non-current liabilities

This total category comprises medium-term bank loans, capitalised finance leases, income received in advance relating to extended warranties, the operating lease liability arising from the lease-smoothing adjustment, deferred tax and long-term provisions.

Non-current interest-bearing liabilities are R267,7million (2007: R402,7 million) and are medium-term bank loans. This balance reduced during the financial year owing to the amortising payment profile on the two R250 million five-year loans. These loans were raised during the 2006 financial year to finance the Massbuild acquisitions and interest on both loans is fixed at 8,8% and 8,7% respectively.

Capitalised finance lease balances are R82,0 million (2007: R89,2 million).

Non-current non-interest-bearing liabilities are R557,2 million, which is coincidentally the same figure in the prior year. The main balance is the operating lease liability of R462,0 million (2007: R475,0 million) arising from the lease-smoothing accounting policy and which will be released over the remaining period of the Group's operating leases.

Included in non-current liabilities (non-current provisions) is the long-term provision of R47,7 million (2007: R45,0 million) arising from the actuarial valuation of the Group's potential liability arising from post-retirement medical aid contributions owed to current and future retirees. This liability is unfunded. With effect from 1999, post-retirement medical aid benefits were no longer offered to new employees joining the Group.

The deferred tax liability of R141,9 million (2007: R115,5 million) arises primarily from prepayments and property, plant and equipment.

Current liabilities

Included in the total trade and other payables figures of R7 380,0 million are trade payables of R5 928,1 million (2007: R5 285,8 million) representing approximately 58 days of cost of sales (using the historic basis), which is lower than the prior year's figure of 60 days. As noted earlier, owing to payments to creditors being made shortly after each month-end, the Group trade payables balances at year-end are not representative of the average during the remaining period. The amount by which the year-end trade payables is overstated in comparison to the average cannot be accurately calculated but is approximately R1 billion.

The current taxation liability of R543,1 million (2007: R534,4 million) reflects the Group's liability for provisional corporate tax payments that are generally payable within a few days of the financial year-end.

Further reading

The following sections can be found in the Group Financial Statements:

Deferred taxation (note 16) 133
Non-current liabilities (note 23) 140
Non-current provisions (note 24) 141
Trade and other payables (note 25) 141

GROUP FINANCIAL STATEMENTS

Cash flow statement

Operating cash before working capital movements of R2 394,9 million (2007: R1 926,4 million) is 24,3% higher than the prior year and closely approximates this year's operating profit before depreciation, amortisation and impairment of R2 387,6 million, demonstrating the fundamental cash underpin of Massmart's earnings.

Cash taxation paid of R668,1 million (2007: R531,6 million) increased owing to the growth in taxable income.

The 25,6% increase in the total dividend paid in cash of R709,9 million approximates the Group's profit growth.

Total capital expenditure (replacement and expansion) was R577,9 million, an increase on the prior year's total of R470,8 million.

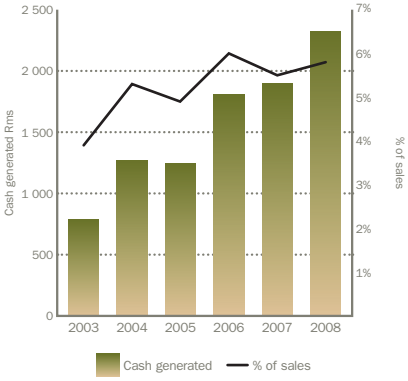
Included in the R325,5 million under 'Other investing activities' is the R281 million invested in this year's share buyback programme. A total of 3,3 shares were purchased at an average price of R83,10 per share.

Further reading

The consolidated cash flow statement can be found in the Group Financial Statements 111

GROUP FINANCIAL STATEMENTS

Cash generated by operations



Financial risks

Liquidity risk

Liquidity risk is considered low owing to the Group's conservative funding structure and its high cash generation. Massmart's liquidity requirements are continually assessed through the Group's cash management and treasury function.

The Group has total banking facilities, incorporating overnight, short- and medium-term borrowings, letters of credit, forward exchange contracts and electronic fund transfers, of R2 951 million (2007: R3 492 million). As at June 2008, total interest-bearing debt amounted to R535 million (2007: R568 million).

As the Group begins to build inventory levels for the festive season, net interest-bearing debt will increase up to a maximum of approximately R1,0 billion in November, but will reduce rapidly as year-end trading accelerates with higher cash proceeds.

Interest risk

Interest rate exposure is actively monitored owing to the Group's significant intra-month cash movements and the seasonal changes in its net funding profile during the financial year. As noted above, interest rates on the two medium-term bank loans are fixed at 8,8% and 8,7% respectively.

Of the Group's total financial liabilities of R6,3 billion, 93% or R5,9 billion of this is represented by non-interest-bearing accounts payable funding.

Credit risk

Credit is available to wholesale customers at Makro, Massbuild and Masscash, and is adequately controlled by using appropriately trained personnel, applying credit granting criteria, continual monitoring and the use of software tools. A portion of the trade debtors book in Shield is insured with an international insurance company and a further portion is secured through general notarial bonds, pledges and other forms of security. Similarly, the trade debtors books in Builders Warehouse and Trade Depot are also insured with an international insurance company.

Massmart was only exposed to consumer debt through its hire-purchase and revolving-credit debtors books in Massdiscounters, and, as noted above, this book was sold immediately after the financial year-end.

Further reading

More detail on liquidity risk, interest risk, credit risk and currency risk can be found in note 37 in the Group Financial Statements 156

GROUP FINANCIAL STATEMENTS

Currency risk

Where possible and practical, currency risk in the Group is actively managed. All foreign-denominated trading liabilities are covered by matching forward-exchange contracts. At financial year-end, there were open forward exchange contracts totalling R462 million (2007: R433 million) of which 95% were US Dollar liabilities.

The sensitivity of the Group to this exposure is shown in note 37 on page 160. In brief, if the Rand strengthened by 5% from the year-end rate of R7,96/US Dollar, there would be a R33 million charge, while a 5% weakening would raise a R12 million gain.

Foreign-denominated assets are not covered by forward exchange contracts, as these are permanent assets held for the long term.

Technical review

The Board reports that the appropriate accounting policies, supported by sound and prudent management judgement and estimates, have been consistently applied.

The Group's accounting policies are governed by IFRS and the AC 500 series as issued by the Accounting Practices Board. Guidance has been obtained from IFRICs and circulars effective on 1 October 2008. Owing to the nature and volatility of Exposure Drafts (EDs), no review has been provided.

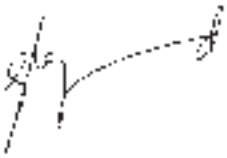
The Group maintains the view that accounting standards set the minimum requirement for financial reporting. The financial statements in this annual report have been prepared with the aim of exposing the reader to a very detailed view of the numbers, using a simplified approach, in the hope of facilitating a deeper and informed understanding of the business.

Going-concern assertion

The Board has formally considered the going-concern assertion for Massmart and its subsidiaries and believes that it is appropriate for the forthcoming financial year. See page 108 for more detail.

Appreciation

As always, I would like to acknowledge and pay tribute to the high-quality performance and significant effort invested by my financial colleagues and their teams at all the Massmart Divisions and at the Massmart corporate office.



Guy Hayward
Chief Financial Officer

1 October 2008

Further reading

A detailed technical review can be found in note 2 in the Group Financial Statements 118

GROUP FINANCIAL STATEMENTS

“Given the current economic environment, we are cautious about the year ahead but are confident that our business model will prove its resilience.”

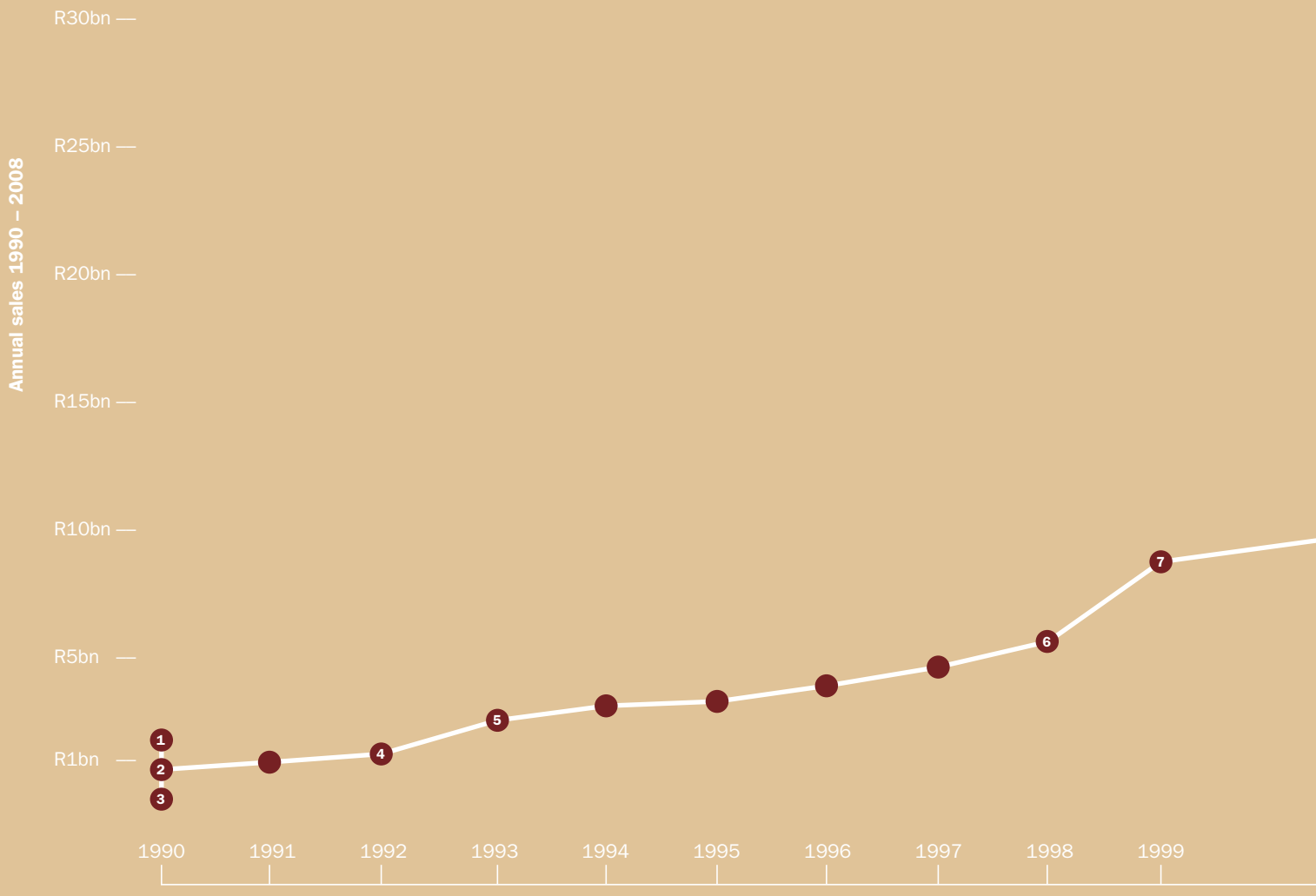
GRANT PATTISON CHIEF EXECUTIVE OFFICER

Seven-year Review

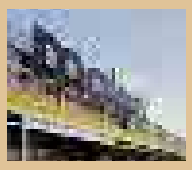


Staff load goods into a customer's car at Builders Warehouse in Zambezi, Pretoria. These stores trade until 19:00 on weekdays.

Massmart since 1990: annual sales and major events affecting the Group



1990



1 Massmart founded

2 Makro was the founding entity of Massmart

3 Makro comprised 6 stores

1992



4 Acquired 378 Shield members on 1 March 1992

1993



5 Acquired 20 Dion stores on 31 May 1993

1998



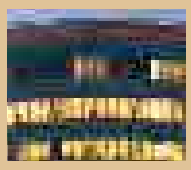
6 Acquired 14 CCW stores on 1 June 1998

1999

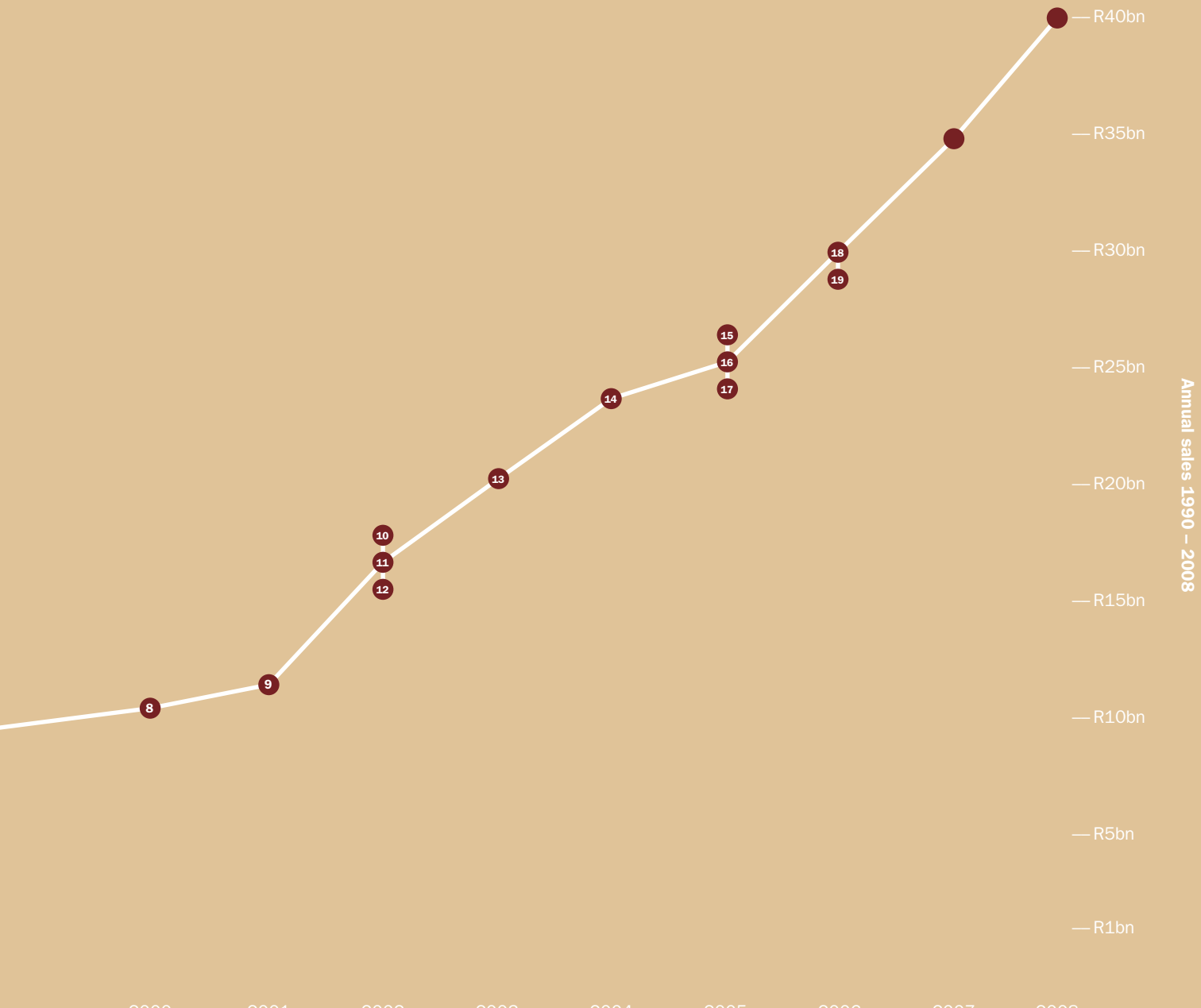


7 Acquired 26 Game stores on 1 July 1998

2000



8 Massmart listed on 4 July 2000 on the JSE Limited



2001



9 Acquired 6 Jumbo stores on 1 April 2001

2002

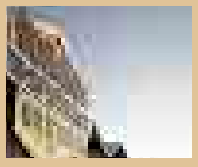


10 Acquired 22 Browns and Weirs stores on 1 July 2001

11 Acquired Furnex on 1 January 2002

12 In June 2002 Wooltru unbundled its 41% interest in Massmart

2003



13 Acquired 5 Builders Warehouse stores on 28 February 2003

2004



14 SHV's 31% shareholding in Massmart sold to local and international investors in January 2004

2005



15 Acquired 3 De La Rey stores on 1 June 2005

16 Acquired 14 Servistar stores on 1 June 2005

17 Acquired 34 Federated Timbers stores on 1 June 2005

2006



18 BEE general staff transaction announced

19 Disposal of Furnex on 28 February 2006

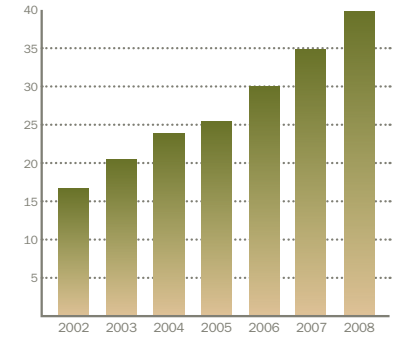
Income statement

as at 30 June 2008

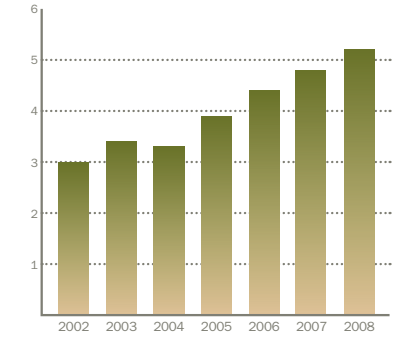
Definitions/Explanations	Income statement **(Rm)**
	Continuing operations:
	Sales
	Cost of sales
	Gross profit
	Other income
	Depreciation and amortisation costs
	Impairment of assets
This includes the IFRS 2 Share-based Payment expense.	Employment costs
	Occupancy costs
This includes the foreign exchange gains and losses.	Other operating costs
	Operating profit
The net amount of interest received and interest paid.	Net finance costs
	Exceptional items
	Profit before tax
	Taxation
	Profit for the year from continuing operations
	Discontinued operation:
	Profit/(loss) for the year
	Loss on disposal
	Profit for the year
	Attributable to:
	Equity holders of the parent
	Preference shareholders
	Minority interest
Earnings before interest, taxation, depreciation, amortisation and asset impairments.	EBITDA
Earnings before interest, taxation and asset impairments. We prefer using EBITA rather than operating profit as the latter includes the charge for asset impairments which can distort traditional trading ratios and returns.	EBITA
	Headline earnings
	Annual growth (%)
	Total sales
	Comparable sales
	Group sales inflation
Earnings before interest, taxation and asset impairments. We prefer using EBITA rather than operating profit as the latter includes the charge for asset impairments which can distort traditional trading ratios and returns.	EBITA
	Profit before tax

Six-year compound growth %	**2008**	2007[1]	2006[2]	2005[2]	2004[1]	2003	2002
15,6	39 783,6	34 807,6	29 963,6	25 381,5	23 787,7	20 369,5	16 709,2
	(32 481,4)	(28 435,7)	(24 650,0)	(21 202,0)	(20 183,2)	(17 319,5)	(14 112,1)
18,8	7 302,2	6 371,9	5 313,6	4 179,5	3 604,5	3 050,0	2 597,1
	161,2	157,1	117,0	135,6	107,9	81,8	68,9
	(297,8)	(240,9)	(202,9)	(157,5)	(133,5)	(107,8)	(106,2)
	(4,7)	(26,3)	(5,4)	–	(74,6)	(49,5)	(39,7)
	(2 736,2)	(2 449,8)	(2 079,0)	(1 656,7)	(1 416,6)	(1 168,5)	(1 017,2)
	(962,7)	(846,0)	(740,5)	(644,0)	(563,7)	(408,8)	(366,0)
	(1 376,9)	(1 292,7)	(1 074,7)	(864,6)	(747,8)	(699,0)	(637,8)
26,9	2 085,1	1 673,3	1 328,1	992,3	776,2	698,2	499,1
	(64,1)	(44,4)	(32,2)	(20,2)	(7,2)	(50,4)	(14,1)
	–	–	–	–	5,0	6,7	5,2
26,6	2 021,0	1 628,9	1 295,9	972,1	774,0	654,5	490,2
	(662,9)	(554,8)	(444,6)	(307,5)	(253,9)	(215,2)	(164,4)
26,9	1 358,1	1 074,1	851,3	664,6	520,1	439,3	325,8
	–	–	3,7	(82,1)	–	–	–
	–	–	(1,8)	–	–	–	–
	1 358,1	1 074,1	853,2	582,5	520,1	439,3	325,8
26,4	1 314,1	1 049,9	828,5	580,1	511,2	429,3	321,7
	22,5	8,9	–	–	–	–	–
	21,5	15,3	24,7	2,4	8,9	10,0	4,1
26,9	1 358,1	1 074,1	853,2	582,5	520,1	439,3	325,8
24,4	2 387,6	1 940,5	1 536,4	1 149,8	984,3	855,5	645,0
25,3	2 089,8	1 699,6	1 333,5	992,3	850,8	747,7	538,8
24,1	1 319,4	1 083,3	836,6	651,9	583,1	480,0	361,6
	14,3	*16,2*	*18,1*	*6,7*	*16,8*	*21,9*	*44,4*
	10,8	*12,5*	*5,5*	*5,3*	*10,7*	*18,0*	*19,0*
	7,5	*4,9*	*0,0*	*(2,2)*	*(1,2)*	*10,0*	*9,0*
	23,0	*27,5*	*34,4*	*16,6*	*13,8*	*38,8*	*94,5*
	24,1	*25,7*	*33,3*	*25,6*	*18,3*	*33,5*	*98,7*

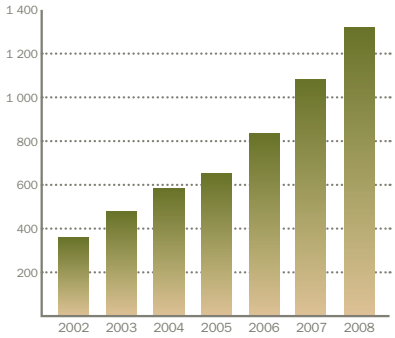
Sales (Rbn)



Operating margin (%)



Headline earnings (Rm)



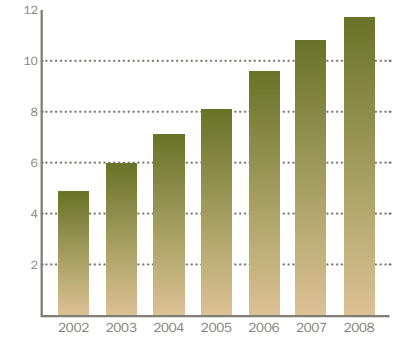
Balance sheet and cash flow

as at 30 June 2008

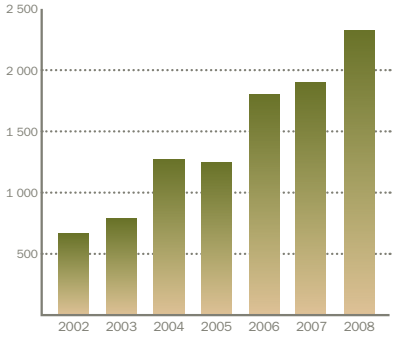
Definitions/Explanations	
	Balance sheet (Rm)
	Assets:
	Non-current assets
	Current assets
Inventory has been included in the subtotal of 'Current assets'.	Inventory
	Assets classified as held for sale
	Total assets
	Equity and liabilities
	Total equity
	Non-current liabilities
	Current liabilities
Trade and other payables has been included in the subtotal of 'Current liabilities'.	Trade and other payables
	Total equity and liabilities
	Cash flow (Rm)
	Operating cash before working capital movements
	Working capital movements
	Cash generated from operations
	Net interest paid
	Investment income
	Taxation paid
	Dividends received
	Dividends paid
	Net cash flow from operating activities
	Investment to maintain operations
	Investment to expand operations
	Other
	Net cash flow from investing activities
	Net cash flow from financing activities
	Net (decrease)/increase in cash and cash equivalents
	Foreign exchange losses taken to FCTR
	Cash and cash equivalents for the period
The opening cash flow in 2005 does not agree to the closing cash flow in 2004 due to the results being restated for IFRS from 2005. The difference is due to the opening cash flow of Makro Zimbabwe being consolidated as a result of IFRS.	Cash and cash equivalents at the beginning of the period
	Cash and cash equivalents at the end of the period

Six-year compound growth %	**2008**	2007[1]	2006[2]	2005[2]	2004[1]	2003	2002
20,9	3 840,5	3 448,2	3 034,1	2 769,6	1 789,5	1 483,3	1 230,1
13,4	7 892,8	7 401,4	6 584,3	5 363,6	5 319,8	4 559,8	3 714,8
15,7	4 758,6	4 027,3	3 221,0	2 677,0	2 356,5	2 236,7	1 981,9
	167,6	–	–	–	–	–	–
15,8	11 900,9	10 849,6	9 618,4	8 133,2	7 109,3	6 043,1	4 944,9
11,7	2 766,5	2 264,8	1 952,4	1 559,0	1 461,5	1 319,1	1 426,7
23,8	1 015,9	1 122,2	1 133,8	744,5	774,7	838,8	281,9
16,6	8 118,5	7 462,6	6 532,2	5 829,7	4 873,1	3 885,2	3 236,3
15,9	7 380,0	6 755,7	5 875,7	5 001,7	4 437,8	3 684,2	3 042,7
15,8	11 900,9	10 849,6	9 618,4	8 133,2	7 109,3	6 043,1	4 944,9
24,9	2 394,9	1 926,4	1 543,6	1 136,5	1 015,2	848,9	629,8
	(73,2)	(28,3)	260,4	110,5	255,3	(63,6)	38,9
23,1	2 321,7	1 898,1	1 804,0	1 247,0	1 270,5	785,3	668,7
	(64,1)	(44,4)	(32,7)	(22,0)	(5,5)	(50,4)	(14,1)
	47,7	53,6	34,6	35,2	19,0	11,0	1,1
	(668,1)	(531,6)	(487,4)	(337,5)	(124,2)	(77,5)	(90,9)
	2,2	2,5	3,2	–	–	–	–
	(709,9)	(565,1)	(402,8)	(416,4)	(218,7)	(166,6)	(90,7)
	929,5	813,1	918,9	506,3	941,1	501,8	474,1
	(268,3)	(152,9)	(178,5)	(256,1)	(136,3)	(83,6)	(76,3)
	(309,6)	(317,9)	(184,1)	(157,6)	(263,3)	(216,6)	(73,1)
	(320,3)	(220,0)	(96,9)	(696,8)	(35,7)	(208,8)	(47,2)
28,8	(898,2)	(690,8)	(459,5)	(1 110,5)	(435,3)	(509,0)	(196,6)
	(222,7)	(288,4)	506,0	(22,6)	(39,8)	30,8	(233,9)
	(191,4)	(166,1)	965,4	(626,8)	466,0	23,6	43,6
	4,6	(1,5)	6,1	5,4	(4,2)	(10,5)	7,9
	(186,8)	(167,6)	971,5	(621,4)	461,8	13,1	51,5
	1 208,7	1 376,3	404,8	1 026,2	563,4	550,3	498,8
	1 021,9	1 208,7	1 376,3	404,8	1 025,2	563,4	550,3

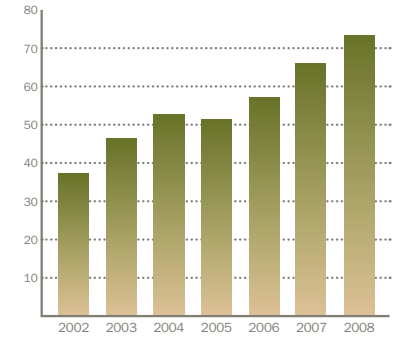
Total assets (Rbn)



Cash generated from operations (Rm)



Return on capital employed (%)



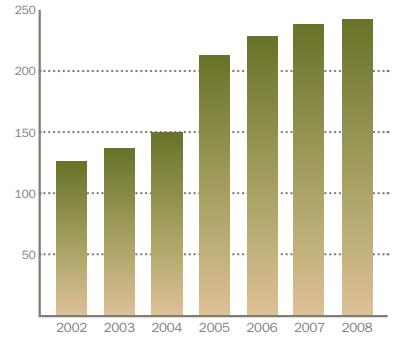
Stores and productivity measures

as at 30 June 2008

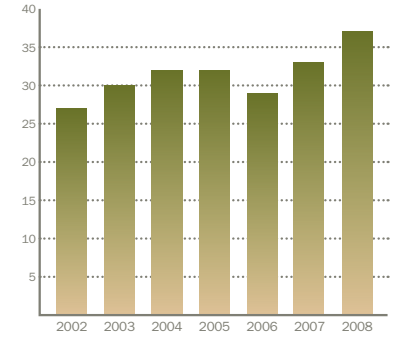
Definitions/Explanations	Ratios/indicators
	Operating statistics
	Depreciation and amortisation costs as a % of sales
	Impairment costs as a % of sales
	Employment costs as a % of sales
	Occupancy costs as a % of sales
	Total expenses as a % of sales
	Number of stores by chain
	Game
	Dion/Dion Wired
	Massdiscounters
Number of stores includes the two Makro Zimbabwe stores from 2005, the date from which the results have been consolidated due to IFRS, and excludes them from 2007, the date from which the results have been deconsolidated.	Makro
	Masswarehouse
	Builders Warehouse
	Builders Trade Depot
	Builders Express
	Massbuild
	CBW
	Jumbo
	Masscash
Total number of stores includes the two Makro Zimbabwe stores from 2005, the date from which the results have been consolidated due to IFRS, and excludes them from 2007, the date from which the results have been deconsolidated.	**Total number of stores**
FTEs includes all permanent employees and the permanent equivalent of temporary employees and contracted workers. Number of FTEs includes the Makro Zimbabwe employees from 2005, the date from which the results have been consolidated due to IFRS, and excludes them from 2007, the date from which the results have been deconsolidated.	FTE (full-time equivalents)
Trading space excludes parking, yard and warehouse space. Trading space includes the trading space from the two Makro Zimbabwe stores from 2005, the date from which the results have been consolidated due to IFRS, and excludes them from 2007, the date from which the results have been deconsolidated.	Trading space (m^2)
Sales / Number of stores. For June 2005, sales per store excludes Federated Timbers, De La Rey and Servistar for the one month of trading. Sales for Shield, Furnex and Cell-Shack are always excluded as they do not have stores.	Sales per store (R000)
Sales / FTEs. For June 2005, sales per FTE excludes Federated Timbers, De La Rey and Servistar for the one month of trading.	Sales per FTE (R000)
Sales / Trading m^2. For June 2005, sales per trading m^2 excludes Federated Timbers, De La Rey and Servistar for the one month of trading. Sales for Shield, Furnex and Cell-Shack are always excluded as they do not have a trading area.	Sales per trading m^2 (R000)

Six-year compound growth %	**2008**	2007[1]	2006[2]	2005[2]	2004[1]	2003	2002
	(0,7)	(0,7)	(0,7)	(0,6)	(0,6)	(0,5)	(0,6)
	–	(0,1)	–	–	(0,3)	(0,2)	(0,2)
	(6,9)	(7,0)	(6,9)	(6,5)	(6,0)	(5,7)	(6,1)
	(2,4)	(2,4)	(2,5)	(2,5)	(2,4)	(2,0)	(2,2)
	(13,5)	(14,0)	(13,7)	(13,1)	(12,3)	(11,9)	(13,0)
	84	82	70	61	56	55	54
	6	8	10	11	11	11	11
	90	90	80	72	67	66	65
	13	12	14	14	12	13	12
	13	12	14	14	12	13	12
	22	21	20	15	8	6	–
	28	28	31	33	–	–	–
	18	15	14	14	–	–	–
	68	64	65	62	8	6	–
	65	65	62	58	57	46	43
	6	7	7	7	6	6	6
	71	72	69	65	63	52	49
11,5	242	238	228	213	150	137	126
8,5	24 308	24 436	22 412	20 277	17 565	16 763	14 882
11,3	1 012 784	994 277	973 116	877 878	648 923	586 030	533 334
	155 434	136 895	122 509	143 122	136 662	129 007	114 881
	1 635	1 422	1 337	1 421	1 354	1 216	1 123
	37	33	29	32	32	30	27

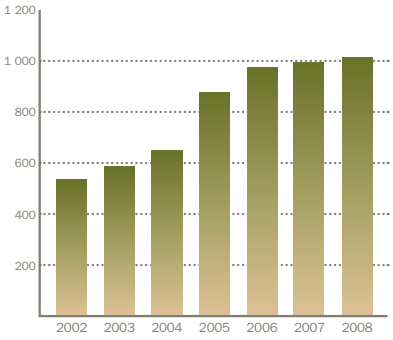
Number of stores



Sales per m² (R000)



Trading space (000m²)



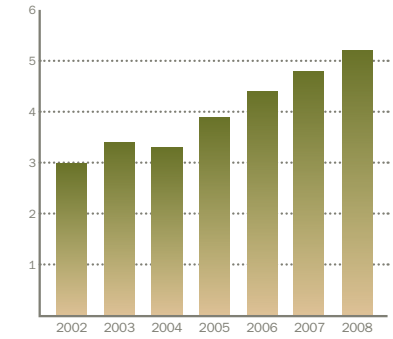
Returns, profitability and share information

as at 30 June 2008

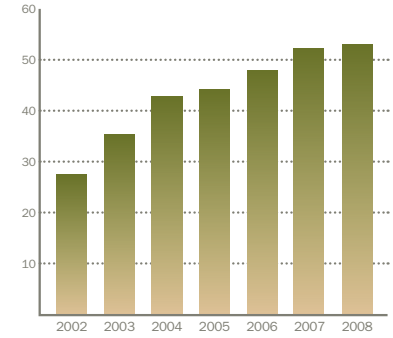
Definitions/Explanations	
	Productivity ratios
Sales / Net assets. The Group defines net assets as capital reserves and interest-bearing LT liabilities.	Net asset turn
Gross profit / Sales	Gross margin (%)
Operating profit / Sales	Operating margin (%)
EBITA / Sales	EBITA margin (%)
EBITDA / Sales	EBITDA margin (%)
Taxation / Profit before tax (Refer to note 8 on page 124 of the financial section for the effective tax rate workings.)	Effective tax rate (%)
	Profitability and gearing ratios
Headline earnings / Average of opening and closing capital and reserves balances	Return on average shareholders' equity (%)
EBITA / Average of opening and closing capital employed balances. The Group defines capital employed as capital and reserves and interest-bearing LT liabilities.	Return on capital employed (%)
Debt comprises non-current interest-bearing liabilities / Capital and reserves	Long-term debt: equity (%)
Operating cash flow per share / Headline earnings per share	Cash earnings cover
	Solvency and liquidity ratios
Cash and cash equivalents, net of borrowings / Total equity at the end of the year	Net cash to total equity (%)
Current assets / Current liabilities	Current ratio
Current assets excluding inventory / Current liabilities	Quick ratio
Inventory / Total cost of sales	Inventory days
Total cost of sales / Inventory	Inventory turn
Trade payables / Total cost of sales	Payable days
Sales / Total assets	Asset turn
Current and non-current liabilities / Total equity	Total liabilities to total shareholders' equity
	Per share performance (cents)
Headline earnings / Weighted average number of shares in issue	Headline earnings
Headline earnings / Diluted weighted average number of shares in issue	Diluted headline earnings
Earnings attributable to the equity holders of the parent/ Weighted average number of shares in issue	Attributable earnings
Distribution to shareholders	Dividends/distribution
Cash generated from operations before working movements / Weighted average number of shares in issue	Cash generated from operations before working capital movements
Net cash flow from operations, after working capital movements, excluding exceptional items and after adding back the dividend paid / Weighted average number of shares in issue	Operating cash flow
Capital and reserves / Total number of shares in issue	Net asset value
Headline earnings per share / Interim and final dividend per share	Dividend cover
	Stock exchange information
	Shares in issue (millions)
	Shares traded (millions)
	Percentage of shares traded (%)
As at 30 June	Earnings yield (%)
As at 30 June	Dividend yield (%)
As at 30 June	Market capitalisation (Rm)
As per the JSE	Share price South African (cents):
	High
	Low
	Closing

Six-year compound growth %	**2008**	2007[1]	2006[2]	2005[2]	2004[1]	2003	2002
	13	13	12	12	14	13	10
	18,4	18,3	17,7	16,5	15,2	15,0	15,5
	5,2	4,8	4,4	3,9	3,3	3,4	3,0
	5,3	4,9	4,5	3,9	3,6	3,7	3,2
	6,0	5,6	5,1	4,5	4,1	4,2	3,9
	32,8	34,1	34,3	31,6	32,8	32,9	33,6
	53,0	52,3	48,9	44,2	42,8	35,4	27,6
	73,3	66,1	57,1	51,4	52,7	46,3	37,3
	9,8	18,0	27,3	9,2	14,1	19,1	16,7
	1,2	1,3	1,6	1,4	2,0	1,4	1,6
	36,9	53,4	70,5	26,0	70,1	42,7	38,6
	1,0	1,0	1,0	0,9	1,1	1,2	1,1
	0,4	0,5	0,5	0,5	0,6	0,6	0,5
days	53	52	48	46	43	47	51
	6,8	7,1	7,7	7,9	8,6	7,7	7,1
days	58	60	60	60	60	56	61
	3,3	3,2	3,1	3,1	3,3	3,4	3,4
	3,3	3,8	3,9	4,2	3,9	3,6	2,5
23,9	663,0	540,4	419,3	327,6	293,1	242,4	183,2
23,6	647,2	530,9	408,3	316,4	282,7	235,6	181,9
26,3	660,4	523,7	415,3	291,5	256,9	216,8	163,0
36,0	386,0	320,0	210,0	183,0	159,0	97,0	61,0
24,8	1 203,5	961,0	773,7	571,1	510,3	428,6	319,1
19,3	823,8	687,5	662,5	463,6	583,0	337,5	286,2
11,3	1 359,8	1 113,5	946,0	762,0	717,8	653,0	714,8
	1,7	1,7	2,0	2,0	2,0	2,5	3,0
	201,2	201,1	201,0	199,6	199,2	198,6	197,8
	254,1	235,9	233,3	188,1	256,6	86,1	40,2
	126,3	117,3	116,0	94,2	128,8	43,4	20,3
	10,7	5,9	9,5	6,5	7,9	10,3	12,1
	6,3	3,6	4,8	4,1	4,9	4,6	4,5
	12 371,5	17 694,4	8 819,7	8 937,9	6 489,6	4 170,3	2 670,6
	9 724	9 997	6 408	5 370	3 359	2 222	1 550
	5 910	4 185	4 185	3 145	2 080	1 275	930
	6 149	8 800	4 387	4 477	3 258	2 100	1 350

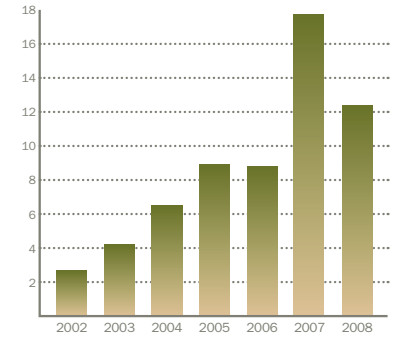
Operating margin (%)



Return on equity (%)



Market capitalisation (Rbn)



Notes

[1] These amounts have been restated due to SAICA's reinterpretation of IAS 17 *Leases*.

[2] These amounts have been restated due to SAICA's reinterpretation of IAS 17 *Leases*. These amounts exclude amounts relating to the discontinued operation (Furnex).

[3] The above results have been restated for Circular 9 *Transactions Giving rise to Adjustments to Revenue/Purchases*.

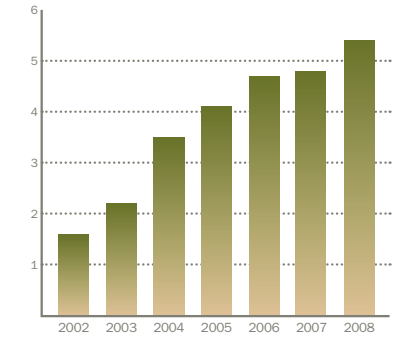
Income statement, balance sheet and cash flow in US Dollars

as at 30 June 2008

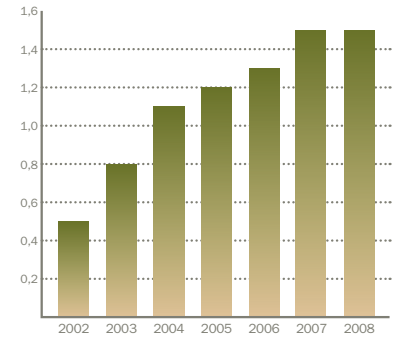
Definitions/Explanations	
	Income statement ($m)
	Continuing operations:
	Sales
	Cost of sales
	Gross profit
	Other income and expenses
	Operating profit
	Finance costs
	Exceptional items
	Profit before tax
	Taxation
	Profit for the year from continuing operations
	Discontinued operation:
	Profit/(loss) for the year
	Loss on disposal
	Profit for the year
	Attributable to:
	Equity holders of the parent
	Preference shareholders
	Minority interest
	Headline earnings
	Balance sheet ($m)
In 1999 the convertible debentures of R410 million have been included in shareholders' equity. These debentures were converted to ordinary shares on 1 January 2000.	Total equity
	Net cash/(borrowings)
	Total assets
	Inventories
	Trade and other payables
	Cash flow ($m)
	Cash generated from operations
	Net cash flow from operating activities
	Net cash flow from investing activities

Six-year compound growth %	US Dollar ($m)						
	2008	2007[1]	2006[2]	2005[2]	2004[1]	2003	2002
22,1	5 443,8	4 821,0	4 667,2	4 087,2	3 477,7	2 248,3	1 643,0
	(4 444,6)	(3 938,5)	(3 839,6)	(3 414,2)	(2 950,8)	(1 911,6)	(1 387,6)
25,5	999,2	882,5	827,7	673,0	526,9	336,7	255,4
	(713,9)	(650,8)	(620,8)	(513,2)	(413,5)	(259,6)	(206,3)
34,1	285,3	231,8	206,9	159,8	113,4	77,1	49,1
	(8,8)	(6,1)	(5,0)	(3,3)	(1,1)	(5,6)	(1,4)
	–	–	–	–	0,7	0,7	0,5
33,8	276,5	225,6	201,9	156,5	113,0	72,2	48,2
	(90,7)	(76,8)	(69,3)	(49,5)	(37,1)	(23,8)	(16,2)
34,1	185,8	148,8	132,6	107,0	75,9	48,4	32,0
	–	–	0,6	(13,2)	–	–	–
	–	–	(0,3)	–	–	–	–
	185,8	148,8	132,9	93,8	75,9	48,4	32,0
33,6	179,8	145,4	129,0	93,4	74,6	47,3	31,6
	3,1	1,2	–	–	–	–	–
	2,9	2,1	3,8	0,4	1,3	1,1	0,4
34,1	185,8	148,8	132,9	93,8	75,9	48,4	32,0
31,5	180,5	151,3	130,3	105,0	85,2	53,0	35,6
16,3	343,5	311,0	254,3	226,0	225,5	163,5	139,1
	128,3	167,9	184,0	60,1	161,7	71,1	54,1
20,6	1 494,3	1 506,9	1 285,9	1 208,5	1 121,3	762,1	486,3
20,5	597,5	559,3	430,6	397,8	371,7	282,1	194,9
20,7	926,7	938,3	785,5	743,2	700,0	464,6	299,2
30,0	317,7	262,9	281,0	200,8	185,7	86,7	65,8
	127,2	112,6	143,1	81,5	137,6	55,4	46,6
36,1	(122,9)	(95,7)	(71,6)	(178,8)	(63,6)	(56,2)	(19,3)

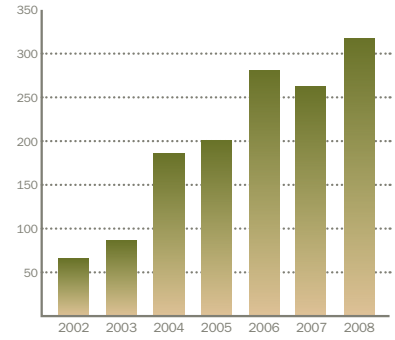
Sales (US$bn)



Total assets (US$bn)



Cash generated from operations (US$m)



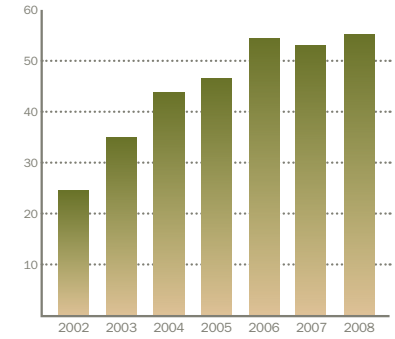
Profitability and share performance in US Dollars

as at 30 June 2008

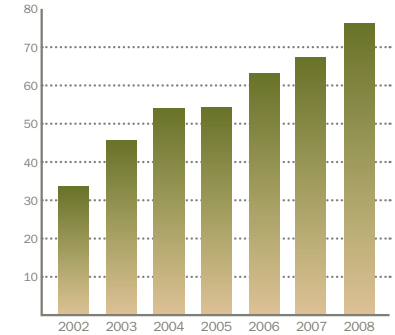
Definitions/Explanations	Ratios/indicators
	Profitability and gearing ratios
Headline earnings / Average of opening and closing capital and reserves balances	Return on average shareholders' equity (%)
EBITA / Average of opening and closing capital employed balances. The Group defines capital employed as capital reserves and interest-bearing LT liabilities.	Return on capital employed (%)
Debt comprises non-current interest-bearing liabilities / Capital and reserves	Long-term debt: equity (%)
	Liquidity ratios
Current assets / Current liabilities	Current ratio
Inventory / Total cost of sales	Inventory days
	Per share performance (cents)
Headline earnings / Weighted average number of shares in issue	Headline earnings
Headline earnings / Diluted weighted average number of shares in issue	Diluted headline earnings
Earnings attributable to the equity holders of the parent/ Weighted average number of shares in issue	Attributable earnings
Distribution to shareholders	Dividends/distribution
Cash generated from operations before working movements / Weighted average number of shares in issue	Cash generated from operations before working capital movements
Net cash flow from operations, after working capital movements, excluding exceptional items and after adding back the dividend paid / Weighted average number of shares in issue	Operating cash flow
Capital and reserves / Total number of shares in issue	Net asset value
Headline earnings per share / Interim and final dividend per share	Dividend cover
	Stock exchange information
	Market capitalisation ($m)
	Exchange rates (Rand/US$)
	At year-end
	Average for the year

Six-year compound growth %	**2008**	2007[1]	2006[2]	2005[2]	2004[1]	2003	2002
	55,2	53,5	54,3	46,5	43,8	35,0	24,6
	76,1	67,2	63,2	54,3	54,1	45,7	33,6
	9,8	18,0	27,3	9,2	14,1	19,1	16,7
	1,0	1,0	1,0	0,9	1,1	1,2	1,1
	49	52	41	43	46	54	51
30,9	90,7	74,8	65,3	52,8	42,9	26,8	18,0
30,6	88,6	73,5	63,6	51,0	41,3	26,0	17,9
33,4	90,4	72,5	64,7	46,9	37,6	23,9	16,0
43,7	52,8	44,3	32,7	29,5	23,2	10,7	6,0
31,8	164,7	133,1	120,5	92,0	74,6	47,3	31,4
26,0	112,7	95,2	103,2	74,7	85,2	37,3	28,1
15,9	170,7	154,7	126,5	113,2	113,2	82,3	70,3
	–	1,7	2,0	2,0	2,0	2,5	3,0
	1 554,2	2 457,6	1 179,1	1 328,1	1 023,6	525,9	262,6
	7,96	7,20	7,48	6,73	6,34	7,93	10,17
	7,31	7,22	6,42	6,21	6,84	9,06	10,17

Return on equity (%)



Return on capital employed (%)



Notes

[1] These amounts have been restated due to SAICA's reinterpretation of IAS 17 *Leases*.

[2] These amounts have been restated due to SAICA's reinterpretation of IAS 17 *Leases*. These amounts exclude amounts relating to the discontinued operation (Furnex).

[3] The above results have been restated for Circular 9 *Transactions Giving rise to Adjustments to Revenue/Purchases*.

Massmart in the headlines

Financial Mail

Massmart sales weather slowdown

21 November 2007

Johannesburg – General merchandise retail giant Massmart says the SA retail environment has tightened as higher rates squeeze consumers. CEO Grant Pattison said that despite higher interest rates and the implementation of the National Credit Act affecting consumers, its cash-based model is proving to be relatively resilient. Pattison was speaking at the company's annual general meeting, held at Massmart's head office in Sunninghill, north of Johannesburg. He said that for the first 21 weeks of financial 2008, total sales had increased by 12.7%. Sales growth has slowed down from the same period in financial 2007, where growth at the 21-week mark was 16.7%. Growth in comparable store sales had also slowed slightly to 10.6%, compared with 12.6% in financial 2007.

Business Report

Massmart profit shines despite power cuts

29 February 2008

RETAILER Massmart said yesterday power cuts had not seriously affected its trade, but it was difficult to estimate the effect of future failures without a clearer idea of their extent. The company said last month's power outages had cost it an estimated R103 000 for every two-hour power cut suffered by the group as a whole. Power outages had, however, cost the group only 0,2% of its trading hours. Chief financial officer Guy Hayward said during the discount retailer's financial results presentation yesterday that it was probably the best-positioned retail sector player to trade successfully through the outages. The group will spend an extra R12m on generators for the 28 stores that did not already have them.

Financial Mail

Proven format pays off

7 March 2008

For the first time in 37 consecutive financial half-years, Massmart was unable to announce real sales growth exceeding 8%. Instead the retailer achieved modest real growth of 3,1%, in a year when there were no acquisitions. Sales grew from R18bn to R20bn, while profit before interest and tax was up to R1,2bn, from R1bn. That said, the benefit of long-term strategic planning and prudent management is evident for the interim period to end-December. CEO Grant Pattison has evidently taken the baton from Mark Lamberti at full speed. The newest leg of the business, Massbuild, acquired De la Rey, Federated Timbers and Servistar, a home-improvement chain, three years ago. It is now a star, growing sales by 16% to R2,9bn, up from R2,5bn, and R1,9bn in 2005. "We are gaining market share, which may mask some of the slowdown in that sector," says Massmart chief financial officer Guy Hayward.

Business Report

Massmart delivers in tough times

21 August 2008

In an environment dominated by rising food and fuel prices and higher interest rates, retailer Massmart on Thursday announced what it termed "strong" overall results for the year ending June. Massmart chief executive officer Grant Pattison in a statement said: "Given the current economic environment we are cautious about the year ahead, but are confident in our business model and the South African consumer economy." The group's four high-volume, low-cost, low-margin distribution divisions showed a balanced performance. Masswarehouse and Masscash produced strong profit growth whilst Massdiscounters and Massbuild grew profits near their rate of sales growth.

Fin24

Massmart shows resilience

21 August 2008

South African wholesale and retail chain group Massmart (MSM) on Thursday reported a 14% rise in headline earnings per share to 663c for the 53-week period to June 29 compared with the 52-week period a year ago. A final dividend of 163c was declared – up from 12c a year ago – and brings the total distribution for the year to 386c per share. The group's sales rose 14% to R39.784bn and trading profit increased 23% to R2.157bn.

> "…the benefit of long-term strategic planning and prudent management is evident for the interim period to end-December. CEO Grant Pattison has evidently taken the baton from Mark Lamberti at full speed."
>
> **SASHA PLANTING** FINANCIAL MAIL

Operational Review

Shelves being packed at Makro Woodmead, the Makro store with the second highest sales in the Division.

“The economic cycle was clearly gaining downward momentum, but we proved that the Group is able to ride through the troughs.”

GRANT PATTISON CHIEF EXECUTIVE OFFICER

The economy over the year

Last year was a turning point for the world's recent economic performance. It marked the end of five years of sustained upward momentum in the global business cycle with growth, underpinned by India and China, providing a rising tide for world prosperity. South Africa had reached an economic growth rate of 6% per year.

However, 2007 was to be the year that would mark a change in economic fortunes. The global credit crisis, which had begun to take hold in 2006, recently reached perilous proportions with the collapse or near collapse of several major international investment banks and other financial institutions. Debt markets, from which a wave of cheap credit had emanated over the previous five years, suddenly seized up as investors panicked about their risk exposures. Monetary authorities, particularly in the US, responded swiftly by pumping liquidity into their economies through lower interest rates and a variety of mechanisms to provide cheap credit to their financial systems. But their determined efforts at times appeared not enough to stave off a global slowdown in economic growth and, in the US, perhaps even recession.

South Africa's performance

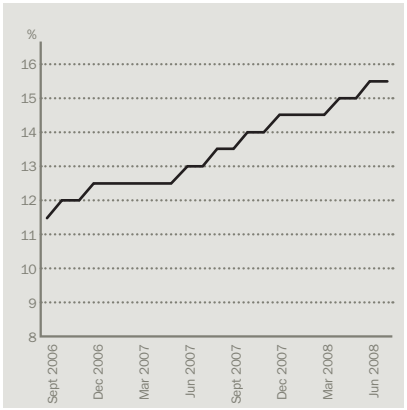
In South Africa, however, the monetary cycle was moving in the opposite direction, in our opinion correctly so. Interest rates had begun climbing in mid-2006 after staying flat for over three years. By the start of Massmart's 2008 financial year, the prime overdraft rate had risen by 2,5 percentage points to 13%. By the end of the financial year, another 2,5 percentage points had been added. The intention of increased interest rates is to slow consumer and business spending by making borrowing more expensive. Consumers borrow less, but the cost of their existing borrowing also goes up. Repayments on home loans and other finance absorb more personal after-tax earnings. The net impact is to reduce private consumption expenditure, which reduces overall demand in the economy and so relieves inflationary pressure on the prices of goods.

The need to slow demand was triggered by a sustained increase in inflation during the year. Controlling inflation is the main policy objective of the Reserve Bank and it uses interest rates to try to do it. The Reserve Bank is required to keep inflation, measured by CPIX, in a target range of 3% to 6%. By the start of Massmart's financial year, inflation had just breached the upper range of the target, but during the year inflation would increase significantly, reaching over 11% by the end of it.

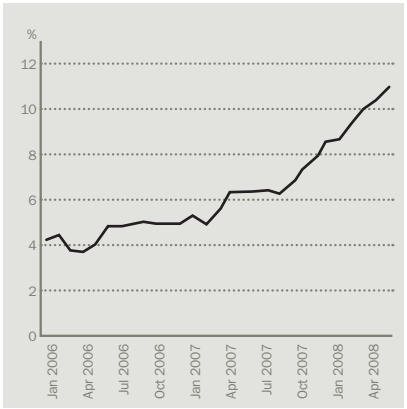
The difficulty is that there is a lag effect between interest rate increases and changes in actual consumer behaviour. This exists because consumers and companies have resources available to them other than debt, from which they can draw before monetary policy actually changes their behaviour. Generally, the lag is from 12 to 18 months. So the slowdown in consumer spending takes some time to be realised.

A weaker Rand also fed into inflation, helping increase further the Rand cost of imported goods, particularly petrol. During the financial year, the Rand-Dollar exchange rate was an average of R7,28 compared to R7,18 the previous year. However, this masks the significantly higher exchange rate in the first half of 2008, at an average R7,65, closing the financial year at R7,96, which helped push up inflation further.

Prime overdraft interest rate %



CPIX metro and other urban areas, year-on-year % change



Personal consumption expenditure on durable goods, seasonally adjusted annualised % change



Consumers under pressure

Given this environment, certain goods have seen a marked slowdown in consumer spending. New car sales and sales of durable goods, such as kitchen appliances and televisions, have declined. As the graph on the previous page shows, growth in durable goods spending showed a marked decline, falling into negative territory in 2008.

The slowdown in durable goods consumption has been driven by higher interest rates, although this has not been as significant a cause as monetary authorities might have hoped. In fact, despite the interest rate increases, private sector credit extension has continued to grow. At the end of the financial year, lending to consumers and companies was still around 20% higher than a year earlier, although this rate had fallen from 27% at the start of the financial year. It seems that this growth has been driven mainly by companies that have been accessing overdraft facilities, but consumers also seem to be accessing credit through available overdraft, credit card spending and homeloan access bonds. This is even as higher interest rates and the tougher lending criteria of the National Credit Act have taken effect. This may lead to greater consumer stress down the road once facilities are exhausted and consumers face higher debt service costs. This is exacerbated by the property market, which has seen the value of properties decline recently as new mortgages have become more difficult and more expensive to obtain.

Consumers are certainly worried about their positions. The Stellenbosch Bureau for Economic Research consumer confidence indicator has shown consumers to be very positive about their prospects since the strong bull market began in 2003. But that changed dramatically in early 2008, with consumer confidence falling into negative territory. That means that respondents to the survey on average see their prospects over the next year negatively. The result will be an unwillingness to invest, further hurting the housing market and durable goods market.

High inflation, high interest rates and declining expenditure have all resulted in a decline in sales by retailers in the SA economy. The graph alongside shows the percentage growth in real sales compared to a year earlier. It shows that sales grew from 2003 until 2008, but have recently begun to shrink. This by definition reflects a tougher environment for retailers in South Africa.

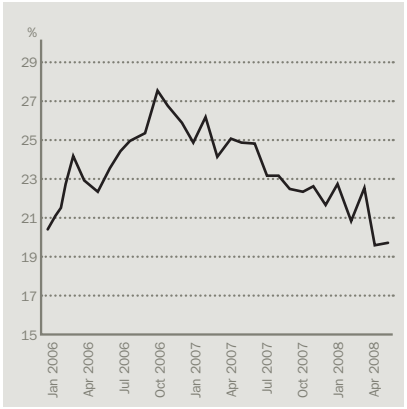
Expectations for the next year

We should expect the scenario to change only once interest rates reach their peak and begin falling, so restoring consumer confidence. This is likely only sometime in 2009, and depends substantially on world oil and food prices coming off their highs. Even once the cycle turns, consumers will still take some months to regain confidence and start spending, but an asset backlog will likely have developed by then, so a recovery could be significant.

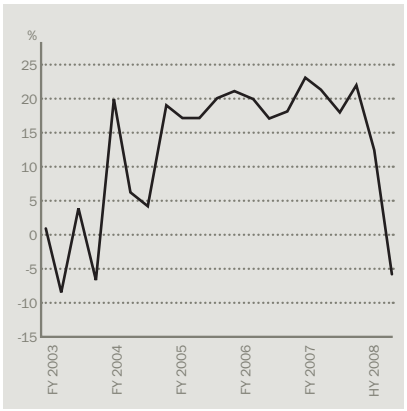
The impact on Massmart of the consumer spending scenario during the financial year was mixed. Massmart's reputation as a high-volume, low-margin retailer attracts consumers who 'trade-down' as a response to the tougher environment. This effect could lead to Massmart increasing market share in durable goods, such as the general merchandise sold in Game and Makro stores, even as overall durable goods sales shrink. Food sales are inelastic – meaning consumers must buy food even if prices increase – so Massmart's wholesale food businesses did not suffer and may also have benefited. The higher inflation environment will, however, increase revenues even while volumes come under pressure.

This report was prepared in conjunction with Intellidex.

Private sector credit extension year-on-year % change



BER consumer confidence index



Retail sales figures year-on-year % change current prices





A customer loads goods to restock shelves in her small trading shop in rural KwaZulu-Natal.



At a glance

Massdiscounters comprises 90 retail discount stores offering a wide range of general merchandise and non-perishable groceries to customers seeking value. 84 Game stores trade in South Africa, Namibia, Botswana, Zambia, Uganda, Mozambique, Nigeria, Mauritius, Malawi, Tanzania and Ghana. Six Dion Wired stores trade in Gauteng, South Africa.

game

- 26 stores acquired 1 July 1998
- Now 84 stores
- Operating in SA, Botswana, Namibia, Mauritius, Mozambique, Uganda, Zambia, Nigeria, Malawi, Tanzania, Ghana
- General merchandise and FMCG
- LSM 5–10

DION WIRED

- 20 Dion stores acquired 31 May 1993
- The last original Dion store closed in June 2008
- Now 6 stores
- Operating in SA
- General merchandise
- LSM 6–10

Massdiscounters divisional review

In an exciting year for Massdiscounters, our new Dion Wired stores began to show a combined profit, we built a new regional distribution centre that will improve supply chain efficiencies, and our Board approved the opening of several new Game stores in Africa. A return to our high-volume, low-margin discounting model helped us achieve an increase in sales despite a general slowdown in consumer spending.

The Massdiscounters brands

Massdiscounters operates two retail formats: Game and Dion Wired. Game is a discount retailer of general merchandise and non-perishable groceries for home, leisure and business use, operating throughout South Africa and in certain major cities of sub-Saharan Africa. Our newest division, Dion Wired, opened its first store in 2006 and sells upmarket electronics and appliances to affluent consumers through six stores in South Africa.

Massmart bought Dion in 1993 and Game in 1998, merging them a year later. At that time, both operated similar, competing formats and the decision was taken to close or convert all Dion stores to Game where this was made possible by impending store lease terminations. A core of ten Dion stores was retained in the Gauteng province of South Africa until those leases came up for renewal. In the past two years these stores have been closed or converted to Game.

Game's value proposition

At Game our positioning is to offer customers the widest range of branded products at the best price for a given set of product specifications. Customers are presented with a wide range from which to choose and are assured of the best value product for that price.

This financial year we focused particularly on increasing our promotional activity and improving our price perception among customers. By taking large positions on selected products and working closely with our suppliers, we were able to offer our customers well-priced products representing great value.

Dion Wired

The Dion Wired slogan is "Experience the future". Our product displays create an easy, interesting and interactive shopping experience for the latest home entertainment, computing, video and photographic equipment and appliances. Dion Wired sells complete technological solutions, demonstrating in-store the interconnectivity of the latest innovations and products. The IT experts manning our in-store service centre, the 'Propeller Heads', are on hand to offer the best advice and can do onsite repairs and services.

Trading profit before tax return on sales

Actual 2008
7,5%

Medium-term target
8,0%

International benchmark
7,4%

Highlights

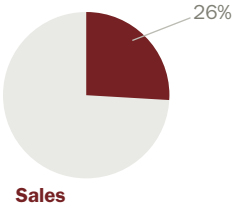
Over R10 billion in sales for the first time

Dion Wired profitable

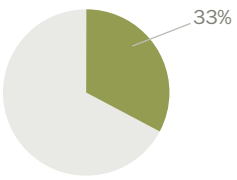
First regional distribution centre opened

Remaining original Dion stores closed or converted

Group contribution



Sales



EBITA

Key indicators

Financial performance

		2008	2007	2006
Sales*	Rm	10 406,5	9 424,5	8 095,7
EBITA	Rm	724,5	634,2	546,4
EBITA as a % of sales	*%*	*7,0*	*6,7*	*6,7*
Operating profit before interest	Rm	724,5	620,1	546,4
Operating profit before interest as % of sales	*%*	*7,0*	*6,6*	*6,7*
Net finance income	Rm	58,6	52,1	30,0
Operating profit after interest	Rm	783,1	672,2	576,4
Operating profit after interest as % of sales	*%*	*7,5*	*7,1*	*7,1*
Inventories	Rm	1 766,8	1 597,8	1 272,5
Inventory days	days	83	84	78
Net capital expenditure**	Rm	208,8	210,5	120,3
Cash flow from operating activities	Rm	(6,2)	43,2	458,6
Number of stores		90	90	80
Trading area	m^2	338 285	346 387	322 066
Average trading area per store	m^2	3 759	3 849	4 026
Number of employees		9 817	10 681	9 925
Sales per store	R000	115 247	104 038	101 196
Sales per m^2	R000	31	27	25
Sales per employee	R000	1 057	877	816

* *2008 is a 53-week period.*

** *Net capital expenditure is defined as capital expenditure less disposal proceeds.*

The ratios have been calculated using year-end balance sheet figures.

Store progress

Chains	Number of stores at the start of the year	Stores opened	Stores converted	Stores closed	Number of stores at the end of the year
Game	**82**	**4**	**3**	**-5**	**84**
		Key West (Gauteng, Krugersdorp)	Sandton (Gauteng, Johannesburg)	East Rand Mall (Gauteng, Johannesburg)	
		Richards Bay (KZN, Richards Bay)	Brooklyn (Gauteng, Pretoria)	Clearance Store (Gauteng, Johannesburg)	
		Potchefstroom (North West, Potchefstroom)	Westgate (Gauteng, Johannesburg)	Westgate (Gauteng, Johannesburg)	
		Walmer Park (Eastern Cape, Port Elizabeth)		Maynard Mall (Western Cape, Cape Town)	
				Metlife Plaza (Eastern Cape, Port Elizabeth)	
Dion/Dion Wired	**8**	**4**	**-3**	**-3**	**6**
		Dion Wired – Gateway (KZN, Durban)	Sandton (Gauteng, Johannesburg)	Alberton (Gauteng, Johannesburg)	
		Dion Wired – Woodmead (Gauteng, Johannesburg)	Brooklyn (Gauteng, Pretoria)	Dion – Kolonnade (Gauteng, Pretoria)	
		Dion Wired – Kolonnade (Gauteng, Pretoria)	Westgate (Gauteng, Johannesburg)	Boksburg (Gauteng, Johannesburg)	
		Dion Wired – Bedfordview (Gauteng, Johannesburg)			

Sustainability key performance indicators

Environmental	
Electricity	247 991 078 kW/h
CO_2 carbon emissions	117 204 tonnes
Transformation (employment equity statistics)	
Senior management	46,2%
Middle management and professionals	61,7%
Human capital	
Investment in staff training	R4,7 million
Customer satisfaction	
Satisfied customers	88,0%
HIV	
Prevalence rates amongst employees	4,3%
CSI	
CSI spend	R5,3 million

Although our products are well priced, Dion Wired is not a discounter. Our main offering is the widest range in South Africa of some of the world's biggest upmarket brands such as Apple, Smeg, Miele, Marantz, Jamo and Onkyo.

Three new stores were opened this year, bringing the total since launching the brand to six. Five are in Gauteng and one in KwaZulu-Natal. The new chain is already showing an overall profit and so we plan to roll out the concept nationally.

Our operating environment

The most important external events influencing our business this year were interest rate hikes and increases in the cost of transport and food, all of which cut into disposable income of our customers, who are predominantly in the middle-income category.

We sold approximately 4% of our sales through our own consumer credit arrangements. The impact of the National Credit Act (NCA) introduced in June 2007 prevented us from selling certain insurance products as part of these consumer credit arrangements, directly resulting in Massdiscounters losing income of R30 million. The additional credit risk now required to achieve the same degree of profitability prompted us to sell our Consumer Credit division, including the Consumer debtors book. Following a competitive tender process, the successful purchaser was RCS, a joint venture between Foschini and Standard Bank. RCS has been our business partner for over two years and, we believe, is in a better position to grow this Division. The sale was effective on 30 June 2008, immediately following the close of the 2008 financial year, and cash proceeds of R174 million were received.

The impact of the NCA, which was felt dramatically by many South African credit-based retailers, was offset in Massdiscounters by two factors. Firstly, Massdiscounters is primarily a cash business, with credit sales representing only a small proportion of total sales, so the NCA made little direct impact on our ability to sell to consumers. Secondly, in an inflationary environment more consumers are actively looking for better value and so our investment in rebuilding Game's perception as a leading discount store enabled us to trade effectively in a tough consumer environment.

This year's power cuts did not affect us operationally as all our stores are fully equipped with generators.

Financial performance

The Division reported total sales of R10,4 billion, representing growth of 10,4%, while the 52-week comparable store sales growth was 7,6%, with our annual sales inflation estimated at 2,7%. Sales growth from our 12 African stores was strong: in local currencies total sales grew by 95%, while comparable sales grew by 33%. Sales growth in Game South Africa was slightly positive and had increased towards the end of the financial year.

Profit before interest of R725 million was 14,3% higher than the prior year. Working capital management was less efficient than usual and so profit after interest received of R783 million was 14,1% above the prior year. The Division's resultant return on sales (profit before tax/sales) of 7,5% was very pleasing given the economic environment. Included in profit are unrealised gains of R63 million (2007: R18 million loss) on translation of the African balance sheets.

Net capital expenditure of R209 million was in line with the prior year's R210 million, which demonstrates the extent of the Division's store refurbishment and relocation programme, as well as supply chain and IT investments.

For most of the year inventory levels were slightly higher than our optimal levels, but this situation has now normalised.

Improved efficiencies

These financial results were assisted by our internal focus areas on improving labour and supply chain efficiencies, upgrading IT systems, closing or converting non-performing stores and opening new stores at carefully selected sites.

This financial year we converted three Dion stores to Game, and closed two Dion and five Game stores. Four new Game stores opened this year, fewer than the 11 stores opened last year, and three Dion Wired stores opened. In summary, seven stores were opened and seven were closed, leaving the total number of stores unchanged at 90, although the net result was a 2,3% reduction in trading space. Subsequent sales performance at Dion stores converted to Game increased by up to 30%, confirming the decision to discontinue Dion, especially where both brands competed directly with each other.



"These financial results were assisted by our internal focus areas on improving… efficiencies…closing or converting non-performing stores, and opening new stores…"

JAN POTGIETER CHIEF EXECUTIVE











Ama-Lunchbox

Massmart has decided to focus social spending on areas that really make a difference, and has identified education for the poorest of the poor as the most worthy cause.

In line with the philosophy that you can't teach a hungry child, Game partnered with government departments and NGOs to pioneer an innovative support programme for feeding schemes that was rolled out to many schools currently on the government feeding scheme throughout South Africa this year.

Many of these schools lack modern and hygienic cooking facilities. Painted in vibrant pink and branded 'ama-lunchbox', each R60 000 container kitchen is fitted with a gas burner, double bowl sink, cupboards, stainless steel containers, shelving, large cooking pots and spoons, and a supply of bright pink tumblers and bowls.

To launch our ama-lunchbox, staff from the nearest Game store prepare a nutritious meal and distribute it to the local school children, who get their own Game-branded lunch box.

This year we spent R1,5 million, or over a quarter of our social investment funding, on equipping 24 schools throughout South Africa with container kitchens that prepare meals for 31 500 children every day. We expect to supply another 30 containers in the next financial year to bring the total up to 55. These kitchens would then help to provide an estimated 10 million meals in a year. We believe that we are making a critical difference to our country's development.

From top:

One of Dion Wired's 'Propeller Head' vans. IT experts are on hand to offer advice, and are available for onsite repairs and services

Dion Wired in Woodmead provides displays that create an easy, interesting and interactive shopping experience

Ama-lunchbox, Game's partnership with government and NGOs, supports feeding schemes throughout South Africa

A friendly Game employee and a satisfied customer leaving the store

Better labour scheduling resulted in full-time equivalent employees savings of 8% to 10% without any staff retrenchments. This was achieved by using temporary staff only when really needed, putting a freeze on new appointments, managing overtime and reducing the duplication of employee functions.

Investments in supply chain and process enhancements continued, reflecting our belief that our long-term success remains dependent on improving product availability for customers and reducing the associated handling and administration costs. Our import warehouse, which opened in Pinetown near Durban last year, has improved warehouse and distribution efficiencies. These gains will grow in the 2009 financial year when our Cape Town regional distribution centre becomes fully operational, serving 14 stores in the Western and Eastern Cape.

Once we establish our ability to manage these large distribution centres and our suppliers show that they are able to change their own supply chains to accommodate this new strategy, further regional distribution centres will be built in Durban and Johannesburg in the next two to three years, with two smaller hubs potentially planned for outlying regions within five years. These centres will relieve pressure on our stores because stock will no longer be delivered directly to our back doors, as well as reducing in-store stocking and improving the stock balances between stores.

We also extended our electronic portal to over 335 suppliers, providing them with instant access to sales information to help them make more informed supply chain and production decisions.

Efficiency improvements were also achieved through the use of automated stock replenishment, which in terms of total sales reached 70% by units and 50% by value.

African opportunities

Massdiscounters operates 12 Game stores outside South Africa in ten countries and most are doing exceptionally well, with sales growth strongly outperforming our South African stores. This prompted us to revise an earlier policy to limit our African footprint to one store per country (with the exception of Botswana and Namibia). This year we are negotiating agreements to open second stores in Malawi, Zambia, Ghana and Nigeria, while further stores in Angola, the Democratic Republic of Congo and several other countries will follow.

Our success in Africa begins with a superior product range, competitive prices and better after-sales service than our competitors.

Local conditions are researched carefully before a decision is made to open a store in Africa. An independent business plan suited to local market expectations and supply chain constraints is created for each site. We buy locally and import some products directly from the countries of manufacture, while others pass through our warehouses in South Africa.

Although merchandising and administration managers are initially appointed from South Africa, they are tasked to develop local citizens to take over their positions within five years. Today half of our African stores are run by citizens of those countries.

Risks and rewards

The biggest external risk our business faces is the financial health and confidence of our consumers. Current economic conditions are a concern, but there seems to be growing consensus that there may be some interest rate reductions in the second half of the 2009 calendar year.

Future outlook

Our new Game stores will have a more contemporary feel. The first such store is being piloted in Boksburg, Gauteng. Signage will be less cluttered and will focus on price and promotions. Store flow design will encourage customers to visit more aisles, and our electronics displays will become more appealing by applying lessons learned in our Dion Wired stores. If successful, the new look and feel will be rolled out to several new Game stores planned for metropolitan centres and regional hubs in the next three years. Product ranges will be reviewed constantly to match regional customer profiles more closely.

We believe there is ample scope to grow our successful Dion Wired brand, and expect to open up to ten more outlets in the next five years, with careful attention being paid to selecting the right store location.

Massdiscounters directorate

Grant Pattison
Chairman

Jan Potgieter
Chief Executive

Ann Hansen
Financial Director

John Hart
Supply Chain Director

Mark Turner
Marketing Director

Richard Fuller
Africa Director

Rob Barrell
Store Operations Director

Rogany Ramiah
HR Director

Tyrone Vieira
Merchandise Director

Guy Hayward
Non-executive Director

Jay Currie
Non-executive Director



At a glance

Masswarehouse comprises 13 Makro warehouse club stores, trading in food, liquor and general merchandise in South Africa.

- Now 13 stores in SA
- Operating in SA, Zimbabwe
- Food/liquor/general merchandise
- Liquor and general merchandise LSM 6–10 and food LSM 2–4

Masswarehouse divisional review

Masswarehouse exceeded all expectations this year with an incredible trading and operating performance. Our new Makro store in Silver Lakes, Pretoria, did well and made a positive profit contribution. Makro's total sales topped R10 billion for the first time and profit before tax increased by almost 40% to R731 million.

The Makro formula

Masswarehouse was the founding entity of Massmart and currently operates 13 massive warehouse stores, branded Makro, situated in all the large metropolitan centres in South Africa selling food, liquor and general merchandise to retail and wholesale customers. Our two stores in Bulawayo and Harare, Zimbabwe, were deconsolidated from our financial figures in 2007.

The Makro formula is unusual in that it offers general merchandise for sale to retail customers, while most of its food and liquor is sold to wholesale customers. This blend gives it a robustness that enables it to trade comfortably through most economic cycles. The big-box warehouse club format with our no-frills approach keeps costs down and provides the platform for our high-volume, low-margin sales offering of quality branded merchandise. Our customer database generated by Makro store cards swiped at the point of purchase helps us keep track of the spending patterns of our 1,5 million active members and we communicate regularly with them through targeted promotional material.

Our operating environment

With rising inflation and depressed consumer spending as the higher interest rates took effect, we continued offering our customers affordable products representing better value for their money. Food inflation contributed to overall sales growth, but this was offset to some extent by deflation in general merchandise, especially electronic goods. The National Credit Act, which came into effect last year, had little effect on Makro as we are largely a cash business.

Selling alcoholic beverages from our liquor outlets adjacent to our main stores is an important part of our business, which makes it crucial for us to monitor and help shape new regulatory developments. This year all but one South African province were in various stages of drafting new liquor legislation and regulations flowing from the National Liquor Act passed in 2003.

Highlights

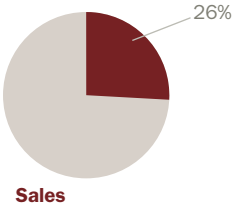
Silver Lakes store opened profitably

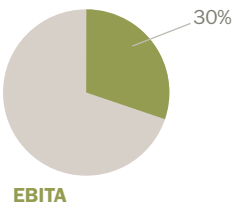
Over R10 billion in sales for the first time

Automatic stock forecast and replenishment system piloted

Two stores' sales were more than R1 billion

Group contribution





Trading profit before tax return on sales

Actual 2008	Previous target	Revised medium-term target	International benchmark
7,2%	6,0%	7,0%	5,0%

Key indicators

Financial performance

		2008	2007	2006
Sales*	Rm	10 103,8	8 640,1	7 661,1
EBITA	Rm	640,2	466,7	288,3
EBITA as a % of sales	*%*	*6,3*	*5,4*	*3,8*
Operating profit before interest	Rm	640,2	466,7	288,3
Operating profit before interest as % of sales	*%*	*6,3*	*5,4*	*3,8*
Net finance income	Rm	90,6	58,7	29,6
Operating profit after interest	Rm	730,8	525,4	317,9
Operating profit after interest as % of sales	*%*	*7,2*	*6,1*	*4,1*
Inventories	Rm	1 043,6	807,2	682,3
Inventory days	days	45	40	38
Net capital expenditure**	Rm	153,7	49,8	34,3
Cash flow from operating activities	Rm	285,8	375,8	289,1
Number of stores		13	12	14
Trading area	m^2	117 859	107 575	121 435
Average trading area per store	m^2	9 066	8 965	8 674
Number of employees		2 770	2 570	2 794
Sales per store	R000	777 215	720 010	547 221
Sales per m^2	R000	86	80	63
Sales per employee	R000	3 648	3 362	2 742

* *2008 is a 53-week period.*

** *Net capital expenditure is defined as capital expenditure less disposal proceeds.*

The ratios have been calculated using year-end balance sheet figures.

Masswarehouse includes Makro Zimbabwe for 2006, but not 2007 and 2008. Details can be found in note 6 in the annual financial statements on page 123.

Store progress

Chain	Number of stores at the start of the year	Stores opened	Number of stores at the end of the year
Makro	**12**	**1** Silver Lakes (Gauteng, Pretoria)	**13**

Excluding two Zimbabwe stores, deconsolidated since 2007

Sustainability key performance indicators

Environmental	
Electricity	128 305 524 kW/h
CO_2 carbon emissions	60 989 tonnes
Transformation (employment equity statistics)	
Senior management	17,7%
Middle management and professionals	45,6%
Human capital	
Investment in staff training	R7,5 million
Customer satisfaction	
Satisfied customers	84,0%
HIV	
Prevalence rates amongst employees	3,6%
CSI	
CSI spend	R6,9 million

We continue to engage constructively with the various administrations and have made submissions on draft bills to several provinces this year. This year the High Court dismissed with costs the National Liquor Authority's appeal against an earlier ruling allowing Makro to act as both retailer and distributor of liquor. Failing this we might have been forced to stop selling liquor to our wholesale customers.

This year's power cuts did not affect us operationally as all our stores are fully equipped with generators. These power cuts did, however, enable us to sell large volumes of generators, gas equipment and electricity-saving devices. This was offset to a small extent by lower purchasing volumes of perishables by the traders.

Financial performance

The Division reported total sales of R10,1 billion, representing growth of 16,9%, while the 52-week comparable store sales growth was 10,5%, with our annual sales inflation estimated at 7,2%. The new Silver Lakes store bolstered total sales growth.

Profit before interest of R640 million was 37,2% higher than the prior year. Working capital management remained very effective and profit before tax of R731 million was 39,1% above the prior year and represented a return on sales (profit before tax/sales) of 7,2%. Our medium-term target return on sales was increased from 6,0% to 7,0%.

As a result of the new store, net capital expenditure of R154 million was higher than the prior year's R50 million. This includes R61 million spent on Silver Lakes and R27 million on upgrading our SAP software.

Historically, Makro does relatively better during difficult economic times because more consumers are actively seeking better value, whether through bulk-buying or specials on selected branded goods.

There are several other reasons for our performance. Food inflation and the contribution from our new Silver Lakes store all played a role. So did new sales initiatives for our small- and medium-sized commercial customers, including introducing a delivery service and piloting a credit programme. Our Makro card allows us to make informed decisions on providing credit to enterprises that may traditionally lack access to credit. We are also building relationships with third-party credit providers such as RCS, which operates kiosks in our stores.

An automatic electronic stock forecast and replenishment system was piloted and will be fully implemented during the 2009 financial year. Supply chain improvements were achieved by introducing formal monitoring and reporting processes, and continuing to roll out efficiency benchmarks with key suppliers and at our distribution centre, thereby significantly improving suppliers' truck turnaround times at our stores.

Our value proposition

Makro's offerings are tailor-made to fit a variety of customer needs within and across all our merchandise categories.

Our food offering caters to wholesale shoppers ranging from informal traders and grocery store owners to hoteliers, restauranteurs and schools. Wholesalers account for 60% to 80% of Makro's food sales and mostly shop during the week for the convenience of our wide range of good value, quality consumables. At weekends our focus shifts to promoting good buys for retail food and grocery shoppers, who can achieve substantial savings on their monthly household basket compared to other mass retail outlets.

Our liquor outlets are constantly increasing their range of premium brands, especially in wine and whiskey. These products are sold at a low margin to maintain and grow our share of the market. At the same time we have maintained a strong presence of budget brands for liquor wholesalers looking for good value. This year we piloted a wine offering in the grocery section of two Makro stores, Germiston and Woodmead in Johannesburg. The results so far have been encouraging.

Hi-tech product focus

In general merchandise, this year saw us aggressively pursuing our strategy of making Makro the shopper's destination of choice for premium brands. By taking large positions on selected ranges and improving distribution efficiencies we were able to make selected brands more affordable and accessible to our customers. Aggressive promoting was done through advertising, in-store announcements and bold, powerful stack displays on the floor. Hi-tech products, such as flat-screen TVs and portable satellite navigation systems, performed particularly well in this category.



"…this year saw us aggressively pursuing our strategy of making Makro the shopper's destination of choice for premium brands."

KEVIN VYVYAN-DAY CHIEF EXECUTIVE







Going green

Makro played a leading role in developing Massmart's EcoWise programme this year, which will be rolled out across the Group's divisions.

EcoWise is premised on the belief that South African consumers lag behind their European and US counterparts in environmental awareness.

Makro proactively engaged with suppliers to find out which of their products had achieved independent environmental endorsements that could be displayed on packaging. These include the Marine Stewardship Council mark recognising that fish stocks are managed sustainably, the Forest Stewardship Council mark that indicates wood products are sourced from forests where strict environmental and social standards apply, and the Green Seal, a US stamp of approval certifying products comply with a published set of environmental criteria.

EcoWise products will be flagged in Makro stores in the next financial year through poster displays, information boxes, and green shelf edging and interrupters.

Makro also played a leading role in producing Massmart's Green Book of Answers, which provides merchandising directors and buyers with a set of questions to put to suppliers that encourage them to develop green products and adhere to environmentally sound practices.

This year Makro also piloted an electronic waste disposal programme at the Woodmead store. Placed in the parking lot, customers can discard unwanted electronic goods safe in the knowledge that these goods will be destroyed, reused or recycled in an environmentally sensitive manner.

From top:

Makro Silver Lakes in Pretoria is our first new store in four years. It boasts energy efficiency, technical advancement and a modern look and feel

Makro's electronic waste bin at the Woodmead store. This joint venture with Fujitsu Siemens collects 'e-waste' for proper recycling or disposal

Makro's offerings fit a variety of customer needs within and across all our merchandise categories

Another highlight this year was rolling out our expanded selection of branded sports apparel and equipment to seven Makro stores. Many of the leading sports brands, including up-market footwear and leisure clothing, are now available in our eight largest stores. The sports areas in these stores have been enlarged and visually enhanced with lifestyle banners and bold brand displays.

Our Private Label programme continued to flourish this year, providing exceptional value to our customers who are assured of stringent quality control and best supplier practices. Several have become household names, including Trojan exercise equipment, Campmaster outdoor gear, and Mastercraft hand tools.

A new store

The decision to open a new Makro is not taken lightly. Our stores are massive structures occupying 6ha of retail and parking space. A shortage of suitable land, the need to identify growth opportunities that can deliver annual store turnover of at least R450 million and the danger of cannibalising customers from other Massmart stores are factors that are carefully considered.

The research that went into opening Silver Lakes, our first new store in four years, has paid off. Despite pre-opening costs and the anticipated cannibalisation of the two nearest Makro stores in Pretoria, Silver Lakes made a net positive trading contribution. Silver Lakes is our most technically advanced store, achieving 10% to 20% better energy efficiency than older Makro stores. It also reflects the more modern look and feel that will become a hallmark of all Makro stores in the future and which has since been implemented at our Woodmead branch.

Risks and rewards

Makro's spectacular organic growth comes with its own risks. The same infrastructure producing sales of R6 billion a few years ago is now turning more than R10 billion. Our Woodmead and Germiston stores had sales of more than R1 billion each this year. This means sites must be found for new stores to reduce the trading pressure on those stores, but affordable land at strategic locations near urban growth nodes is increasingly rare. In the meantime, the volume and rate of product flow within stores must improve without compromising on safety. This year we focused on forklift safety by restricting speeds, painting our vehicles in bright colours, and trying to keep them off the floor during trading hours.

Future outlook

In the meantime, we are actively scouting for sites for new stores. No new Makros are planned for the next financial year, but within three years we expect to open a new store in each of the Western Cape, Gauteng and KwaZulu-Natal regions. Makro will use lessons learned from Silver Lakes and Woodmead to improve the shopping environment at our other stores. Three stores will be refurbished in the next two years, and the remainder thereafter.

Consumer spending is likely to continue to slow. Our response will be an ongoing focus on offering strong value propositions, constantly refining operational efficiencies, improving outbound sales efforts, and enhancing the Makro shopping experience in our stores.

Masswarehouse directorate

Grant Pattison
Chairman

Kevin Vyvyan-Day
Chief Executive

Bruce Cayzer
Food Director

Chris Nezar
Marketing Director

Derick Kalan
General Merchandise Director

Douglas Jones
Financial Director

Garry Hendry
Liquor Director

Gert Lourens
Operations Director

Pieter Schoeman
IT Director

Thuli Mpshe
Human Resources Director

Guy Hayward
Non-executive Director

Jay Currie
Non-executive Director



At a glance

Massbuild has 68 outlets, trading in DIY, home improvement and builders' hardware, under the Builders Warehouse, Builders Express and Builders Trade Depot brands in South Africa.

builders warehouse
HOME IMPROVEMENT A TO Z

- 5 Builders Warehouse stores acquired in February 2003, 3 De La Rey stores acquired in June 2005, rebranded to Builders Warehouse
- Now 22 stores
- Operating in SA
- Home improvement supplies/tools/ building materials
- LSM 5–10

builders express
HOME & GARDEN CENTRE

- 14 Servistar stores acquired in June 2005, rebranded to Builders Express
- Now 18 stores
- Operating in SA
- Home improvement supplies/tools/ building materials
- LSM 5–10

builders TRADE DEPOT
BUILDING MATERIAL SUPPLIES

- 34 Federated Timbers stores acquired in June 2005, rebranded to Builders Trade Depot
- Now 28 stores
- Operating in SA
- Building materials/tools
- LSM 5–10

Massbuild divisional review

Massbuild simplified management structures this year, significantly improved the control of operating costs and introduced new, innovative product ranges. This resulted in a respectable increase in sales of 14,4% to R5,7 billion and a 14,0% increase in profit before tax to R433 million. Our simpler, leaner division is well poised to gain market share of the growing home improvement market.

The Massbuild brands

Massbuild operates three complementary brands: Builders Warehouse, which operates large home improvement stores in major urban areas; Builders Express, a chain of smaller neighbourhood home improvement stores; and Builders Trade Depot, building contractor outlets strategically located in industrial sites in peri-urban and urban areas.

Massmart acquired five Builders Warehouse stores in 2003, bought and rebranded three De La Rey stores in the Western Cape in 2005, and now operates 22 Builders Warehouses in seven provinces. Builders Warehouse follows the big box retail format, offering home owners, DIY enthusiasts and building and maintenance contractors a comprehensive range of competitively priced products under one roof, with a large garden centre display and builders' commodities yard.

Builders Express was formed in 2005 when Massmart bought and rebranded 14 Servistar stores operating in the Eastern Cape and KwaZulu-Natal. Massbuild now operates 18 home and garden centres in four provinces that cater to home owners. They have a strong focus on convenient locations, aesthetically pleasing displays, customer-friendly store layout and personalised service and advice.

Builders Trade Depot was created when 34 Federated Timber stores were acquired and rebranded in 2005. Six smaller stores have since been closed and Massbuild now operates 28 outlets catering mostly for medium- to large-sized contractors and tradesmen engaged in building, maintenance and renovation projects. It focuses on servicing the needs of construction entrepreneurs who need trade credit, telephonic ordering, and want bulk goods delivered from low-cost depots.

Builders Warehouse and Express are both pioneers in introducing retail principles to the home improvement sector and attaching garden centres to hardware stores. The clean, friendly and uncluttered look and feel of our stores offers customers a shopping experience traditionally not associated with the sector.

Highlights

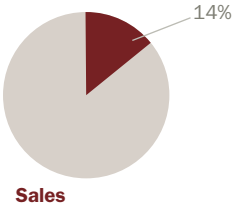
Significant improvement in stock efficiencies

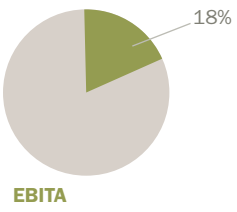
Four new stores opened

Massbuild head office removed

Builders Express incorporated into Builders Warehouse

Group contribution





Trading profit before tax return on sales

Actual 2008	Medium-term target	International benchmark
7,6%	9,0%	10,0%

Key indicators

Financial performance

		2008	2007	2006
Sales*	Rm	5 662,9	4 948,3	3 892,8
EBITA	Rm	390,1	363,0	290,4
EBITA as a % of sales	*%*	*6,9*	*7,3*	*7,5*
Operating profit before interest	Rm	390,1	363,0	290,4
Operating profit before interest as % of sales	*%*	*6,9*	*7,3*	*7,5*
Net finance income	Rm	42,9	16,8	6,4
Operating profit after interest	Rm	433,0	379,8	296,8
Operating profit after interest as % of sales	*%*	*7,6*	*7,7*	*7,6*
Inventories	Rm	852,5	829,3	602,4
Inventory days	days	77	86	80
Net capital expenditure**	Rm	138,8	101,2	105,6
Cash flow from operating activities	Rm	265,6	277,5	191,4
Number of stores		68	64	65
Trading area	m^2	309 633	294 039	287 914
Average trading area per store	m^2	4 553	4 594	4 429
Number of employees		6 625	6 400	5 125
Sales per store	R000	83 278	77 317	59 889
Sales per m^2	R000	18	17	14
Sales per employee	R000	855	773	760

* *2008 is a 53-week period.*

** *Net capital expenditure is defined as capital expenditure less disposal proceeds.*

The ratios have been calculated using year-end balance sheet figures.

Store progress

Chains	Number of stores at the start of the year	Stores opened	Number of stores at the end of the year
Builders Warehouse	**21**	**1** Nelspruit (Mpumalanga)	**22**
Builders Express	**15**	**3** Robindale (Gauteng, Johannesburg) Lambton (Gauteng, Johannesburg) Wonderpark (Gauteng, Pretoria)	**18**
Builders Trade Depot	**28**	**–**	**28**

Sustainability key performance indicators

Environmental	
Electricity	65 442 917 kW/h
CO_2 carbon emissions	31 775 tonnes
Transformation (employment equity statistics)	
Senior management	20,4%
Middle management and professionals	33,2%
Human capital	
Investment in staff training	R7,9 million
Customer satisfaction	
Satisfied customers	91,5%
HIV	
Prevalence rates amongst employees	3,7%
CSI	
CSI spend	R0,8 million

A high service dimension is common to all our stores. Most departments are advice driven, and product training takes place in almost all our outlets every day. Our biggest challenge in this area is to retain our staff, whose skills leave them in high demand as supervisors or contractors in the building and home improvement industry. Sales representatives from both Builders Trade Depot and Builders Warehouse are constantly on the road to build and strengthen relationships with contractors, helping us keep abreast of customer needs.

Our operating environment

Our business is vulnerable to a tightening consumer environment because our products and services are discretionary purchases. The external events influencing Massbuild this year were higher interest rates and municipal rates, which have added to the cost of home ownership; accelerating inflation in fuel and food; and initially a slowing increase in house prices, which have begun to decline. Significant increases this year in the price of steel and copper, both used extensively in our products, also put pressure on sales. Bureaucratic delays in development approvals and bulk service provision by local authorities also had an impact on building contractor demand.

These conditions were, however, offset by several factors. The housing shortage in South Africa means demand will continue growing, which also translates into a growing market for essential maintenance and renovation products. The same is true for construction and maintenance in the commercial, industrial and essential services sectors. A growing middle-class, achieved though economic growth, transformation and job creation, will provide a longer-term underpin for the housing market.

Electricity supply problems this year did not pose an operating risk as most of our stores are equipped with generators. During the power outages we saw increased sales of all gas products, generators and other emergency items, and have since added uninterrupted power supply units to our product range. Sales have since tapered off as customers tend to purchase these products during the crisis, not beforehand.

Financial performance

The Division reported total sales of R5,7 billion, representing growth of 14,4%, while the 52-week comparable store sales growth was 9,0%, with our annual sales inflation estimated at 7,5%. Sales growth declined from quarter to quarter.

Profit before interest of R390 million was 7,5% higher than the prior year. Working capital management improved and profit before tax of R433 million was 14,0% above the prior year. Although below our medium-term target of 9,0%, the Division's return on sales (profit before tax/sales) of 7,6% was pleasing given the economic environment.

With four new stores and two major refurbishments, capital expenditure of R119 million was higher than the prior year's R101 million.

Improved efficiencies

A key contributor to our financial results was a focus on improving stock efficiencies, which resulted in Builders Warehouse closing on a lower stockholding level this year, compared to 2007, despite opening a new store. In the last six months we dramatically reduced unprofitable or unpopular ranges, which resulted in lower stock levels and higher interest earnings for Builders Warehouse. The introduction of a computerised automatic replenishment system at Builders Warehouse also played a leading role and up to 40% of our sales now go through auto-replenishment, a figure we expect to double within two years. We also introduced planning units in our merchandise departments, with financial modelling used to improve buying decisions and minimise errors.

Supply chain improvements are ongoing. As the Division was built through acquisition, Massbuild has a highly fragmented logistics network. In addition, the home improvement and building materials industry continues to be fragmented, with most suppliers set up to deliver to hundreds of locations. In the last three years we have established distribution centres and logistics channels for our direct imports. Supplier performance was monitored and improved through delivery time and order-fill rate surveys. Massbuild gains invaluable insights from other Massmart divisions in making efficiency gains in this area.

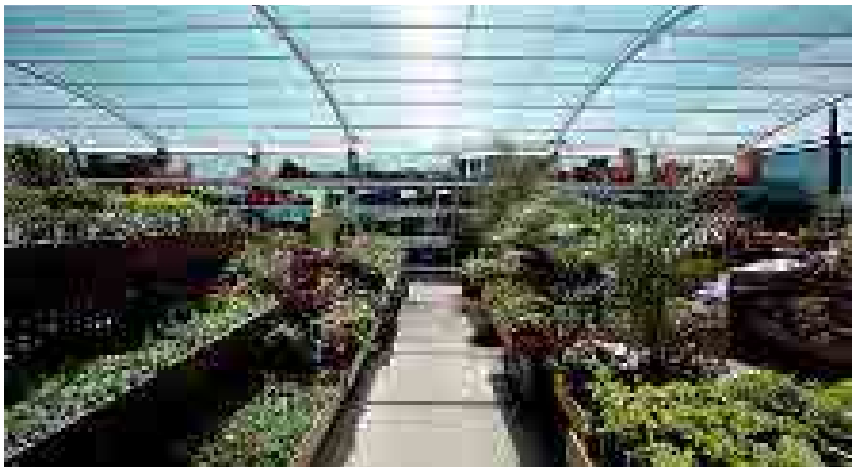
Major savings were made this year through labour-planning improvements. The number of staff, measured by 'full-time equivalents', has reduced every month since January 2008 owing to a continuous reduction in required overtime across the stores. This was done by matching store staffing more accurately to customer requirements, thus reducing unnecessary overtime.



"A key contributor to our financial results was a focus on improving stock efficiencies, which resulted in Builders Warehouse closing on a lower stockholding level this year… despite opening a new store."

AUBREY CIMRING DEPUTY CHIEF EXECUTIVE











Hot Dog Café and The Coffee Shop

Massbuild played a leading role in getting Massmart's Hot Dog Café concept off the ground, which became the model for The Coffee Shop franchise launched this year.

The Group donated R2 million to the Massmart/Umsobomvu Youth Development Fund, a programme established in 2005 that identifies unemployed youths with entrepreneurial potential from previously disadvantaged backgrounds, and offers them the chance to hone the skills they will need to run their own small businesses. The fund pays for skills training and start-up costs for micro enterprises, and Massmart provides rent-free retail space at its stores.

The fund's first project was the Hot Dog Café. Selected cadets who completed training courses at a test kitchen in Pretoria were given a R60 000 soft loan to start their fast-food businesses, managed by a franchise operator. Dog Café was piloted at selected Builders Warehouses, with beneficiaries generating an average annual turnover of R750 000 and taking home R120 000 after deducting running costs and loan repayments. There are currently 17 Hot Dog Café franchise owners operating outside selected Game, Jumbo and Builders Warehouse stores, employing a total of 50 people.

The same model was used for creating The Coffee Shop concept, which will see a chain of small restaurants serving prepared food, snacks and beverages at Builders Warehouse stores throughout South Africa. The Coffee Shop was launched this year at the newly opened Builders Warehouse in Nelspruit. Cadets at the fund's training kitchen in Pretoria are already vying for the chance to run the next franchise when the newest Builders Warehouse opens its doors.

From top:
Builders Warehouse in Zambezi follows the big box retail format, offering a variety of customers a comprehensive range of competitively priced products under one roof

Garden Centres are an award-winning addition to the Builders Express and Builders Warehouse DIY range

The lighting, colour and ambience enhance the shopping experience at Builders Express *(left)*; Massmart/Umsobomvu Youth Development Fund pays for skills training for unemployed youths with entrepreneurial potential and pays for the start-up costs of micro enterprises. Massmart also provides rent-free retail space at its stores. The Hot Dog Café was the fund's first project *(right)*

A staff member mixes paints using the latest computer-aided system at Builders Warehouse

Our value proposition

Massbuild's major innovation has been to introduce retail principles to the home improvement and building materials sector.

This was illustrated by our new Builders Warehouse opened in Nelspruit this year, and three new Builders Express stores launched in Wonderboom, Pretoria, Lambton, Germiston, and Robindale, Johannesburg. These stores aim to give effect to the term 'retail theatre', where lighting, colour and ambience enhance the shopping experience, signage is clean and bold, and product displays enticing. Our garden centres won awards this year for their use of colour and light.

Several of our private brands, including Mastercraft hand tools and Builders Pride paint, have become household names, with our customers assured of stringent quality control and best supplier practices. Our private label decorative and contractor paints, locks and decorative handles performed exceptionally well this year.

Risks and rewards

Finding affordable sites in the right locations for our new stores is becoming increasingly difficult. Local authorities' bureaucracy can hold up approvals and the provision of municipal services. In line with Massmart policy, we always ensure we comply with all regulatory requirements before opening stores and only partner with reputable, experienced developers.

Future outlook

There are opportunities for all our brands to grow, both by store growth and through the introduction of new merchandise categories that we do not yet offer our customers. We therefore expect to open two new Builders Express and five new Builders Warehouse stores in the next two years, with the first planned for Gauteng in the 2009 financial year. During the same period we expect to open two new Builders Trade Depots, the first in Soweto, which will become our new Builders Trade Depot flagship offering the best retail and wholesale practices implemented in this chain.

Massbuild directorate

Grant Pattison
Chairman

Aubrey Cimring
Managing Director (Builders Warehouse)

Alex Rymaszewski
Store Development Director

Fred Cresswell
Managing Director (Builders Trade Depot)

Llewellyn Steeneveldt
Managing Director (Builders Express)

Guy Hayward
Non-executive Director

Jay Currie
Non-executive Director



At a glance

Masscash has 65 CBW and six Jumbo wholesale cash and carry outlets trading in South Africa, Lesotho, Namibia and Botswana, and a voluntary buying organisation, Shield.

CBW

- 14 CCW stores acquired in June 1998, 22 Browns and Weirs stores acquired in July 2001. Two chains combined under CBW format from July 2001
- Now 65 stores
- Operating in SA, Lesotho, Namibia, Botswana
- Food/liquor/groceries
- LSM 2–6

JUMBO Cash and carry.

- 6 stores acquired in April 2001
- Now 6 stores
- Operating in SA
- Food/groceries/ethnic cosmetics
- LSM 2–6

Shield

- 378 members acquired in March 1992
- Now 466 members representing 527 outlets
- Operating in SA, Botswana, Namibia, Swaziland
- Food/groceries
- LSM 2–6

Masscash divisional review

Masscash successfully integrated the Division's various management teams and structures into a single unit this year, creating a single and stronger executive management team that is clear about the profit and growth opportunities of the various businesses. The hybrid store strategy, encompassing a store format with a combination of retail and wholesale food, delivered exceptional returns and continues to offer new growth opportunities. With the phased roll-out of a new in-store IT system continuing this year, we are confident about the Division's growth prospects.

The Masscash brands

Masscash consists of four entities: CBW, Jumbo, CellShack and Shield. CBW and Jumbo sell food, liquor, groceries and cosmetics in bulk to individual consumers, independent general dealers, government feeding schemes, franchise members, small traders and hawkers in peri-urban and rural areas within southern Africa. Shield is a voluntary association that buys Masscash products in bulk on behalf of over 500 members who own wholesale or retail food businesses in South Africa, Botswana, Namibia and Swaziland. CellShack sells cellular products through its own wholesale and retail channels.

CBW was formed by acquiring 14 CCW stores in 1998 and 22 Browns and Weirs stores in 2001. The two chains were merged in the same year. In 2001 Masscash also bought six Jumbo stores, selling mainly cosmetics, toiletries and hair care products to individual consumers and independent general dealers. CBW now operates 65 stores in South Africa, Lesotho, Namibia and Botswana. Cell-Shack, which trades in the South African cellular wholesale market, was acquired in 2005.

Our value proposition

All our stores apply the philosophy of supplying the right range of products to satisfy local needs at a highly competitive price to low- to middle-income wholesale customers. We keep costs down by employing a no-frills cash-and-carry warehouse format coupled with unsophisticated distribution centres that supply our private label and imported general merchandise ranges. Our private label food brands, Econo and Heritage, offer our customers exceptional value and the assurance of stringent quality and safety controls.

Highlights

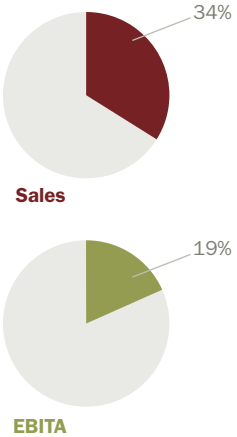
Profit before tax increased by 38,5%

Hybrid strategy significantly advanced

Successful trial of new point-of-sale and back-office system

Several small acquisitions approved

Group contribution



Trading profit before tax return on sales

Actual 2008
3,2%

Medium-term target
3,0%

International benchmark
3,0%

Key indicators

Financial performance

		2008	2007	2006
Sales*	Rm	13 610,4	11 794,7	10 314,0
EBITA	Rm	402,0	290,0	208,4
EBITA as a % of sales	*%*	*3,0*	*2,5*	*2,0*
Operating profit before interest	Rm	398,2	277,8	203,0
Operating profit before interest as % of sales	*%*	*2,9*	*2,4*	*2,0*
Net finance income	Rm	37,4	13,9	13,2
Operating profit after interest	Rm	435,6	291,7	216,2
Operating profit after interest as % of sales	*%*	*3,2*	*2,5*	*2,1*
Inventories	Rm	1 094,5	765,0	654,1
Inventory days	days	32	26	25
Net capital expenditure**	Rm	91,1	59,8	72,4
Cash flow from operating activities	Rm	163,4	333,7	155,0
Number of stores		71	72	69
Trading area	m^2	247 007	246 276	241 701
Average trading area per store	m^2	3 479	3 421	3 503
Number of employees		4 893	4 608	4 375
Sales per store	R000	161 634	133 775	120 104
Sales per m^2	R000	46	39	34
Sales per employee	R000	2 782	2 560	2 356

* *2008 is a 53-week period.*

** *Net capital expenditure is defined as capital expenditure less disposal proceeds.*

The ratios have been calculated using year-end balance sheet figures.

Shield is shown as average sales to each independently owned outlet (ie this represents only a portion of the outlet's sales).

The above results exclude amounts relating to the discontinued operation (Furnex).

Store progress

Chains	Number of stores at the start of the year	Stores closed	Number of stores at the end of the year
CBW	**65**		**65**
Jumbo	**7**	**-1** Nelspruit (Mpumalanga)	**6**

Sustainability key performance indicators

Environmental	
Electricity	55 371 027 kW/h
CO_2 carbon emissions	29 788 tonnes
Transformation (employment equity statistics)	
Senior management	19,6%
Middle management and professionals	39,2%
Human capital	
Investment in staff training	R2,3 million
Customer satisfaction	
Satisfied customers	83,6%
HIV	
Prevalence rates amongst employees	9,0%
CSI	
CSI spend	R2,9 million

Our national offices in Pinetown and Parktown provide financial, IT and HR support and negotiate supplier trading terms. However, regional support structures and store managers retain a degree of autonomy to ensure decisions on stock buying and promotions cater for local variations and needs. Several of our stores have two managers – one ensuring the store carries the right product range and the other trading with customers on the floor, and ensuring products are appropriately displayed and stocked on shelves. Our owner-managers are highly committed and motivated entrepreneurs whose performance is incentivised by store-level profit share and Group share equity schemes.

Our operating environment

Basic food and transport costs have escalated significantly this year. This has been particularly hard on the low-income consumers supplied by our wholesale customers. Many of these consumers rely on social grants, which have not kept pace with inflation. These factors did not, however, have a major impact on Masscash's results because demand for basic foodstuffs is not price-sensitive, although the business remains concerned about the pressure higher food prices place on our end-consumers. The Massmart Group has identified food security as a focus area and so Masscash works hard with suppliers to keep the cost of basic goods as low as possible, and dedicates a portion of its social investment budget to feeding schemes. Sales of food wholesalers and retailers tend to increase in a high food inflation environment, while the opposite happens during periods of food price deflation, as we experienced in 2004.

Soaring food and fuel prices in particular led to higher inflation levels, with demand exceeding supply capacity due to:

- Changing weather patterns caused by global warming, resulting in droughts, floods and abnormal climatic conditions in crop growing areas
- Increased demand for agricultural crops to produce biofuels
- Increased consumer affluence in Asia resulting in higher demand for food and meat
- State intervention in limiting the export of rice and wheat in certain countries, such as India.

The power cuts in January this year resulted in some limited stock losses from failed refrigerators and lower purchasing volumes from perishables traders.

Financial performance

High food inflation resulted in the Division reporting higher total sales of R13,6 billion, representing growth of 15,4%, while the 52-week comparable store sales growth was 14,3%, with our annual sales inflation estimated at 13,3%.

Profit before interest of R402 million was 38,6% higher than the prior year, partially bolstered by the once-off savings from the amalgamation of the various businesses and structures within the Division. Working capital continued to be effectively managed, resulting in higher interest earnings (assisted by higher interest rates) and so profit before tax of R439 million was 44,6% above the prior year. The Division's resultant return on sales (profit before tax/sales) of 3,2% was pleasing, with the medium-term target of 3,0% exceeded for the first time since 2004. Given that there is some inflation-linked profit and higher interest earnings, the Division's medium-term target remains unchanged.

Net capital expenditure of R91 million was higher than the prior year's R60 million, with some of the increase owing to the new investment in IT systems.

Debtors remained well controlled, while inventory levels were approximately R130 million higher than normal as a result of ongoing food supply constraints.



"…Masscash works hard with suppliers to keep the cost of basic goods as low as possible, and dedicates a portion of its social investment budget to feeding schemes."

ROBIN WRIGHT CHIEF EXECUTIVE









Powering ahead

During the 2008 financial year Masscash won Massmart's Socially Responsible Division of the Year Award for its achievements in black empowerment.

Our store-based owner-manager scheme offers talented entrepreneurs the opportunity to create wealth for themselves and our Division by sharing in the fruits of real ownership. In return for store managerial skills and local customer knowledge each of the two managers of new stores we open is offered a minority shareholding at no cost. Our policy attempts to ensure that at least one of the two managers is black. So far this has resulted in four black entrepreneurs becoming owner-managers of CBW stores and 20% of all our stores becoming black managed. We expect more to follow as we open more stores.

After three years Masscash buys back a portion of the owners' minority shareholdings, a strong incentive for performance that has made some of our managers financially secure. Where we are unable to offer store managers a shareholding in the store, those managers participate in a store profit-sharing that mimics a notional shareholding.

Feeding schemes is another area where Masscash is contributing to black empowerment. We provide mentoring to black-owned companies tendering for contracts to supply feeding schemes. Areas of support include preparing tender documents, finding warehouse space, negotiating truck rentals and scheduling labour. In return we require their stock to be bought from us.

From top:

The high-volume, low-cost format at Jumbo stores caters to small traders

An employee at Jumbo packs shelves in preparation for the day's trading *(left)*; CBW caters for the needs of a variety of customers ranging from individual consumers to small traders and hawkers *(right)*

Westmead Cash and Carry, one of the 65 CBW stores

Improved efficiencies

The Masscash business model is predicated on keeping total costs as low as possible, without compromising control, efficiency or effectiveness. The management and reporting structures of CBW, Jumbo and Shield were integrated into a single unit. Jumbo's head office in Gauteng was closed and its management functions moved to Pinetown. The move also brought about a better business focus, especially at Jumbo and Shield, which translated into a dramatic improvement in trading performances.

This year Masscash began to develop a new franchise format called Saverite, which targets wholesale customers with annual sales of between R5 million and R35 million. The programme is offered for a nominal franchise fee through Shield and our store network, with members supplied with promotional, advertising and marketing support as well as access to trade credit. Masscash offers Saverite members highly competitive prices by leveraging Group purchasing volumes, selling them our private label brands, and keeping distribution costs down through tight supply chain management.

Upgrading IT

A new in-store IT system piloted this year will fundamentally change the way we do business and is being rolled out to the remainder of our stores in the 2009 financial year. The Arch Retail Management System was tested and became fully functional at three CBW stores and all six Jumbo stores by March 2008.

This development brings several important improvements to our business. It replaces complicated and older computer formats with modern visual displays at point-of-sale terminals that are easy to use; it standardises the six different IT systems our stores previously used into one; it allows one common master file of stock data across the Division; it offers stores technical support services, which was becoming difficult with our legacy systems; and it seamlessly integrates with the Division's accounting and finance functions. Through the stock master file, the new system provides our buyers with powerful reporting functions, thereby improving the quality of their information when negotiating with suppliers.

Masscash is also conducting a general review of our communication practices. Traditional marketing techniques, such as sending our 'Happy Vans' to distribute promotional material at schools and community centres in rural areas, will be supplemented with SMS, internet, e-mail and radio communication.

Risks and rewards

Masscash will maintain a consistent long-term strategy that focuses on consolidating and growing our R12 billion footprint within the South African lower- to middle-income food wholesale market worth about R125 billion annually.

A key strategy to achieve this is a hybrid model serving wholesale and retail customers in the same store. The model was piloted with the acquisition of Thaba Cash & Carry in 2007, which owned three stores in the Free State. The stores exceeded all expectations this year, with a different sales mix achieving higher gross profit margins compared to typical wholesale margins. Continuing with our strategy of consolidating this market, in August 2008 we acquired the five-store Cambridge Foods based in Durban, now subject only to Competition Tribunal approval.

Future outlook

Masscash will continue to pursue growth opportunities in the lower-end hybrid retail and wholesale market, either by acquiring existing outlets or by opening new stores at suitable sites with high traffic volumes, or converting CBW and Jumbo wholesalers into hybrids.

Over the longer term, opportunities are expected to arise in several southern African countries. We are constantly scouting for prospects in new markets to consolidate and grow our position as southern Africa's leading wholesaler and retailer of basic goods.

Masscash directorate

Grant Pattison
Chairman

Robin Wright
Chief Executive

Craig Surmon
Marketing Director

Dino Holmes
Financial Director

Jane Bruyns
HR Director

Mike Marshall
Business Systems & Process Director

Neville Dunn
Operations Director

Guy Hayward
Non-executive Director

Jay Currie
Non-executive Director

Pearl Maphoshe
Non-executive Director

Channel and Shared Services review

We believe that the value of the Massmart Group is greater than the sum of its parts. This philosophy underpins Massmart's approach to collaboration across the Divisions which is facilitated and implemented by our Channel and Shared Services functions.

Channel

The Channel function is to provide a secure and structured place for our Divisions to share information and collaborate in a way that we believe will materially benefit the Group. This is done primarily by organising forums, in particular areas of competence and interest, which bring together the best and most senior skills in the Group in each functional area. These forums are chaired by members of the Group Executive Committee and consist of both trading and functional forums.

Each forum is tasked with performing four key functions.

The first, and most important, is identifying common opportunities across Divisions where the capability and resources of the Group can be leveraged to increase profits or reduce costs across some or all Divisions in a way that could not be achieved by any Division acting independently. This can take the form, for example, of sharing private label products, collaborating on product sourcing, supplier negotiations to reduce the cost per unit from shared vendors, or building shared supplier relationships.

Forums are also used to reach agreement on common standards that are important for Divisions to adhere to. In addition to this, forums assign and monitor Group representation on external standards and industry bodies and engage government in legislative processes relevant to our industry.

Thirdly, forums perform a peer review function to improve performance. Massmart Divisions assess each other for adherence to agreed Group standards and operating norms, and ensure appropriate measures are adopted to mitigate against risks material to the Group.

Lastly, forums function as a place to share internal and externally sourced learning.

Divisional-level data is gathered, analysed and benchmarked at Group level, then presented and debated at the various forums, and experiences across Divisions that will materially advantage the Group are shared. Processes piloted in one Division can be rolled out in another.

External learning takes the form of presentations from conferences, visiting other local and international retail sites, gathering market share data meaningful in tracking Divisional category performance against competitors and monitoring competitor activity through supplier and market intelligence. Regular presentations to forums from outside experts keep Group and Divisional executives up to date with the latest developments in our industry and operating environment.

Experiences across Divisions that will materially advantage the Group are shared.

Trading forums

Our trading forums consist of the Food and Liquor, General Merchandise and Cellular Forums. During the year, Massmart's trading forums continued to consolidate meaningful commercial objectives such as joint strategic supplier reviews and internal product category reviews.

Notable achievements of the trading forums this year included joint development and procurement initiatives in our private and exclusive label programmes and the creation of an accurate scorecard to measure private label performance; a focus in merchandise forums on empowerment scorecard measures for strategic suppliers; and the launch of a data-sharing project with strategic food suppliers on market share and category performance.

This year the Home Improvement Forum was incorporated into the General Merchandise Forum to promote stronger synergies, help identify business opportunities and leverage merchandise category expertise.

Functional forums

Our functional forums are the Technology, Information and Process (TIP), Operations, and Human Resources Forums. These focus on the management of skills and the procurement of resources and services required to support key Group-wide activities.

The Human Resources Forum has successfully driven shared initiatives across the Group, of which the management of talent is a key priority. Interventions include our Graduate programme, which is aimed at bringing capable black junior management candidates into the Group. Resources continue to be channelled into our scarce-skills programme, which ensures our critical workforce segments are managed strategically and succession plans are addressed. These programmes, previously implemented by our Shared Services entity, have been moved to the Human Capital role at Massmart Holdings. Its responsibilities include our Executive and Leadership Development programmes, which provide our executives with experiential training and academic learning opportunities.

Functional forums achieved a conservatively estimated saving of over R10 million this year as a result of joint IT procurement initiatives. Savings will continue for the duration of the respective contracts negotiated. Peer reviews were also made an integral part of the TIP Forum's IT governance and risk management processes. Projects successfully peer reviewed under this initiative included Masscash's In-Store System and Makro's SAP upgrade. Other notable achievements include launching an electronic pilot for non-merchandise procurement across Divisions. This will leverage Massmart's procurement power and improve procurement controls, analysis tools and reporting.

Functional forums…focus on the management of skills and the procurement of resources and services required to support key Group-wide activities.

Shared Services

The Shared Services teams provide services to the Divisions that can be provided more efficiently as a group than Divisions can source individually. These services are requested by the Channel forums and are ultimately accountable to these forums for their performance. These services must respond to divisional needs and be of higher value – measured as quality, cost and benefit – than can be sourced externally or generated inside the Division. A Shared Services team's relationship with the Divisions is one of a service provider that must strive for excellence and become the best among competitors. The Divisions are their customers and their reason for existing.

An important Shared Services team is the Superior Contract Negotiation and Administration team. Savings are achieved by negotiating supplier contracts at Group level. The International Commerce team handles the treasury and logistics aspects of importing products directly to be sold across our Divisions. The relatively new Shared Private Label team gained traction this year with its management of brands that are private or exclusive to Massmart and shared across trading Divisions. Massmart's Shared Private Label programme is now well established in our sport, outdoor, gardening and do-it-yourself categories. A notable achievement this year was supplying the reality TV series *The Biggest Loser* with our Trojan exercise equipment.

The Board attempts to balance the often conflicting dynamics of encouraging entrepreneurial behaviour in the Group against the constraints of corporate governance.



Corporate Governance

A customer admires the wide range of hi-tech appliances available at Dion Wired.

"…the skills and diversity of the Board are well matched to your Company's needs, and the allocation of committee responsibilities ideally aligned to the qualifications and experience of the Chairpersons and members involved."

MARK J LAMBERTI NON-EXECUTIVE CHAIRMAN

Corporate Governance

Introduction

(2.1.8)

Massmart believes that the first steps towards good corporate governance must include embracing the requirements of the relevant governance framework – in our case, the King II Report on Corporate Governance, 2002. More than this, Massmart believes that sustainable and effective corporate governance is best demonstrated through a consistent pattern of 'doing the right thing', through good times and bad.

(2.1.5)

The Group is committed to complying with all legislation, regulations and best practices relevant to our business, in every country where we conduct business.

(2.3.2) (8.4.7) (9)

For the financial year under review, apart from the exception outlined immediately below, the Board confirms that the Group complied with every major aspect of the Code of Corporate Practices and Conduct as set out in the King II Report.

(2.3) (2.3.3) (2.7.6) (2.7.7)

The King II Report states that it is preferable that the chairman of the board be an independent non-executive director. Mark Lamberti was appointed non-executive Chairman on 1 July 2007 and, as he was previously the CEO of Massmart, he cannot be considered independent for at least another two years. The Board is of the view that the interests of all Massmart stakeholders is best served by the retention of the skills and experience of Mark Lamberti in the role of Chairman. To ensure good governance, the chairmanship of each of the four Board committees will be held by independent directors, and recognising that Mark Lamberti is not considered independent, Chris Seabrooke, the non-executive Deputy Chairman, will maintain his role as the Group's Lead Independent Director.

(2.1)

The Board

(2.1.1) (2.1.3) (2.1.4) (2.1.6) (2.1.17) (3.2.4)

The Board of Massmart is responsible for directing the Group towards the achievement of the Massmart vision and is therefore accountable for the development and execution of the Group's strategy, operating performance and financial results, all practised within the Group's Governance Authorities. These Governance Authorities describe the specific levels of authority and required approvals for all major decisions at both Group and Divisional level. It clarifies which executive position, committee or board needs to be consulted prior to taking the decision, which body makes the decision and which bodies should thereafter be informed of the decision.

(2.1.18)

The Board attempts to balance the often conflicting dynamics of encouraging entrepreneurial behaviour in the Group against the constraints of corporate governance.

(2.1.3) (2.2) (2.3.1) (2.7.3) (2.7.10) (6.3.3) (6.3.4)

The Board is responsible for its own composition, the appointment of the Chairman and the Chief Executive Officer, and the constitution and composition of its sub-committees. The Board has a charter setting out its policies, roles and responsibilities in the execution of its mandate described above. Each Board Committee also has a charter, or terms of reference, that is formally signed off by the Board. Annually in November the Committees and Board review, and amend if necessary, the respective charters to ensure their relevance.

(2.1.2) (2.2.1) (2.4) (2.4.1) (2.4.3) (2.4.4) (2.7.6)

The role of all directors is to bring independent judgement and experience to the Board's deliberations and decisions. The Board comprises two executive directors, 11 independent non-executive directors and one non-executive director. Massmart does not have or allow shadow directors.

(2.1.10) (2.4.2) (2.4.5)

Brief biographical details of each Board member are reported on pages 11 to 13.

(2.4.6) (2.4.7) (2.10) (2.10.1) (2.10.2) (2.10.3) (2.10.4) (2.10.5) (2.10.6)

The Company Secretary, who is subject to a 'fit and proper' test, assists the Board in fulfilling its functions and is empowered by the Board to perform his duties. The Company Secretary directly or indirectly:

- assists the Chairman, CEO and CFO with induction of new directors
- assists the Board with director orientation, development and education
- ensures that the Group complies with all legislation applicable/relevant to Massmart
- monitors the legal and regulatory environment and communicates new legislation and any changes to existing legislation relevant to the Board and the Divisions
- provides the Board with a central source of guidance and assistance.

Reference guide

The numbers in brackets above the text refer to the sections in the King II index 100

KING II INDEX

(2.2.2) (2.2.3)

All directors retire by rotation every three years. Unless requested by the Board to serve a further term, retiring directors are not proposed for re-election by the shareholders. In addition, shareholders must ratify the initial appointment of each director at the first annual general meeting of shareholders following that director's appointment.

(2.5.9)

As a result of the requirement that all directors compulsorily retire after three years, at the 26 November 2008 annual general meeting the following directors retire by rotation but all offer themselves for re-election: Messrs Chris Seabrooke, Grant Pattison, Nigel Matthews and Michael Rubin, and Ms Dawn Mokhobo.

Directors' attendance at Board meetings for the financial year:

	Aug 2007	Nov 2007	Feb 2008	May 2008
CS Seabrooke	✓	✓	✓	✓
MJ Lamberti	✓	✓	✓	✓
MD Brand	✓	✓	✓	✓
ZL Combi	✓	✓	✓	✓
KD Dlamini	✓	✓	✓	✓
NN Gwagwa	✓	✓	✓	✓
GRC Hayward	✓	✓	✓	✓
JC Hodkinson	✓	✓	✓	✓
P Langeni	–	✓	✓	✓
IN Matthews	✓	✓	✓	✓
P Maw	✓	✓	✓	✓
DNM Mokhobo	✓	✓	✓	✓
GM Pattison	✓	✓	✓*	✓
MJ Rubin	✓	✓	✓	✓

** Attended via tele-conference*

Board process and evaluation

(2.1.3) (2.6) (2.6.1)

The Board meets four times a year and on an ad hoc basis should a particular issue demand its attention. In addition, the Board meets once annually to formally consider and approve the strategies of the Massmart Divisions and Group.

(2.1.17) (2.7.1) (2.7.2) (2.7.3) (2.7.4)

The Board's authority is devolved sequentially through the Massmart Executive Committee, the Divisional Boards and the Divisional Executive Committees, as formally prescribed by the Massmart Governance Authorities. In addition, the Board has delegated certain specific responsibilities to Board Committees, as described more fully below. These Committees assist the Board and directors in discharging their duties and responsibilities under King II and the Governance Authorities. Full transparency of the Committees' deliberations is encouraged and the minutes of all Committee meetings are included in the formal papers at the ensuing Board meeting. All directors are welcome to attend any Board Committee and Divisional Board meeting.

(2.6.2)

The Board works to a formal agenda that covers strategy, structure, operating performance, growth initiatives, sustainability, investor relations and other key activities of the Group. Formal Board papers are prepared for every discussion item on the meeting's agenda and are distributed timeously to Board members.

(2.1.7) (2.1.9) (2.7.8) (2.10.3)

Directors are encouraged to take independent advice, at the Company's cost, for the proper execution of their duties and responsibilities. During this financial year no director felt it necessary to seek such advice. They also have direct, unfettered access to the Group's external auditors, professional advisers and to the advice and services of the Company Secretary.

(2.6.3)

Independent directors have unrestricted access to any executive, manager or employee in the Group.

(2.3.6)

The Remuneration and Nominations Committee facilitates a comprehensive annual formal performance evaluation of the CEO, comprising a self-evaluation, an evaluation of the CEO by every non-executive director by way of a questionnaire which includes open-ended comments, and an appraisal of the CEO by each of his direct reports using a different questionnaire. The Chairman provides the summary and feedback of the above to the CEO, and he is encouraged to probe and debate any aspect of the evaluation with the Board.

The CEO performance evaluation is done annually in November. As Grant Pattison was appointed CEO in July 2007, no performance evaluation was done for the 2007/2008 financial year.

(2.7.10) (2.8) (2.8.1) (2.8.2)

All Board members complete a detailed Board self-assessment each year, covering the composition, duties, responsibilities, process and effectiveness of the Board. Similarly, all Board Committee members complete detailed self-assessments covering the same aspects of their committees.

(2.3.5)

Finally, all Board members formally assess the Chairman's performance and the Deputy Chairman provides the feedback.

These assessments are approached in a constructive manner and provide valuable input that is used to enhance the effectiveness of the Chairman, the CEO, and the Board and its committees.

(2.7)

Board Committees

Directors' memberships on the Board Committees for the financial year under review:

(2.5.3) (2.7.5) (2.7.9)

	Audit	Remuneration and Nominations	Risk	Sustainability
MJ Lamberti		✓		
CS Seabrooke	✓	✓		
MD Brand			✓	✓
ZL Combi				✓
KD Dlamini				
NN Gwagwa				
GRC Hayward			✓	
JC Hodkinson				
P Langeni				✓
IN Matthews	✓	✓	✓	
P Maw	✓		✓	
DNM Mokhobo		✓		✓
GM Pattison				✓
MJ Rubin				✓

With effect from 1 July 2008, Kuseni Dlamini joined the Remuneration and Nominations Committee, Lulu Gwagwa joined the Risk Committee, and Phumzile Langeni joined the Audit Committee.

In August 2008, the Strategy and Investment Committee was formed. More detail on this Committee is shown on page 93.

Greater detail on each Committee's terms of reference, activities and meetings held during the financial year are shown below.

(6.3)

Audit Committee

(6.3.1) (6.3.2) (6.3.5)

During the financial year, the Audit Committee comprised Messrs Nigel Matthews (Chairman), Chris Seabrooke and Peter Maw, all of whom are independent non-executive directors and who each have the requisite financial and commercial skills and experience to contribute to the Committee's deliberations. With effect from 1 July 2007, Mark Lamberti joined the Audit Committee but resigned on 21 November 2007 in anticipation of the requirements of the Corporate Laws Amendment Act that was promulgated in December 2007. This Act, discussed in more detail below, requires that only independent non-executive directors are members of the Audit Committee.

The Chief Executive Officer, the Chief Financial Officer, senior financial executives of the Group and representatives from the external and internal auditors attend Committee meetings by invitation.

(2.1.13) (2.6.4) (4.1.7) (6.1.1) (6.1.5) (6.2.4)

The Audit Committee is primarily responsible for:

- Overseeing the effectiveness of the Group's internal control systems, ensuring that they are designed in response to identified key business and control risks, and have been effective throughout the period.
- Reviewing the scope and effectiveness of the external and internal audit functions.
- Ensuring that adequate books and records have been maintained and that the appropriate accounting policies have been adopted and consistently applied.
- Reviewing and reporting on compliance with the King II Report.
- Testing that the Group's going-concern assertion remains appropriate.
- Overseeing the quality and integrity of the financial statements by ensuring that they give a true and fair view, consistent with information known to the Committee.

In addition to these responsibilities, the Corporate Laws Amendment Act imposes further duties and responsibilities upon the Audit Committee, including:

- Nominating the proposed auditor to the shareholders at the annual general meeting.
- Determining the fees to be paid in respect of the audit and the terms under which the audit is provided.
- Pre-approving any contract with the auditor to provide a non-audit service and determining the nature and extent of such non-audit services.
- Dealing with complaints relating to the financial statements, accounting practices, audit of the financial statements, internal audit or any other related matter.
- Reporting on the Committee's activities in the annual report.

Arising from these new duties and responsibilities, the Committee revised its charter which was accepted by the Board at its August 2008 meeting.

(6.1.2)

In specific response to these requirements and also in terms of its charter, the Committee can report as follows:

- The Committee has reviewed the scope, as well as the independence and objectivity, of the external auditors. The audit firm Deloitte & Touche and audit partner Mr André Dennis have been proposed to the shareholders at the annual general meeting to be the Group's auditor for the 2009 financial year.
- Total budgeted audit fees for the Group for the 2009 financial year have been confirmed to be at least R12,8 million and the scope of the proposed audit work agreed.
- The nature and extent of non-audit services provided by the external auditors is reviewed annually to ensure that fees for such services do not become so significant as to call into question their independence of Massmart. The nature and extent of any future non-audit services have been defined and pre-approved, and the total fee associated with those non-audit services may not exceed 50% of the audit fee. If it appears that this guideline will be exceeded on a consistent basis, non-audit services will be outsourced to alternative auditors.
- The Massmart website (www.massmart.co.za) has a link enabling the public to electronically lodge complaints with the Committee, but, as at the date of this report, no complaints had been received.

Annually the Committee considers whether it is meeting its duties and responsibilities as set out in the Committee charter and, now, meeting the requirements of the Corporate Laws Amendment Act.

The Committee's report in accordance with section 270A(1)(f) of the Companies Act, No. 61 of 1973, as amended, can be found in the Directors' Report on page 106.

During the financial year, Deloitte & Touche were the external auditors for all Group companies with the exception of:

- Greenwoods Chartered Accountants who audit De La Rey 1001 Building Materials (Pty) Ltd and Thabiletrade 22 (Pty) Ltd
- Ernst & Young who audit the Zimbabwean entities of Mercantile Investment Company (1971) (Pvt) Ltd and the Dealsave Trust.

During the year, Deloitte & Touche provided certain non-audit services, including tax reviews and advice, and reviews of information technology systems and applications.

(4.2.4)

The Committee reviews the scope and coverage of the Internal Audit Department, and has approved that department's coverage and work plan for the forthcoming year.

(4.1.5)

The internal and external auditors have unfettered access to the Audit Committee and its members, and both present formal reports to the Committee and attend meetings by invitation.

The Audit Committee met three times during the year. In addition, the Chairman of the Committee meets quarterly with the head of Internal Audit, and at the start of every Committee meeting the external auditors are given a private audience with the Committee.

(2.7.9)

Attendance at Audit Committee meetings for the financial year:

	Aug 2007	Feb 2008	May 2008
IN Matthews	✓	✓	✓
CS Seabrooke	✓	✓	✓
P Maw	✓	✓	✓

(2.5.2)

Remuneration and Nominations Committee

During the 2008 financial year the Remuneration and Nominations Committee comprised Messrs Chris Seabrooke (Chairman), Mark Lamberti, Nigel Matthews and Ms Dawn Mokhobo. With the exception of Mark Lamberti, all Committee members are independent non-executive directors. The CEO attends all Committee meetings by invitation but is not present when his own remuneration is discussed.

(2.4.8) (2.5.11) (2.5.12) (2.7.9)

The Committee is responsible for:

- Designing, monitoring and communicating the Group's remuneration policy and the short-term and long-term incentive policies for directors, executives, management and staff.
- Considering and approving the remuneration and incentives for directors and executive management.
- The assessment, recruitment and nomination of new non-executive directors and for ensuring that succession plans are in place for the CEO, the executive directors and Divisional heads.

The Committee recommends to the trustees of the Massmart Employee Share Trust that award shares or options should be granted in terms of the Scheme rules. Annually the Committee reviews the Group's employee benefit funds, specifically the in-house medical scheme and the provident and pension funds, considering their performance, financial stability and general principles governing the benefit levels being applied.

Every two years the Committee receives a report prepared by independent remuneration consultants on recent trends in, and the current levels of, short- and long-term executive remuneration in South Africa. In May 2008 the Committee received such a formal report prepared by 21st Century Business & Pay Solutions, an independent remuneration consultancy. As a result of this report, the remuneration of several executives and senior managers was adjusted.

During the financial year, the Committee devised a questionnaire aimed at gauging the independence status of each non-executive director. This was completed by each non-executive director and returned to the Committee, which then assessed each director's independence status. The Committee felt that the following aspects were important in assessing a non-executive director's independence:

- whether the director had been employed in an executive capacity in the Group within the last three years
- whether the director had served on the Board for longer than nine years
- whether the director was a representative of a major shareholder
- whether the proportion of that director's shareholding in Massmart (if any) or director's fees represented a material part (10% or more) of their wealth or income.

In addition to the above, the Committee considered whether the director is independent in character and judgement and whether there are circumstances which are likely to affect, or could appear to affect, the director's judgement. Having considered the responses and circumstances of each non-executive, the Committee believes that, in light of his recent tenure as CEO of Massmart, only Mark Lamberti is not independent. The Committee believes that no other non-executive director, or entities associated with or controlled by him/her, owns shares in Massmart which, relative to his/her personal wealth or income, are sufficiently material to affect his/her independence.

(2.5.4)

The Group's philosophy and practice concerning executive remuneration is described later in this report on page 94 and greater details of individual directors' remuneration are provided on pages 149 to 150.

The Remuneration and Nominations Committee met four times during the year.

(2.5.3) (2.7.9)

Attendance at Remuneration and Nominations Committee meetings for the financial year:

	Aug 2007	Nov 2007	Feb 2008	May 2008
CS Seabrooke	✓	✓	✓	✓
IN Matthews	✓	✓	✓	✓
DNM Mokhobo	✓	✓	✓	✓
MJ Lamberti	✓	✓	✓	✓

Risk Committee

The Risk Committee comprises Messrs Nigel Matthews (Chairman), Dods Brand, Peter Maw, Guy Hayward, Kevin Vyvyan-Day (Chief Executive of Masswarehouse) and Norman Gray (Head of Internal Audit). Nigel Matthews chairs both the Risk and Audit Committees to ensure the appropriate exchange of key issues between the two Committees.

In order to facilitate the effective operation of the Committee in assessing risk at all levels in the Group, the Committee is not comprised exclusively of non-executive directors which is the preference of the King II Report.

The Board considers risk management to be a key business discipline designed to balance risk and reward and to protect the Group against risks and uncertainties that could threaten the achievement of our business objectives.

(3.1.2) (3.1.3)

The Board's risk strategy has been established through debate with the executive directors where the Group's risk tolerance has been considered and balanced against the drive towards the achievement of its strategies and objectives.

(2.1.11) (3.1.1) (3.1.7) (3.2.2)

The Risk Committee is responsible to the Board to oversee the Group's risk management programme. The day-to-day responsibility for risk management, including maintaining an appropriate loss prevention and internal control framework, remains with the executives of the Group and of each Division.

The Risk Committee met twice during the year.

(2.7.9)

Attendance at Risk Committee meetings for the financial year:

	July 2007	Nov 2007
IN Matthews	✓	✓
MD Brand	✓	✓
P Maw	✓	✓
GM Pattison	✓	–
GRC Hayward	✓	✓
K Vyvyan-Day	✓	✓
N Gray	✓	✓

(3.2.5)

In addition to these meetings, an interim report is prepared annually in February by the executives on the Committee and is circulated to the Committee. This report comments on the status of the risks identified in the current Group Risk Register, notes any risk incidents that may have occurred since the previous Committee meeting and comments on the internal and external risk environment.

(3.1.5)

The Committee's primary role is one of oversight and therefore it reviews and assesses the dynamic interventions, within the Group's available resources and skills, required in response to business-specific, industry-wide and general risks. The Committee tables a Group risk register, aggregated from those prepared by the Divisions and the Group Executive Committee, to the Board annually in August.

The Committee considers there to be two types of risk in the Group which can broadly be described as Strategic/Environmental risks and Operational risks. The Committee believes that most Operational risks by their nature can be immediately addressed or mitigated by local management actions. These risks – which include in-store health, safety and security, fire prevention and detection, IT systems and food safety, amongst others – are therefore the direct responsibility of each Divisional Executive Committee where a Loss Prevention or Risk Officer has line-responsibility for overseeing these risks.

Strategic/Environmental risks, on the other hand, tend to be longer-term or more material in nature and can, in most cases, only be monitored, managed and partially mitigated through longer-term strategic or tactical business responses. These risks, which, for example, include Executive Talent Retention and Succession, Transformation and HIV/AIDS, are the primary focus of the Group's Risk Management process as contemplated by King II.

(3.1.4) (3.1.6) (3.2.1) (3.2.3) (3.2.7)

The Group Risk Register summarises the major risks facing the Group, taking into account the likelihood of occurrence, the potential impact and any mitigating factors or compensating controls. Together with the Audit Committee, the Risk Committee oversees the maintaining of a sound system of risk management and control with regard to operations, safeguarding assets, reliability of management reporting, and compliance with laws and regulations.

(2.1.11) (2.1.12) (3.2.7) (8.2)

The ten major risks facing the Group, not strictly ranked in priority, are shown in the table at the end of this Corporate Governance report on pages 98 and 99.

(2.6.5)

Sustainability Committee

The Sustainability Committee comprises Messrs ZL Combi (Chairman), Dods Brand, Michael Rubin, Grant Pattison and Brian Leroni (Group Corporate Affairs Executive), and Mmes Phumzile Langeni, Dawn Mokhobo and Pearl Maphoshe (Group Human Capital Executive).

(2.6.5)

The role of the Committee is to assist the Group to discharge its business sustainability responsibility with respect to the implementation of practices that are consistent with good corporate citizenship. The Committee meets quarterly with the objective of reviewing Massmart's Socially Responsible Investment Index, Broad-based Black Economic Empowerment, and Sustainability Reporting Performance.

Performance in each of these areas is measured with reference to the JSE Limited's Socially Responsible Investment Index criteria, Department of Trade and Industry (DTI) Broad-based Black Economic Empowerment scorecard and Global Reporting Initiative III guidelines.

The Committee was generally satisfied with Massmart's sustainability performance noting that the Group achieved Top Performer status (medium environmental impact category) in the 2007 SRI Index ratings, was ranked top retail industry performer in the 2008 FM Top Empowerment Companies survey and won the Association of Chartered Certified Accountant's (ACCA) 2008 award for Best Sustainability Report (non-extractive industries).

(2.7.9)

Attendance at Sustainability Committee meetings for the financial year:

	Aug 2007	Nov 2007	Feb 2008	May 2008
ZL Combi	✓	✓	✓	✓
MD Brand	✓	✓	✓	✓
GM Pattison	✓	✓	x	✓
MJ Rubin	✓	✓	✓	✓
DNM Mokhobo	✓	✓	✓	✓
P Langeni	x	✓	✓	✓
B Leroni	✓	✓	✓	✓
P Maphoshe	–	✓	x	✓

(8.2) (5.1)

A separate Sustainability Report can be found in the inside back cover.

Strategy and Investment Committee

This is a new committee which was formed in August 2008.

The role of the Committee is to debate issues that may affect Massmart's strategy, financial health or shareholder value, and, where appropriate or required, to make firm recommendations on these issues to the Board.

These issues may include: major acquisitions or disposals; major commitments and investments; material new share issues; possible significant changes or threats to the Group gearing levels; and new debt structure or related risk exposures.

The Committee will operate on an as-required basis initiated by either a potential transaction greater than R400 million or when a material issue requires debate.

The Committee members comprise the CEO, the CFO, Mark Lamberti (Chairman), Chris Seabrooke, Peter Maw and Jim Hodkinson, but other experts, internal or external, may be invited as appropriate.

Annual general meeting

(2.5.3) (2.7.9) (6.3.5)

Attendance by all directors at Massmart's annual general meeting is encouraged while attendance for Board Committee Chairmen is compulsory.

At the November 2007 Massmart annual general meeting the Chairmen of the Remuneration and Nominations, Audit and Risk Committees were in attendance, as were the Board Chairman, CEO and CFO. In addition, eight other non-executive Directors attended the annual general meeting.

(2.1.14) (7.3) (7.4)

The notice for any general meeting of shareholders includes an explanation of the reason for, and the effects of, any proposed special resolutions. The Company's transfer secretaries attend every general meeting of shareholders to assist with the recording of shareholders' attendance and to tally the votes. The Chairman confirms with the meeting that votes will be counted by way of poll, ie all votes are counted, rather than by way of a show of hands. During the meeting the Chairman is careful to ensure that all resolutions have been read and allows time for the resolutions to be discussed if required.

Executive Committee

The Massmart Executive Committee is the most senior executive decision-making body in the Group. The Committee is chaired by the CEO (Grant Pattison) and comprises the Chief Financial Officer (Guy Hayward), Group Human Capital Executive (Pearl Maphoshe), Group Commercial Executive (Jay Currie), Group Corporate Affairs Executive (Brian Leroni), the four divisional Managing Directors (Robin Wright, Aubrey Cimring, Kevin Vyvyan-Day and Jan Potgieter) and the Managing Director of the New Formats Division (Joe Owens).

The Committee deliberates, takes decisions or makes recommendations on all matters of strategy and operations. Within the parameters described by the Board-approved Governance Authorities, the decisions or recommendations are sometimes referred to the Board or its relevant Committee for final approval, while in other cases the power to take decisions is delegated to individual subsidiary boards, or subsidiary executive committees.

The Executive Committee has specific responsibility, inter alia, for:

- monitoring and measuring the structures, trends and performance of markets and competition
- strategic planning
- defining, configuring, financing and structuring the Group's portfolio of assets
- shaping and approving the competitive strategies, operating plans and budgets of the Divisions and functional departments
- measuring, monitoring and taking proactive corrective action on Divisional performance
- ensuring adequate risk management, controls and governance throughout the Group
- shaping and approving succession plans and senior executive management appointments.

In many respects, the relationship between the Massmart Board and the Executive Committee is analogous to the Supervisory Board and Management Board relationship found in the European governance model.

(2.5) (2.5.10)

Remuneration of directors and executives

Massmart strives for remuneration policies that enable it to recruit, retain and motivate the executive talent needed to achieve superior performance. The Remuneration and Nominations Committee, with periodic advice from external executive remuneration consultants, ensures the provision of executive remuneration packages that are competitive with reference to other major South African retail companies, as well as other companies similar to Massmart in their size, spread and complexity.

(2.5.5)

The Massmart remuneration policy strives for fixed remuneration at the median to upper quartile of comparable positions, but places particular emphasis on generous annual incentives for high performance for both executive directors and executive management. This policy, communicated to and understood by the Group's executives, codifies a range of performance incentives linked to annual headline earnings per share growth targets for the Group in excess of average CPIX plus 10%, or profit before tax targets for each Division, as appropriate. With effect from 2006, an element of the annual incentive bonus was linked to non-financial performance, specifically the achievement of transformation targets approved by the Remuneration and Nominations Committee. This incentive will amount to between one and three months' salary in addition to the bonuses linked to growth in headline earnings per share or profit before tax. The Remuneration and Nominations Committee also has the discretion to reward superior individual performance.

(2.5.7)

In addition, long-term equity incentive plans ensure the alignment of executive reward with shareholders' interests, in particular the sustained creation of shareholder value. New issues of annual allocations of shares or options are only allowed when Massmart's growth in headline earnings per share in the prior year exceeds average CPIX plus 10%. The amount allocated is based upon a factor of the executive's total prior year remuneration including incentive bonus. With effect from July 2008, the hurdle for the growth in headline earnings per share was changed to CPIX plus 5%. The lower factor – now 5%, previously 10% – reflects the Committee's recognition of the prevailing economic climate that demands increased management effort and that each Massmart Division has achieved significant scale.

The Committee believes that participants in the employee share scheme should, on average, hold unvested shares or options representing value equivalent to approximately three times their annual remuneration.

In addition to the annual allocation of shares or options to participants in May 2008, the Committee approved a once-off allocation of shares or options to the majority of participants as at 1 April 2008, representing 50% of the value of the usual annual issue and which was issued at a 30-day volume-weighted price of R66,91. This exceptional issue was an additional retention mechanism in the face of the skills shortage in South Africa and globally, and acknowledged the uncertain and volatile social, economic and political environment experienced by the Group's executives and senior managers.

With effect from July 2002, only members of the Executive Committee can elect to receive scheme shares, whilst all other participants receive options.

(2.5.1)

Non-executive directors receive fees in the top quartile for their role as directors and for their roles on Board Committees. Non-executive directors' fees paid in the current financial year and the proposed fees for the 2009 financial year are detailed below:

- Chairman of the Board: currently R625 000, proposed R675 000
- Deputy Chairman: currently R450 000, proposed R490 000
- Directors: currently R185 000, proposed R200 000
- Committee chairmen: currently R185 000, proposed R200 000
- Committee members: R87 000, proposed R94 000. It was also proposed that members of the Audit Committee will receive an additional R25 000 each for the additional meetings and responsibilities arising from the Corporate Laws Amendment Act.

These fees will be put to the Massmart annual general meeting in November 2008 for approval.

The fees paid to the trustees of the Massmart Share Trust are R30 000 each and R45 000 for the chairman.

Details of individual directors' remuneration are provided on pages 148 to 150.

(6.2.6) (7.1) (7.2) (8.1)

Shareholder communication

We strive to provide useful and frequent disclosure to our shareholders, regardless of how hard this may be in periods of difficulty or underperformance.

Massmart reports formally to shareholders twice a year (in February and August) when its half-year and full-year results, together with a thorough executive overview, are announced and issued to shareholders and the media. On both occasions the Chief Executive Officer, Chief Financial Officer and certain Group executives give presentations to institutional investors, analysts and the media.

Early in January and July, shortly after the conclusion of the half-year and full-year trading periods, on release of the annual report and at the Group's annual general meeting in November, Massmart releases sales updates reporting on the Group's year-to-date sales performance. In addition, annually in May, the Group CEO and CFO host a day-long visit by institutional analysts and investors to Massmart stores. A sales update is released along with this visit.

During the year, apart from closed periods, the Chief Executive Officer and Chief Financial Officer together meet regularly with institutional shareholders and, in addition, are available for meetings or conference calls with analysts and any existing or prospective Massmart shareholder.

Massmart's website, www.massmart.co.za, provides financial and business information about the Group and includes electronic copies of all recent formal announcements, public statements and presentations made by Massmart.

Share buyback programme

Annually the Group seeks, and obtains, the approval of the shareholders in general meeting to purchase Massmart shares. This authority – valid until the following year's annual general meeting and subject to the Listings Requirements of the JSE Limited ("JSE") – allows the Group to purchase its own shares up to a maximum of 15% of the issued shares, at a price not greater than 10% above the preceding five-day weighted average. Shareholders have been asked to renew this authority at the forthcoming November 2008 annual general meeting.

During the year to June 2008, Massmart shares with a value of R281 million were purchased by a Massmart subsidiary or by the Massmart Employee Share Trust. The amount and timing of any future purchases will be determined by the Board and are dependent on the Board's view on the intrinsic value of Massmart shares, the ruling market price from time to time, and prevailing market conditions.

The Massmart Employee Share Trust acquires shares from time to time to partially mitigate the dilution caused by the Company issuing new shares when options are exercised by participants.

(2.9) (2.9.1) (2.9.2)

Share dealings

No director, executive or employee may deal, directly or indirectly, in Massmart shares where that person may be aware of unpublished price-sensitive information. There are strict closed periods during which all directors, executives and employees are not allowed to deal in Massmart shares. The periods begin one month prior to the end of each reporting date (these reporting dates being 31 December and 30 June) and end on release of the Group results. A closed period also applies from the date when Massmart issues a cautionary announcement.

In addition, all directors, executives and employees, and their associates as defined by the JSE, are not allowed to deal in Massmart shares in the final hour of trading on the JSE. All share dealings by a director, executive or employee must be authorised by either the Chief Executive Officer or Chief Financial Officer. Any dealings by the Chief Executive Officer are authorised by the Chairman, and dealings by the Chief Financial Officer are authorised by the Chief Executive Officer.

(3.2.3)

Accountability, risk and control

(3.2.5) (8.4.1)

The Board recognises its responsibility to report a balanced and accurate assessment of the Group's financial results and position, its business, operations and prospects. Aspects of how this is achieved are covered in the section below.

Internal control framework

(2.1.6)

Massmart maintains clear principles and procedures designed to achieve accountability and control across the Group. These are codified in the Governance and Approvals Framework that describes the specific levels of authority and the required approvals necessary for all major decisions at both Group and Divisional level. Through this framework, operational and financial responsibility is formally and clearly delegated to the Divisional and Chain boards. This is designed to maintain an appropriate control environment within the constraints of Board-approved strategies and budgets, while providing the necessary local autonomy for day-to-day operations.

Audit Committee

(6.2.1) (6.2.2)

The Audit Committee receives regular reports on Group companies' financial performance, internal controls, adherence to accounting policies and areas of significant risk, amongst others. After considering these reports, the Committee formally reports to the Board, twice each year, regarding the overall framework and effectiveness of controls. The Group's interim reports are always subject to independent review by the external auditors.

Internal Audit

(4.1) (4.1.1) (4.2.1) (4.2.2)

The Audit Committee considers Massmart Internal Audit to be an independent, objective body providing assurance to the Group's activities. Internal Audit comprises a dedicated team of 31 staff that, although managed from Massmart Corporate, is deployed Group-wide. The team is comprised of appropriately qualified and experienced personnel, including internal audit professionals and managers with retail experience, to ensure the delivery of a relevant and high-quality service. The Internal Audit team has 69 degrees and over 300 years of work experience of which 27% is in retail, 53% is in audit and 20% in IT and accounting. Pleasingly, 76% of the audit staff and 70% of audit management are African, Coloured or Indian.

(4.1.2) (4.1.4)

The Audit Committee considers Massmart Internal Audit to be an independent, objective body providing an opinion on the level of assurance that can be placed on the management of the Group's risk and governance activities. The responsibilities of Internal Audit are defined and governed by a charter approved by the Audit Committee and Board. Massmart Internal Audit Services has the unequivocal support of the Board and Audit Committee and has access to any part of or person in Massmart. All employees are expected to positively cooperate with Massmart Internal Audit Services.

(4.1.4) (4.1.6)

To ensure independence, Massmart Internal Audit reports functionally to the Massmart Audit Committee and, only from an administrative perspective, to the Chief Financial Officer. The head of Massmart Internal Audit Services, whose appointment or dismissal is subject to ratification by the Audit Committee, has unrestricted access to all formal roles in the organisation and has frequent and independent discussions and updates with the Audit Committee Chairman and Massmart executive Directors. The head of Massmart Internal Audit holds a senior executive position in the organisation and has an influential impact across the business strategically and operationally. The Board provides Massmart Internal Audit with the ability to attend any strategic session, Committee or Board meeting and to have unrestricted access to all information across the Group to assist with its determination of the types and levels of risk that exist across Massmart.

The Internal Audit team formally reports any material findings and matters of significance to the Divisional Boards and the Audit Committee on a quarterly basis. The reports highlight whether actual or potential risks to business are being appropriately managed and controlled. Progress in addressing previous unsatisfactory audit findings is monitored until Internal Audit reports the proper resolution of the problem area.

(4.2.3) (4.2.4)

Massmart Internal Audit applies a risk-based approach that aligns its audit methodology to the internal and, where applicable, external risks facing Massmart. The annual audit plan, which is pre-approved by the Audit Committee, is determined through a continuous assessment and understanding of risks facing the Group. Where necessary, and infrequently, some audit tasks are outsourced to consultants with appropriate skills, for example, certain forensic work or highly specialised IT reviews.

(3.2.1) (4.2.2)

Internal Audit utilises audit programmes and technologies that are designed and selected after assessing the significant business, strategic and control risks. The results of these programmes provide audit assurance regarding the adequacy and effectiveness of controls. In addition to providing this assurance, Massmart Internal Audit applies its knowledge and understanding to advise local and executive management on best practice processes and controls that could be implemented to improve overall effectiveness and efficiency.

There is significant Internal Audit involvement in Information Technology (IT) throughout the Group in order to ensure satisfactory IT governance and assurance. All new major IT systems in the Group require specific Massmart Internal Audit sign-off prior to implementation. The Internal Audit role is twofold: to assess the process and controls around large IT projects at significant phases of these projects; and to assess the control environment within existing IT systems and the Group's general computer control environment.

(4.2.5) (6.1.3) (6.1.4)

Massmart Internal Audit and External Audit's scope and efforts are properly coordinated in order to provide efficient and effective assurance to the Audit Committee.

(4.1.3)

An independent quality assurance review by PricewaterhouseCoopers on Massmart Internal Audit was completed in 2007. This assessed Massmart Internal Audit against the International Standards for the professional practice of Internal Auditing as promulgated by the Institute of Internal Auditors. Massmart Internal Audit was found to "generally conform", which is the highest compliance rating of the Institute of Internal Audit Standards.

This review included a qualitative benchmarking process that compared Massmart Internal Audit to an international database. The benchmarking process noted Massmart Internal Audit's maturity as 'strong practice'. The benchmark review concluded that "Massmart Internal Audit enjoys incomparable status with regard to the authority and sponsorship granted to it by the Audit Committee and management and the independence displayed in the execution of internal audit activities, as best practice was exceeded by some distance."

(3.1.3)

Risk

The Board assesses the risks in the Group's business environment, with a view to eliminating or reducing them in the context of the Group's strategies and operations.

Litigation and legal

In the normal course of business, Massmart is subject to various legal proceedings, actions and claims. These matters are subject to risks and uncertainties that cannot be reliably predicted. The Board does not believe that there is any material pending or threatened legal action.

Information technology

Protecting Massmart's electronic assets is increasingly complex as networks, systems and electronic data expand and, in some cases, are shared with third parties and business partnerships. Depending on the internet for communication brings additional risk. Ensuring proper system security, data integrity and business continuity is the responsibility of the Board, but is given effect by the Audit Committee, the Risk Committee, the Massmart Technology, Information and Process Forum (TIP) and Massmart's formally contracted information technology business partners and providers.

Period	Total calls and reports	Crime-related calls	HR-related calls	Other calls	Anonymous calls
July	37	4	9	24	5
August	58	8	14	36	15
September	45	7	6	32	9
October	53	8	15	30	20
November	63	5	18	40	9
December	42	2	14	26	8
January	48	5	14	29	8
February	75	7	16	52	12
March	82	2	23	57	16
April	58	6	18	34	11
May	43	5	12	26	9
June	64	6	14	44	10
Total	**668**	**65**	**173**	**430**	**132**

Financial risk and appraisal

Financial targets agreed in Group budgets and strategy processes are predicated on assumptions about the future that are uncertain and may prove incorrect or inaccurate. The monitoring and management of this risk is the responsibility of the Executive Committee. Monthly performance is measured and compared to the budget and prior year, and corrective or remedial action taken as appropriate.

Despite extensive financial, accounting and management controls and procedures, including reviews by internal and external auditors, there are risks arising from the Group's cash management and treasury operations, direct and indirect taxation, and employee or third-party fraud or economic crime.

(2.1.12) (6.2.5)

In addition to financial reviews, Massmart has implemented voluntary processes that enable independent reviews of its non-financial performances. These include a biannual ethics review by the South African Institute of Ethics and an annual Socially Responsible Investment (SRI) Index review that is coordinated by the JSE Limited.

(5.2)

Corporate ethics and compliance

(5.2.1) (5.2.2)

Massmart is committed to achieving the highest standards of ethical behaviour and continued its strong emphasis on promoting awareness of, and compliance with, Massmart's Code of Ethical Practice.

(5.2.4)

Massmart regularly communicates its Code of Ethical Practice to suppliers and service providers, and attempts to ensure that they comply with our ethical standards. This is achieved in various ways: suppliers and service providers are invited to make use of the independently managed ethics reporting line; and Massmart's formal trading agreements detail ethical practices that suppliers are expected to uphold (some examples of this are that suppliers are expected to abide by the laws and regulations of the country; that all products and services comply with legal and safety standards; and that Massmart will not tolerate the use of child labour practices or the use of illegal labour). The CEO of Massmart regularly communicates with suppliers and reinforces Massmart's commitment to high standards of ethical conduct and its expectations of the same from suppliers. During the year there were examples where Massmart terminated the services of suppliers where they did not demonstrate the same level of commitment to organisational ethics and integrity.

Massmart maintained its close relationship with the Ethics Institute of South Africa and a further three employees attended the Ethics Officers Certification course and two more employees were accredited as Ethics Officers. Furthermore, the Institute requested that Massmart provide material for an ethics case study that is to be included in a booklet that will be distributed by the United Nations to multinational companies and governments around the world.

The appointment of Ethics Officers in all Divisions and the formulation and regular meeting of the Group Ethics Forum have ensured the continued focus on the consistent application of ethics practice and training in the organisation.

(3.1.8)

The Massmart Ethics Line provides an important indication of the status of the ethics climate at Massmart. The fully independent line, the operation of which is outsourced to Deloitte & Touche, provides employees and suppliers with the opportunity to report perceived cases of unethical practice. All reports received are thoroughly investigated and acted upon under the guidance of the Group Ethics Officer who is responsible, from an ethics perspective, to the Massmart Audit Committee. Total calls and reports for the year under review were 8,6% higher than the previous year (see table above).

(5.2.2) (5.2.3)

The Ethics Institute of South Africa was contracted by Massmart to conduct a limited ethics audit throughout their Game stores in Africa using a shortened Organisational Ethics Indicator assessment. The assessment recorded responses with regard to formal ethics programmes, the perceptions of organisational culture and outcomes. The audit highlighted some areas for improvement in these stores and the Massdiscounters Division is attending to these areas.

The Ethics Institute also conducted a survey on Massmart's compliance in South Africa and concluded:

"To the best of our knowledge, the Massmart Ethics Indicator 2008 satisfies the November 2004 revisions of the FSGO and the future King III requirements, amongst others, that organisations:

- ensure that they have an effective compliance and ethics programme
- periodically evaluate the effectiveness of their compliance and ethics programme
- periodically assess the risk of criminal conduct and…take appropriate steps to design, implement or modify each requirement…to reduce the risk of criminal conduct identified through this process."

Group risks and responses

The Group Risk Register summarises the major risks facing the Group, taking into account the likelihood of occurrence, the potential impact and any mitigating factors or compensating controls.

The Risk	Our Response
Another major store fire In the last 15 years Makro has had three stores totally destroyed by fire. The most recent fire, in May 2004, allegedly caused by a sub-contractor working on the roof, occurred despite significant and costly fire detection and prevention measures implemented following the previous Makro store fire in 2001. Depending upon the cause of any future potential fire, it is unlikely that Makro would be able to secure adequate catastrophe insurance cover or, alternatively, may secure adequate insurance cover but at a significant premium. Compounding this risk is the relatively high insurable values associated with inventory contained in the Group's larger warehouse formats in CBW, Makro and Builders Warehouse.	Makro and the rest of the Group work closely with external risk assessors, insurance brokers and our major insurers in order to ensure that our stores have the highest possible level of fire detection and prevention.
Information technology With millions of transactions daily, the Group is dependent upon reliable, secure, effective and efficient IT systems, including data and information. Major IT implementations or initiatives can distract management, be costly, destabilise the current IT platform and/or perform sub-optimally post-implementation a possible over-reliance on one or more service providers. Finally, at a strategic level, there exists the potential for misalignment between business strategy and IT capability, which can result in reduced operational effectiveness.	All the Group's IT development, for hardware and software, must be specifically approved and then monitored by the Group's Technology, Information & Processes Forum (TIP), representing all the Chains' IT executives, Massmart Internal Audit and, where appropriate, the external service providers. Divisional Boards must sign off all IT developments. Massmart Internal Audit has significant IT expertise and independently assesses all IT developments and is part of the 'go-live' decision on any project. External auditors review the IT general control environment in the major Divisions on an agreed rotation basis.
Poor business model or Strategic execution Through non-adherence with, or poor implementation and execution of, our business model and/or strategy, the Group's longer-term financial performance and competitive positioning could be severely compromised. The resultant financial performance may be sub-optimal on either an absolute or on a relative basis.	The Group insists on strategic clarity at Massmart Corporate and the Divisions. The strategies of all Divisions and the Group are formally documented and are reviewed annually at Divisional level, at Group Executive Committee level and then with the Board. The annual budget process is an output of these reviews. A Division's strategies dictate management's operational tactics and priorities.
Talent retention and succession This covers four broad issues including: the national scarcity of retail-specific skills; the challenge to develop and retain sufficient business and leadership skills internally to ensure our longer-term competitiveness; a possible over-dependence on key leaders in the Group; and the need for an actively managed leadership succession pipeline. This risk has recently been aggravated by an increase in executive emigration.	The Group considers this a major area of focus and deals with it on several levels. The Executive Committee actively monitors and manages the progress, development and likely succession plans for the "Top 200" employees, as well as monitoring a further 200 employees. In addition, there are in-house education programmes prepared and presented in conjunction with local and international business schools that focus on developing our middle and junior executives. Annual 'fire-side chats' are held with each executive in the Group, which are attended by that person's superior and a third person – either the Group Organisation Executive or HR person in that Division. The Group's remuneration policy, including short-term incentives, is to pay salaries in the mid to upper quartile.
Insufficient progress with transformation There is the possibility of adverse or undue reputational exposure due to the Divisions or the Group not fulfilling, or under-delivering, towards BEE requirements. In the broader national context, inadequate transformation at all levels by us and other South African businesses will curb the country's longer-term growth potential and maintain the current, unacceptable and unsustainable, levels of social and economic inequality. This issue includes insufficient black representation at Group and Division executive level.	The Board-approved BEE Strategy, dated February 2004 and covering the elements of the Code of Good Practice, has been effectively implemented Group-wide and we believe that much progress has been achieved. Transformation is a major agenda item at all Divisional and Group board meetings and a senior executive at Massmart has overall responsibility for delivering to the strategy. A BEE staff share issue amounting to 10% of the pre-dilution shares of Massmart was implemented in October 2006. All permanent Massmart employees, not already participants in the current share trust, are beneficiaries. The shares awarded to general staff have voting and dividend rights. A transformation incentive has been implemented for Divisional executives.

The Risk	Our Response
HIV/AIDS This refers to the impact of the consequences of the virus on Massmart and its broader community. Separate from the human tragedy, potential business impacts include higher levels of employee deaths, reduced available skills, lower productivity and higher absenteeism, and higher direct and indirect costs of employment. Accelerated death rates amongst our consumer base may affect local sales or may render uneconomic certain stores that are significantly exposed.	Over the last four years, HIV prevalence has been measured in all the Divisions by an external agency. The Group's estimated infection rate, using statistical methods, is 5,4% amongst employees. All the Divisions are at various stages of rolling out AIDS support initiatives and offering voluntary counselling and testing programmes. In 2006 Massmart implemented a comprehensive HIV/AIDS awareness and treatment programme which includes the provision of free anti-retrovirals to all permanent staff and spouses.
Economic volatility This concern focuses on two potential impacts, the first being the financial impact on the business's trading and the second being the possible adverse effect on consumer expenditure of dramatic changes in key economic variables including inflation, interest and exchange rates. With approximately 30% of the Group's merchandise being imported, directly and indirectly, any sudden changes in the exchange rate will affect the stock valuation, although there may be a lag where the Group has entered into forward exchange contracts on its own direct imports to combat this eventuality. Furthermore, foreign currency fluctuations in those African countries where Game operates stores can also affect the level of sales and earnings reported by those stores in South African currency, as well as resulting in potentially adverse balance sheet translation differences. Increases in interest rates will make South African corporate funding more expensive, with an adverse impact on profitability. Higher inflation rates may affect Group profitability where these cost increases cannot be controlled or additional productivity associated therewith is not forthcoming. Lower inflation rates may make long-term property leases with higher fixed escalation rates appear expensive and potentially affect profitability. South African consumer behaviour appears to be more affected by sudden and large changes in economic variables, including exchange rates and local interest and inflation rates, than by gradual changes in these variables. It follows that a sudden deterioration in one or several of these economic variables may dampen levels of consumer expenditure, thereby reducing sales growth and potentially Chain or Group profitability too.	All direct foreign exchange liabilities are covered forward, resulting in certainty about the expected landed cost of merchandise and also providing a 4 to 6 month buffer against changing the cost of imported inventory should there be any sudden deterioration in the exchange rate. The value of inventory in the supply chain between manufacturer and retailer has also been actively managed lower by all participants. This reduces the extent of any imported inventory that is over- or under-valued following a sudden change in the exchange rate. Interest rates on the Group's medium-term debt has been fixed to provide certainty as to the future cost of this funding, and this will keep the Group immune to any adverse increases in corporate borrowing rates. Where possible, property lease escalation rates are negotiated as low as possible, taking market conditions into account, and certain property leases are inflation-linked, within a cap (maximum rate) and collar (minimum rate). Salary and wage increases are negotiated in the context of the current South African socio-economic environment, and where a negotiated increase may be higher than is suitable, productivity measures may be introduced to reduce the net cost of the higher wages.
Fraud, security and crime There is the risk of human, financial and reputational exposure through high levels of inventory shrinkage, armed robberies for cash or merchandise, and losses from fraud, internal and external. The rate of armed and violent crime has increased to unacceptable levels and if left unchecked can adversely affect employees, customers, the business and the overall business environment.	The Group is continually improving its procedures and controls to ensure that the risk of potential losses or injury through criminal incidents is minimised. Massmart is also an active participant in the Business Against Crime/ECR forum that shares information on all incidents of crime across the major retail chains. There is a whistle-blowing facility, Tipoffs Anonymous, through which employees, customers or suppliers can report unethical or dishonest acts. Staff fraud is dealt with severely.
Supply chain Supply chain describes all the business processes and activities around the buying, recording, receiving, moving, storage, display and sale of inventory in the Group, and is not restricted to logistics but extends into IT systems and business processes around those systems. An efficient and effective supply chain should ensure the lowest-cost movement, and holding, of inventory and the optimisation of in-store inventory levels for given levels of demand. An effective or inefficient supply chain may result in sub-optimal inventory management, with duplication of costs and over- or under-stocking affecting holding costs or rate of sales.	Massdiscounters, Makro and Builders Warehouse have implemented IT software to automate the forecasting and replenishment (F&R) of inventory. Massdiscounters are most advanced with about 50% of their sales by value being automatically replenished. This is about 40% in Builders Warehouse, and Makro is launching its F&R drive during the 2009 financial year. In August 2008 the Group's first regional distribution centre (RDC), for Massdiscounters' use, was opened in the Western Cape. Depending on the success of this, RDCs will be required in Durban and Johannesburg.
Complexity associated with expected sustainability standards of conduct There is a growing threat of potentially significant reputational risk associated with the failure to meet stakeholders' increased expectations around sustainability in its many forms. These expectations may be shaped by a variety of standards of conduct as encapsulated in codes such as, but not limited to, Global Reporting Initiative, Global compact, JSE Limited Socially Responsible Investment Index, Broad-based Black Economic Empowerment codes of good practice, Marine Stewardship Council, Forestry Stewardship Council and ISO 14001 certification. Increasingly, the Group needs to comply with some or all of these standards.	The Group has implemented transparent and honest stakeholder interactions with special interest groups, which inform our view on stakeholder expectations and the management thereof. There is ongoing identification, monitoring and adoption of relevant principles and standards of sustainability that are consistent with Massmart's core values and industry norms.

King II index

The following index represents the Group's compliance with the King II Report. More detail can be found on pages 89 to 99 of this report.

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na: not applicable

"…the Massmart 2007 Annual Report was judged fourth overall and awarded an Excellent rating…in the Ernst & Young 2008 Excellence in Corporate Reporting Awards."

GUY HAYWARD CHIEF FINANCIAL OFFICER



Group Financial Statements

The 32 246m² Pinetown distribution centre serves as Massdiscounters' indent warehouse.

“We continually strive to improve the quality and relevance of Massmart’s public financial reporting.”

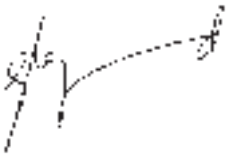
GUY HAYWARD CHIEF FINANCIAL OFFICER

Approval of the annual financial statements

The annual financial statements were approved by the Board of Directors on 1 October 2008 and signed on its behalf by:



GM Pattison
Chief Executive Officer



GRC Hayward
Chief Financial Officer

Company Secretary certificate

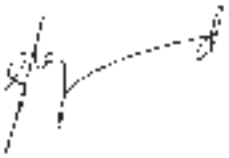
I, Ilan Zwarenstein, the Company Secretary of Massmart Holdings Limited, certify that to the best of my knowledge and belief, all returns required of a public company have, in respect of the year under review, been lodged with the Registrar of Companies and that all such returns are true, correct and up to date.



Ilan Zwarenstein
Company Secretary

Annual compliance certificate for issuers with a primary listing on the JSE

I, the undersigned, Guy Robert Charles Hayward, being duly authorised hereto, certify to the JSE Limited ("the JSE") that Massmart Holdings Limited and its directors have, during the twelve months ended 31 December 2007, complied with all Listings Requirements and every disclosure requirement for continued listing on the JSE imposed by the JSE during that period.



GRC Hayward
Duly authorised hereto, for and on behalf of the Directors of the Company

Independent auditor's report

To the members of Massmart Holdings Limited

We have audited the group annual financial statements and annual financial statements of Massmart Holdings Limited, which comprise the consolidated and separate balance sheets as at 29 June 2008, and the consolidated and separate income statements, the consolidated and separate statements of changes in equity and consolidated and separate cash flow statements for the period then ended, and a summary of significant accounting policies and other explanatory notes and the directors' report, as set out on pages 106 to 176.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Massmart Holdings Limited as at 29 June 2008, and its consolidated and separate financial performance and consolidated and separate cash flows for the period then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.



Deloitte & Touche
Registered Auditors

Per B Escott
Partner
1 October 2008

Buildings 1 and 2, Deloitte Place
The Woodlands Office Park Woodlands Drive
Sandton

National Executive: GG Gelink *Chief Executive*, AE Swiegers *Chief Operating Officer*, GM Pinnock *Audit*, DL Kennedy *Tax & Legal and Financial Advisory*, L Geeringh *Consulting*, L Bam *Corporate Finance*, CR Beukman *Finance*, TJ Brown *Clients & Markets*, NT Mtoba *Chairman of the Board*.

A full list of partners and directors is available on request.

Directors' report

Directors' responsibilities

The Directors acknowledge responsibility for the preparation of the annual financial statements, which, in their opinion, fairly present the results and cash flows for the financial year and the state of affairs of Massmart Holdings Limited and its subsidiaries at the end of the financial year.

The external auditors are responsible for reporting on the fair presentation of these financial statements.

The Company and its subsidiaries have maintained adequate accounting records and an effective system of internal controls to ensure the integrity of the underlying information.

Appropriate accounting policies, supported by sound and prudent managerial judgements and estimates, have been consistently applied.

The Audit Committee of the Board reviews the financial information presented and ensures that there has been adherence to International Financial Reporting Standards. Internal and external auditors of Group companies have unrestricted access to the Committee.

Group financial results

The financial results of the Group are set out in the income statement, the cash flow statement and the statement of changes in equity. The financial position of the Group is set out in the balance sheet.

Share capital

The following ordinary shares were in issue during the year under review:

	2008	2007
Opening balance	201 072 831	201 040 697
Converted preference shares	120 681	32 134
Closing balance	**201 193 512**	**201 072 831**

The following convertible redeemable preference shares were in issue during the year under review:

	2008	2007
Opening balance	19 967 866	20 000 000
Shares converted to ordinary shares	120 681	32 134
Closing balance	**19 847 185**	**19 967 866**

Dividend policy

Massmart's dividend policy is to declare and pay an interim and total cash annual dividend based on a 1,7 times cover (2007: 1,7 times), using headline earnings, unless circumstances dictate otherwise.

Dividends to shareholders

With regard to the final distribution to shareholders, the Directors resolved to distribute to shareholders registered in the books of the Company on 12 September 2008, a final cash dividend of 163 cents (2007: 123 cents) per share, bringing the total dividend for the year to 386 cents (2007: 320 cents) per share.

A Thuthukani dividend equivalent to 50% of the Massmart ordinary dividend per share (81,5 cents) was paid to the Massmart Thuthukani Empowerment Trust on 15 September 2008.

Directorate and Secretary

The current directorate of the Company is shown on pages 11 to 13.

The Company Secretary provides a central source of guidance and advice to the Board, and within the Company, on matters of ethics and good governance.

The Company Secretary is Mr Ilan Zwarenstein, CA(SA), whose business and postal addresses are the same as that of the Company.

In accordance with the provisions of the Company's Articles of Association, IN Matthews, DNM Mokhobo, GM Pattison, MJ Rubin and CS Seabrooke will retire at the annual general meeting. Being eligible, IN Matthews, DNM Mokhobo, GM Pattison, MJ Rubin and CS Seabrooke offer themselves for re-election.

Interests of Directors in the Company's shares

At 30 June 2008, Directors owned ordinary shares in the Company, or options over ordinary shares in the Company, directly or indirectly, aggregated as to beneficial and non-beneficial ownership, as follows:

	2008				2007			
	Shares		Options		Shares		Options	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Non-executive directors								
MJ Lamberti	–	500 000	–	–	–	500 000	–	–
CS Seabrooke	–	700 000	–	–	–	600 000	–	–
MD Brand	–	–	–	–	–	–	–	–
ZL Combi	–	–	–	–	–	–	–	–
KD Dlamini	–	–	–	–	–	–	–	–
NN Gwagwa	–	–	–	–	–	–	–	–
JC Hodkinson	8 000	–	–	–	4 000	–	–	–
P Langeni	–	–	–	–	–	–	–	–
IN Matthews	–	–	–	–	–	–	–	–
P Maw	–	–	–	–	–	–	–	–
DNM Mokhobo	–	–	–	–	–	–	–	–
MJ Rubin	70 000	29 500	–	–	70 000	19 500	–	–
Executive directors								
GM Pattison	1 337 967	–	605 219	–	1 240 919	–	605 219	–
GRC Hayward	539 808	–	299 889	–	402 524	–	349 889	–

At the date of this report, the Directors' holdings were as follows:

	Shares		Options	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Non-executive directors				
MJ Lamberti	–	500 000	–	–
CS Seabrooke	–	600 000	–	–
MD Brand	–	–	–	–
ZL Combi	–	–	–	–
KD Dlamini	–	–	–	–
NN Gwagwa	–	–	–	–
JC Hodkinson	8 000	–	–	–
P Langeni	–	–	–	–
IN Matthews	–	–	–	–
P Maw	–	–	–	–
DNM Mokhobo	–	–	–	–
MJ Rubin	70 000	29 500	–	–
Executive directors				
GM Pattison	1 337 967	–	605 219	–
GRC Hayward	539 808	–	299 889	–

Details of shares issued and options granted by the Company in terms of the rules of the Massmart Share Incentive Scheme are dealt with on pages 142 to 145.

Subsidiaries

The following companies are principal subsidiaries of the Company:

Federated Timbers (Proprietary) Limited	2004/035206/07
Masscash Holdings (Proprietary) Limited	1997/014716/07
Massmart International Holdings Limited (Incorporated in Mauritius)	47902 C1/GBL
Massmart Management & Finance Company (Proprietary) Limited	1992/004084/07
Masstores (Proprietary) Limited	1991/006805/07
Servistar (Proprietary) Limited	1948/031897/07
Shield Buying and Distribution (Proprietary) Limited	1984/011353/07

Details of the Company's interests in material subsidiaries are set out on page 153. Total net profit for all subsidiaries for the 2008 financial year amounted to R1 317,2 million.

Borrowing powers

In terms of the Articles of Association, the Group has unlimited borrowing powers. At 30 June 2008, borrowings were R535,1 million (2007: R567,9 million).

Going concern

The Directors are of the opinion that the business will be a going concern in the year ahead. In reaching this opinion, the Directors considered the following factors:

- strong positive cash flows from trading
- no recurring operating losses
- well-controlled working capital and good quality inventory
- approved short- and long-term financing, with sufficient additional short-term borrowing capacity if required
- key executive management is in place
- there have been no material changes that may affect the Group in any of our customer, product or geographic markets
- budgets to June 2009 reflect a continuation of the above positive issues.

Address

The Company's registered office and postal address:

Registered office
Massmart House, 16 Peltier Drive,
Sunninghill Ext 6, Sandton, 2191

Postal address
Private Bag X4, Sunninghill, 2157

Litigation

There are no current, pending or threatened legal or arbitration proceedings that may have, or have had in the previous 12 months, a material effect on the Group's financial position.

Audit Committee report

The Audit Committee met three times during the year and the internal and external auditors presented formal reports to the Committee and attended meetings by invitation. In accordance with section 270(1)(f) of the Companies Act, No. 61 of 1973, as amended, the Committee reports as follows:

- The scope, independence and objectivity of the external auditors was reviewed.
- The audit firm Deloitte & Touche, and audit partner André Dennis, are, in the Committee's opinion, independent of the Company, and have been proposed to the shareholders for approval to be the Group's auditor for the 2009 financial year.
- On an ongoing basis, the Committee reviews and approves the fees proposed by the external auditors.
- The appointment of the external auditor complies with the Companies Act, as amended, and with all other legislation relating to the appointment of external auditors.
- The nature and extent of non-audit services provided by the external auditors has been reviewed to ensure that the fees for such services do not become so significant as to call into question their independence.
- The nature and extent of future non-audit services have been defined and preapproved.
- As at the date of this report, no complaints have been received relating to accounting practices and internal audit of the Company or to the content or auditing of the Company's financial statements, or to any related matter.

Subsequent events

Subsequent to 30 June 2008, Masscash Holdings (Pty) Ltd signed an agreement to acquire Brett Four (Pty) Ltd, trading as Cambridge Foods, which owns five food retail stores operating in the Durban area. The acquisition is subject to Competition Tribunal approval. The financial effects of this pending acquisition are not material.

On the first day of the 2009 financial year, the sale of the Massdiscounters Consumer Credit Division and associated debtors book became effective and cash proceeds of R174 million were received on the same date.

At the August 2008 meeting, the Board resolved to proceed, subject to shareholder approval, with assisting our black non-executive Directors to become shareholders in the Company. When the Group's BEE staff equity schemes were implemented in 2006, the black non-executive Directors were not included as the Board was of the view that the design of those schemes was more suited to the Group's general staff. It is now proposed that the five designated black non-executive Directors will each be given the opportunity to purchase at par 20 000 shares in Massmart, and then be restricted in the sale of these shares – half for three years and half for five years.

The Company regards the cost of this transaction as part of the engagement cost of these Directors over the five-year period in addition to their annual fees. The Board has considered the effect of this transaction on the continued independence of those Directors and believes that the limited size and its once-off nature are sufficient to ensure their continued ability to act independently.

Shareholders are referred to pages 182 to 187 *Notice of sale of shares currently held as treasury shares to the black non-executive Directors* and *Fairness Opinion by an Independent Professional Expert* which contains all the information required in terms of the JSE and the Companies Act.

On behalf of the Board



Ilan Zwarenstein
Company Secretary

1 October 2008

Income statement

for the year ended 30 June 2008

	Notes	2008 Rm	2007 Rm
Revenue	3	39 944,8	34 964,7
Sales		39 783,6	34 807,6
Cost of sales		(32 481,4)	(28 435,7)
Gross profit		7 302,2	6 371,9
Other income	3	161,2	157,1
Depreciation and amortisation		(297,8)	(240,9)
Impairment of assets	4	(4,7)	(26,3)
Employment costs		(2 736,2)	(2 449,8)
Occupancy costs		(962,7)	(846,0)
Other operating costs		(1 376,9)	(1 292,7)
Operating profit	5	2 085,1	1 673,3
Finance costs	7	(110,6)	(100,4)
Finance income	7	46,5	56,0
Net finance costs		(64,1)	(44,4)
Profit before taxation		2 021,0	1 628,9
Taxation	8	(662,9)	(554,8)
Profit for the year		1 358,1	1 074,1
Attributable to:			
Equity holders of the parent		1 314,1	1 049,9
Preference shareholders		22,5	8,9
Minority interest	22	21,5	15,3
		1 358,1	1 074,1
Earnings per share (cents)			
Basic EPS	10	660,3	523,7
Diluted basic EPS	10	644,6	514,5
Dividend/distribution per share (cents)			
Interim		223,0	197,0
Final		163,0	123,0
Total	9	386,0	320,0
Headline earnings	10	1 319,4	1 083,3
Headline EPS (cents)	10	663,0	540,4
Diluted headline EPS (cents)	10	647,2	530,9

Massmart uses the retail calender which means that the 2008 financial year represents a 53-week period which started on Monday, 25 June 2007 and ended on Sunday, 29 June 2008. For further explanation see page 27 of the Chief Financial Officer's review.

Balance sheet

as at 30 June 2008

	Notes	2008 Rm	2007 Rm
Assets			
Non-current assets		3 840,5	3 448,2
Property, plant and equipment	11	1 393,0	1 123,8
Goodwill	12	1 362,3	1 346,8
Other intangibles	13	132,0	130,2
Investments	14	311,3	241,2
Other financial assets	15	226,7	173,4
Deferred taxation	16	415,2	432,8
Current assets		7 892,8	7 401,4
Inventories	17	4 758,6	4 027,3
Trade receivables and prepayments	18	1 764,2	1 876,5
Taxation		310,4	251,9
Cash and bank balances	36.10	1 059,6	1 245,7
Assets classified as held for sale	19	167,6	–
Total assets		11 900,9	10 849,6
Equity and liabilities			
Capital and reserves		2 735,8	2 239,0
Share capital	20	2,0	2,0
Share premium	20	151,7	254,7
Non-distributable reserves	21	269,0	205,4
Retained profit		2 313,1	1 776,9
Minority interest	22	30,7	25,8
Total equity		2 766,5	2 264,8
Non-current liabilities		1 015,9	1 122,2
Non-current liabilities:			
– Interest-bearing	23	267,7	402,7
– Interest-free	23	557,2	556,9
Non-current provisions	24	49,1	47,1
Deferred taxation	16	141,9	115,5
Current liabilities		8 118,5	7 462,6
Trade and other payables	25	7 380,0	6 755,7
Provisions	26	11,5	3,9
Taxation		543,1	534,4
Other current liabilities	23	146,2	131,6
Bank overdrafts	36.10	37,7	37,0
Total equity and liabilities		11 900,9	10 849,6

Cash flow statement

for the year ended 30 June 2008

	Notes	2008 Rm	2007 Rm
Cash flow from operating activities			
Operating cash before working capital movements	36.1	2 394,9	1 926,4
Working capital movements	36.2	(73,2)	(28,3)
Cash generated from operations		2 321,7	1 898,1
Interest received		46,5	56,0
Interest paid		(110,6)	(100,4)
Investment income		47,7	53,6
Taxation paid	36.3	(668,1)	(531,6)
Dividends received		2,2	2,5
Dividends paid		(709,9)	(565,1)
Net cash inflow from operating activities		929,5	813,1
Cash flow from investing activities			
Investment to maintain operations	36.4	(268,3)	(152,9)
Investment to expand operations	36.5	(309,6)	(317,9)
Proceeds on disposal of property, plant and equipment	36.6	5,2	10,6
Investment in subsidiaries	36.7	–	(160,0)
Other investing activities	36.8	(325,5)	(70,6)
Net cash outflow from investing activities		(898,2)	(690,8)
Cash flow from financing activities			
Decrease in non-current liabilities		(135,4)	(17,2)
Increase/(decrease) in current liabilities		12,4	(45,2)
Net acquisition of treasury shares	36.9	(99,7)	(226,0)
Net cash outflow from financing activities		(222,7)	(288,4)
Net decrease in cash and cash equivalents		(191,4)	(166,1)
Foreign exchange movements taken to statement of changes in equity		4,6	(1,5)
Cash and cash equivalents at the beginning of the year		1 208,7	1 376,3
Cash and cash equivalents at the end of the year	36.10	1 021,9	1 208,7

Massmart uses the retail calender which means that the 2008 financial year represents a 53-week period which started on Monday, 25 June 2007 and ended on Sunday, 29 June 2008.

Statement of changes in equity

for the year ended 30 June 2008

	Share capital Rm	Share premium Rm	Non-distributable reserves* Rm	Share-based payment reserve* Rm	Retained profit Rm	Equity attributable to equity holders of the parent Rm	Minority interests Rm	Total Rm
Balance as at 30 June 2006	2,0	262,6	100,0	43,4	1 493,8	1 901,8	50,6	1 952,4
Profit for the year	–	–	–	–	1 058,8	1 058,8	15,3	1 074,1
Exchange differences and hyperinflation movements	–	–	0,6	–	–	0,6	–	0,6
Deconsolidation of Makro Zimbabwe	–	–	5,9	–	–	5,9	–	5,9
Fair value adjustment of investment in Makro Zimbabwe	–	–	(13,2)	–	–	(13,2)	–	(13,2)
Cash flow hedges taken directly to equity	–	–	1,2	–	–	1,2	–	1,2
Transfers from/to retained profit arising as a result of:								
– release of deferred taxation on trademarks	–	–	(5,8)	–	5,8	–	–	–
– share trust loss	–	–	–	–	(216,5)	(216,5)	–	(216,5)
Changes in minority interests	–	–	–	–	–	–	(37,3)	(37,3)
Distribution to minorities	–	–	–	–	–	–	(2,8)	(2,8)
Dividends declared (note 9)	–	–	–	–	(565,0)	(565,0)	–	(565,0)
Share-based payment expense	–	–	–	73,3	–	73,3	–	73,3
BEE transaction costs	–	(4,5)	–	–	–	(4,5)	–	(4,5)
Treasury shares acquired	–	(3,4)	–	–	–	(3,4)	–	(3,4)
Balance as at 30 June 2007	**2,0**	**254,7**	**88,7**	**116,7**	**1 776,9**	**2 239,0**	**25,8**	**2 264,8**
Profit for the year	–	–	–	–	1 336,6	1 336,6	21,5	1 358,1
Exchange differences and hyperinflation movements	–	–	4,6	–	–	4,6	–	4,6
Cash flow hedges taken directly to equity	–	–	(1,9)	–	–	(1,9)	–	(1,9)
Transfers from/to retained profit arising as a result of:								
– release of deferred taxation on trademarks	–	–	(5,8)	–	5,8	–	–	–
– share trust loss	–	–	–	–	(96,3)	(96,3)	–	(96,3)
Gains and losses not recognised in the income statement	–	–	3,3	–	–	3,3	–	3,3
Changes in minority interests	–	–	–	–	–	–	(3,0)	(3,0)
Distribution to minorities	–	–	–	–	–	–	(13,6)	(13,6)
Dividends declared (note 9)	–	–	–	–	(709,9)	(709,9)	–	(709,9)
Share-based payment expense	–	–	–	109,1	–	109,1	–	109,1
BEE transaction costs	–	–	–	–	–	–	–	–
Treasury shares acquired	–	(103,0)	(45,7)	–	–	(148,7)	–	(148,7)
Balance as at 30 June 2008	**2,0**	**151,7**	**43,2**	**225,8**	**2 313,1**	**2 735,8**	**30,7**	**2 766,5**

* These reserves have been combined in the balance sheet as non-distributable reserves.

Notes to the annual financial statements

for the year ended 30 June 2008

1. Accounting policies

Basis of accounting

The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments to fair value.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and in a manner required by the Companies Act of South Africa. The principal accounting policies adopted are set out below.

These policies have been consistently applied except for Makro Zimbabwe as indicated in note 6 on page 123.

Basis of consolidation

The Group annual financial statements incorporate the annual financial statements of the Company and the entities it controls. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The operating results of the subsidiaries are consolidated from the date on which effective control is transferred to the Group and up to the effective date of disposal.

Separate disclosure is made of minority interests where the Group's investment is less than 100%. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority's interest in the subsidiary's equity are allocated against the interest of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

All intercompany transactions and balances, income and expenses are eliminated in full on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held-for-sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Segmental information

The Group is organised into four divisions for operational and management purposes. Massmart reports its primary business segment information on this basis and on a secondary basis by significant geographical region based on location of assets.

Comparative figures

When an accounting policy is altered, comparative figures are restated if required by the applicable accounting statement and where material. Details of these restatements have been included in the relevant notes to the annual financial statements.

Interests in associates

An associate is an enterprise over which the Group has significant influence, and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held-for-sale, in which case it is accounted for under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The carrying amount of such interests is reduced to recognise any decline, other than a temporary decline, in the value of individual investments. The carrying amount reflects the Group's share of net assets of the associate and includes any goodwill on acquisition, less any impairment in the value of individual investments.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (ie discount on acquisition) is credited to profit or loss in the period of acquisition.

Where a Group enterprise transacts with an associate of the Massmart Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Goodwill

Goodwill arising on consolidation of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (ie discount on acquisition) is credited to profit or loss in the period of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under "Interests in associates" above.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

Property, plant and equipment

Freehold land is shown at cost and is not depreciated. Property, plant and equipment is shown at cost less accumulated depreciation, and reduced by any accumulated impairment losses.

Property cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Where expenditure incurred on property, plant and equipment will lead to future economic benefits accruing to the Group, these costs are capitalised. Repairs and maintenance are expensed as and when incurred.

Depreciation is charged so as to write off the cost of assets, other than land, over their estimated useful lives, using the straight-line method, on the following bases:

• Buildings	50 years
• Fixtures, fittings, plant, equipment and motor vehicles	4 to 10 years
• Computer hardware	3 to 8 years
• Leasehold improvements	Shorter of lease period or useful life

Useful life and residual value is reviewed annually and the prospective depreciation is adjusted accordingly.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Internally-generated intangible assets are amortised on a straight-line basis over their estimated useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Intangible assets

Trademarks are measured initially at purchased cost and are amortised on a straight-line basis over their estimated useful lives.

Amortisation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following basis:

• Computer software	3 to 8 years

Useful life is reviewed annually and the prospective depreciation is adjusted accordingly.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of an asset (cash-generating unit) is increased to the revised estimate of its recoverable amount. This is done so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Revenue recognition

Revenue of the Group comprises net sales, royalties, franchise fees, interest received, investment income, finance charges, property rentals, management and administration fees, dividends and excludes value-added tax. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales-related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and the interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Other revenue is recognised on the accrual basis in accordance with the substance of the relevant agreements and measured at fair value of the consideration receivable.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are capitalised at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor, net of finance charges, is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (ie its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in the functional currency of the Group, and the presentation currency for the consolidated financial statements.

Transactions in currencies other than the Group reporting currency (South African Rands) are initially recorded at the rates of exchange prevailing on the dates of the transactions. In order to hedge its exposure to certain foreign exchange risks, the Group has a policy of covering forward all its foreign exchange liability transactions of a trading nature (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement and retranslation of monetary items are included in profit and loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit and loss for the period. However, where fair value adjustments of non-monetary items are recognised directly in equity, exchange differences arising on the retranslation of these non-monetary items are also recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations (including comparatives) are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

The financial statements (including comparatives) of foreign subsidiaries and associates that report in the currency of a hyperinflationary economy are restated in terms of the measuring unit current at the balance sheet date before they are translated into South African Rands.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Government grants

Government grants for staff training costs are recognised in profit or loss over the periods necessary to match them with the related costs and are deducted in reporting the related expense. Income is not recognised until there is reasonable assurance that the grants will be received.

Retirement benefit costs

Payments to defined contribution plans are charged as an expense as they fall due. There are no defined retirement benefit plans in the Group.

Post-retirement healthcare benefit

Post-retirement healthcare benefits are provided by certain Group companies to qualifying employees and pensioners. The healthcare benefit costs are determined through annual actuarial valuations by independent consulting actuaries using the projected unit credit method. Such gains or losses are recognised over the expected remaining working lives of the participating members. Adjustments are made annually through profit or loss for provisions held for members who have already retired. Actuarial gains and losses are recognised in full in the period in which they occur.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax charge payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. In general, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities, which affects neither the tax profit nor the accounting profit at the time of the transaction.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Secondary Taxation on Companies (STC) is payable on net dividends paid and is recognised as a tax charge in profit or loss in the year it is incurred.

Any tax on capital gains is deferred if the proceeds of the sale of the assets are invested in similar assets. The tax will ultimately become payable on sale of the similar asset.

Inventories

Inventories, which consist of merchandise, are valued at the lower of cost and net realisable value. Cost is calculated on the weighted-average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale financial assets' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as 'at fair value through profit or loss'.

Loans and receivables

Trade receivables, loans and other receivables are measured initially at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value. For purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in money-market instruments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value, net of bank overdrafts.

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that the Group has the express intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments other than held-to-maturity debt securities are classified as either investment held-for-trading or as available-for-sale, and are subsequently measured at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period.

Unrealised gains and losses on available-for-sale investments are recognised directly in equity until the disposal or impairment of the relevant investment, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Listed investments are carried at market value, which is calculated by reference to stock exchange quoted selling prices at the close of business on the balance sheet date.

Financial liabilities and equity

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. Debt instruments issued, which carry a right to convert to equity that is dependent on the outcome of uncertainties beyond the control of both the Group and the holder, are classified as liabilities except where conversion is certain. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities, other than derivative instruments, are recognised at amortised cost, comprising original debt less principal payments and amortisations.

Financial liabilities include finance lease obligations, interest-bearing bank loans and overdrafts, and trade and other payables. The accounting policy for finance lease obligations is outlined on page 115.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see below).

Trade payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates.

The Group uses foreign exchange forward contracts to hedge its exposure to foreign currency fluctuations relating to certain firm trading commitments. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not trade in derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

The effective portion of the changes in fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognised directly in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. If the hedged firm commitment or forecast transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. Amounts deferred in equity are recognised in profit or loss in the same period in which the hedged firm commitment affects profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify as cash flow hedges are recognised in profit or loss as they arise.

The hedge is de-designated as a cash flow hedge at the Shipped on Board date, and discontinued when the hedging instrument is sold, expired, terminated, exercised, or no longer qualifies for hedge accounting. At the time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction is recognised in profit or loss. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that the Group will be required to settle that obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured by use of a Binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Borrowing costs

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2. Technical review

International Financial Reporting Standards (IFRS)

Massmart adopted International Financial Reporting Standards (IFRSs), with effect from 1 July 2005. The Group is exposed to the following suite of standards. The impact of each standard has been indicated in the right-hand column.

Standard	Standards Name	Impact
IFRS 1	First-time Adoption of IFRS	Immaterial financial impact and increased disclosure
IFRS 2	Share-based Payment	Material financial impact and increased disclosure
IFRS 3	Business Combinations	Immaterial financial impact and increased disclosure
IFRS 4	Insurance Contracts	None
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	Immaterial financial impact and increased disclosure
IFRS 6	Exploration for and Evaluation of Mineral Resources	None
IFRS 7	Financial Instruments: Disclosures	No financial impact but increased disclosure
IFRS 8	Operating Segments	This standard has not been early adopted
IAS 1	Presentation of Financial Statements	No financial impact but increased disclosure
IAS 2	Inventories	No financial impact
IAS 7	Cash Flow Statements	No financial impact
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	No financial impact but increased disclosure
IAS 10	Events after Balance Sheet Date	No financial impact but increased disclosure
IAS 11	Construction Contracts	None
IAS 12	Income Taxes	No financial impact
IAS 14	Segment Reporting	No financial impact
IAS 16	Property, Plant and Equipment	Practical application challenging, immaterial financial impact and increased disclosure
IAS 17	Leases	No financial impact
IAS 18	Revenue	No financial impact
IAS 19	Employee Benefits	No financial impact but increased disclosure
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	None
IAS 21	The Effects of Changes in Foreign Exchange Rates	Material financial impact and increased disclosure
IAS 23	Borrowing Costs	None
IAS 24	Related-party Disclosures	No financial impact but increased disclosure
IAS 26	Accounting and Reporting by Retirement Benefit Plans	None
IAS 27	Consolidated and Separate Financial Statements	Financial impact and increased disclosure
IAS 28	Investments in Associates	Immaterial financial impact and increased disclosure
IAS 29	Financial Reporting in Hyperinflationary Economies	Financial impact and increased disclosure
IAS 30	Disclosure in FS of Banks and Similar Financial Institutions	None
IAS 31	Interests in Joint Ventures	None
IAS 32	Financial Instruments: Disclosure and Presentation	No financial impact but increased disclosure
IAS 33	Earnings per Share	No financial impact but increased disclosure
IAS 34	Interim Financial Reporting	No financial impact but increased disclosure
IAS 36	Impairment of Assets	Immaterial financial impact and increased disclosure
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	No financial impact but increased disclosure
IAS 38	Intangible Assets	Immaterial financial impact and increased disclosure
IAS 39	Financial Instruments: Recognition and Measurement	No financial impact but increased disclosure
IAS 40	Investment Property	None
IAS 41	Agriculture	None
AC 500	Preface to South African Statements and Interpretations of Statements of Generally Accepted Accounting Practice	No financial impact
AC 501	Accounting for “Secondary Tax on Companies (STC)”	No financial impact
AC 502	Substantively Enacted Tax Rates and Tax Laws	No financial impact
AC 503	Accounting for Black Economic Empowerment (BEE) Transactions	No financial impact

IFRS 8 *Operating Segments*, was issued on 30 November 2006 to replace IAS 14 *Segment Reporting*. The effective date of this standard is for year-ends beginning on or after 1 January 2009. Although early adoption is permitted, the Group has chosen not to do so. The standard requires the Group to adopt the 'management approach' to reporting segment information, effectively using its internal management reporting system to collect the data. While this is a change in approach from IAS 14 *Segment Reporting*, the effect will have no financial impact on the Group. The standard will impact Group disclosure.

The IASB will be issuing a revised suite of standards to be effective for year-ends beginning on or after 1 January 2009. IFRS 8 *Operating Segments* will be adopted as part of that project. We anticipate these new standards will require as much work and planning as the initial IFRS adoption and feel comfortable that we have an adequate experienced team to manage the process.

Interpretations of Statements of Generally Accepted Accounting Practice

The International Financial Reporting Interpretations Committee (IFRIC) is a committee of the International Accounting Standards Board (IASB) that assists the IASB in establishing and improving standards of financial accounting and reporting for the benefit of users, preparers and auditors of financial statements. The role of the IFRIC is to provide timely guidance on newly identified financial reporting issues not specifically addressed in International Financial Reporting Standards (IFRSs) or issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop. It thus promotes the rigorous and uniform application of IFRSs.

The following IFRICs were issued since the start of the financial year or issued earlier but become effective for the current financial year. Many of these have no impact on the Group, and have been included for completeness. The impact of each IFRIC has been indicated in the right-hand column.

IFRIC	Name	Effective date	Impact on the Group
IFRIC 4	Determining whether an Arrangement contains a Lease	Annual periods beginning on or after 1 January 2006	Extensive research was completed to determine if this IFRIC applied to the Group. It was clear that it did not and thus has no impact on the Group.
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	Annual periods beginning on or after 1 January 2006	This IFRIC has no impact on the Group.
IFRIC 6	Liabilities Arising from Participating in a Specific Market–Waste Electrical and Electronic Equipment	Annual periods beginning on or after 1 December 2005	This IFRIC has no impact on the Group.
IFRIC 7	Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economies*	Annual periods beginning on or after 1 March 2006	This IFRIC has no impact on the Group. It was written for companies reporting in a hyperinflationary economy for the first time.
IFRIC 8	Scope of IFRS 2 *Share-based Payment*	Annual periods beginning on or after 1 May 2006	This IFRIC was early adopted. It had an impact on the Group and was incorporated into the IFRS restatement in the prior year.
IFRIC 9	Reassessment of Embedded Derivatives	Annual periods beginning on or after 1 June 2006	This IFRIC has no impact on the Group.
IFRIC 10	Interim Financial Reporting and Impairment	Annual periods beginning on or after 1 November 2006	This IFRIC has no impact on the Group.
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	Annual periods beginning on or after 1 March 2007	This IFRIC clarifies elements of IFRS 2 and has no additional impact on the Group above the original IFRS.
IFRIC 12	Service Concession Arrangements	Annual periods beginning on or after 1 January 2008	This IFRIC has no impact on the Group.
IFRIC 13	Customer Loyalty Programmes	Annual periods beginning on or after 1 July 2008	This IFRIC has no impact on the Group.
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Annual periods beginning on or after 1 January 2008	This IFRIC has no impact on the Group.

The relevant IFRIC Interpretations have been applied prospectively from the date of issue or other specified effective date.

An IFRIC becomes inoperative and is withdrawn when an IFRS or other authoritative document issued by the IASB that overrides or confirms a previously issued IFRIC becomes effective.

Circulars

A circular is issued by the JSE or the South African Institute of Chartered Accountants (SAICA) where guidance or clarification is required on an identified financial reporting issue on a South African platform (as opposed to an IFRIC, discussed above, that operates on an international platform). This assistance is required to establish and improve standards of financial accounting and reporting for the benefit of users, preparers and auditors of financial statements. It thus promotes the rigorous and uniform application of the standards.

The following circulars were issued since the start of the financial year. Many of these have had no impact on the Group, and have been included for completeness. The impact of each circular has been indicated in the right-hand column.

Circular	Name	Date issued	Impact on the Group
Circular 08/2007	Headline Earnings	July 2007	This circular will have a financial impact on the Group and has been complied with in full. Refer to note 10.
Circular 09/2007	Statement of Generally Accepted Accounting Practice for Small- and Medium-sized Entities (SMEs)	October 2007	This circular has no impact on the Group.
Circular 01/2008	Guideline on Fees for Audits done on Behalf of the Auditor-General	March 2008	This circular has no impact on the Group.

Where a circular impacts the Group, the results of the Group have been adjusted retrospectively, as if the Group had always accounted for the circular correctly.

Summary

The Group's accounting policies are governed by IFRSs and the AC 500 series as issued by the Accounting Practices Board and listed above. Guidance has been obtained from IFRICs and circulars effective on 1 October 2008, also listed above. Due to the nature and volatility of Exposure Drafts (EDs), no review has been provided.

The Group maintains the view that the standards set the minimum requirement for financial reporting. The financial statements in this annual report have been prepared with the aim of exposing the reader to a very detailed view of the numbers, using a simplified approach, in the hope of facilitating a deeper and informed understanding of the business.

	2008 Rm	2007 Rm
3. Revenue		
Sales	39 783,6	34 807,6
Change in fair value of financial assets carried at fair value through profit or loss	54,0	61,1
Instalment-sale finance charges	51,3	51,6
Dividends from unlisted investments	81,2	67,3
Less: Interest paid on a related liability	(75,5)	(64,8)
Royalties and franchise fees	27,7	25,7
Management and administration fees	0,4	0,4
Property rentals	2,2	1,2
Other	19,9	14,6
	39 944,8	34 964,7

	Notes	2008 Rm	2007 Rm
4. Impairment of assets			
Tangible assets	11	–	6,6
Goodwill	12	–	12,2
Intangible assets	13	4,7	–
Inventory and consumable goods		–	7,5
		4,7	26,3

The impairment of assets in the current year relates to computer software in Shield (Masscash) due to the IT upgrade which rendered the previous system obsolete and trademarks in Corporate where there were no future benefits. The impairment of assets in the prior year related to the write-off of Dion inventory, consumables and plant and equipment arising from the decision to discontinue the original Dion format and the impairment of certain goodwill in Jumbo arising from a minor acquisition in 2001.

5. Operating profit

	2008 Rm	2007 Rm
Credits to operating profit include:		
Foreign exchange profit	220,2	113,1
Profit on disposal of tangible and intangible assets	1,5	4,9
Insurance gain	–	2,8
Charges to operating profit include:		
Depreciation and amortisation (owned assets):		
Buildings	4,6	4,5
Fixtures, fittings, plant and equipment	151,2	119,6
Computer hardware	43,5	37,2
Leasehold improvements	25,0	18,1
Motor vehicles	9,1	8,2
Computer software	48,0	38,2
Trademarks	0,4	0,2
Depreciation and amortisation (leased assets):		
Buildings	2,0	2,1
Fixtures, fittings, plant and equipment	1,3	0,9
Computer equipment	–	0,3
Motor vehicles	12,6	11,7
Foreign exchange loss	157,7	154,5
Share-based payment expense	109,1	73,3
Operating lease charges:		
Land and buildings	705,0	665,3
Plant and equipment	26,6	24,8
Computer equipment	9,5	9,9
Motor vehicles	10,2	10,1
Loss on disposal of tangible and intangible assets	5,3	5,7
Fees payable:		
Administrative and outsourcing services	196,7	181,8
Consulting	19,9	13,5
Auditors' remuneration:		
Current year fee	13,5	13,7
Prior year underprovision	0,1	0,9
Tax advice	0,9	1,7
Consulting and business reviews	0,4	2,7
Contract assignments	0,7	0,9

6. Hyperinflation

In the 2007 financial year, the decision was made to prospectively deconsolidate the results of the Zimbabwean Makro operations.

In terms of IAS 27 *Consolidated and Separate Financial Statements*, control is defined as "the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities". It is evident from the current social, political and economic developments within Zimbabwe that control does not exist. This has been evidenced through the forcing of retailers to sell goods at predetermined prices and the inability of the Massmart Group to repatriate monies. It is Massmart's view that, throughout the 2008 financial year, it did not have control over the Zimbabwean operations and as such the results remain deconsolidated. This will be assessed on a yearly basis going forward.

On deconsolidation, the investment in Makro Zimbabwe has been reflected as an available-for-sale financial asset in line with the requirements of IAS 39 *Financial Instruments: Recognition and Measurement*. At year-end, the fair value of this asset has been determined to be zero. Details can be found in note 14 on page 130.

7. Net finance costs

	2008 Rm	2007 Rm
Finance costs		
Interest on bank overdrafts and loans	97,7	88,3
Interest on obligations under finance leases	12,9	12,1
	110,6	100,4
Finance income		
Income from investments and receivables	46,5	56,0
	46,5	56,0

Details on the loans and finance leases can be found in note 23 on page 140.

8. Taxation

	2008 Rm	2007 Rm
Current year		
South African normal taxation		
Current taxation	506,0	481,4
Deferred taxation	33,8	10,1
Foreign taxation		
Current taxation	37,4	19,7
Deferred taxation	5,9	(8,4)
Secondary taxation on companies	65,9	57,9
Taxation effect of participation in export partnerships	0,4	0,3
Total	649,4	561,0
Prior year under/(over) provision:		
South African normal taxation		
Current taxation	5,7	(2,4)
Deferred taxation	1,4	(2,6)
Release from equity reserve to income	0,5	–
Foreign taxation		
Current taxation	2,7	0,8
Deferred taxation (impairment of deferred taxation assets)	3,2	(2,2)
Secondary taxation on companies	–	0,2
	13,5	(6,2)
	662,9	554,8

Two companies in the Group participate in export partnerships. As the companies are liable for the tax effect of the participation, the amount is classified as a taxation charge.

	%	%
The rate of taxation is reconciled as follows:		
Standard corporate taxation rate	28,0	29,0
Exempt income	(1,1)	(1,2)
Disallowable expenditure	2,3	3,1
Foreign income	0,1	0,7
Prior year under-provision (including impairment)	0,7	(0,4)
Secondary taxation on companies	3,4	3,6
Other	(0,6)	(0,7)
Effective rate	32,8	34,1

9. Dividends paid to shareholders

	2008 Rm	2007 Rm
Final cash dividend No 15 (2007: No 13)	244,4	160,1
Interim cash dividend No 16 (2007: No 14)	443,0	396,1
Thuthukani preference share dividends No 2 and No 3 (2007: No 1)	22,5	8,9
Total dividends paid	709,9	565,1

No 15 of 123 cents declared on 2 October 2007 and paid on 29 October 2007 (R244,4 million).

No 16 of 223 cents declared on 20 March 2008 and paid on 25 March 2008 (R443,0 million).

No 17 of 163 proposed on 20 August 2008 to be declared on 12 September 2008 and paid on 15 September 2008 (R327,9 million).

No 2 of 30,75 cents declared on 2 October 2007 and paid on 25 October 2007 to the Massmart Thuthukani Empowerment Trust (R5,0 million).

No 3 of 111,5 cents declared on 20 March 2008 and paid on 25 March 2008 to the Massmart Thuthukani Empowerment Trust (R17,5 million).

No 4 of 81,5 cents proposed on 20 August 2008 to be declared on 12 September 2008 and paid on 15 September 2008 to the Massmart Thuthukani Empowerment Trust (R164,0 million).

10. Earnings per share

	2008 Pre-taxation Rm	2008 Post-taxation Rm	2008 Cents/share	2007 Pre-taxation Rm	2007 Post-taxation Rm	2007 Cents/share
Attributable and headline earnings per share						
The calculation of attributable and headline earnings per share is based on a weighted average of 198 995 686 (2007: 200 461 258) ordinary shares.						
The calculation is reconciled as follows:						
Profit attributable to the equity holders of the parent	1 314,1	1 314,1	660,3	1 049,9	1 049,9	523,7
Adjustments after minorities:						
Loss on disposal of movable assets	3,8	1,7	0,9	0,8	0,7	0,4
Impairment of assets	4,7	3,6	1,8	26,3	24,1	12,0
CGT on treasury shares	–	–	–	2,4	2,4	1,2
Loss on disposal of Furnex	–	–	–	6,2	6,2	3,1
Headline earnings	1 322,6	1 319,4	663,0	1 085,6	1 083,3	540,4
IFRS 2 BEE transaction charge	89,6	89,6	45,0	63,2	63,2	31,5
Headline earnings before the BEE transaction	1 412,2	1 409,0	708,0	1 148,8	1 146,5	571,9

	2008 Rm	2007 Rm	2008 Cents/share	2007 Cents/share
Diluted attributable and diluted headline earnings per share				
The calculation of diluted attributable and diluted headline earnings per share is based on a weighted average of 203 866 583 (2007: 204 037 431) ordinary shares.				
The calculation is reconciled as follows:				
Profit attributable to the equity holders of the parent	1 314,1	1 049,9	660,3	523,8
Adjustment for impact of issuing ordinary shares	–	–	(15,7)	(9,3)
Diluted attributable earnings	1 314,1	1 049,9	644,6	514,5
Headline earnings	1 319,4	1 083,3	663,0	540,4
Adjustment for impact of issuing ordinary shares	–	–	(15,8)	(9,5)
Diluted headline earnings	1 319,4	1 083,3	647,2	530,9

Weighted average shares outstanding	2008 No of shares	2007 No of shares
Weighted average shares outstanding for basic and headline earnings per share	198 995 686	200 461 258
Potentially dilutive ordinary shares resulting from outstanding options	4 870 897	3 576 173
Weighted average shares outstanding for diluted and diluted headline earnings per share	203 866 583	204 037 431

11. Property, plant and equipment

	Cost/carrying value Rm	Accumulated depreciation Rm	Net book value Rm
2008			
Owned assets			
Freehold land and buildings	175,2	20,6	154,6
Fixtures, fittings, plant and equipment	1 575,5	777,3	798,2
Computer hardware	293,1	198,6	94,5
Leasehold improvements	331,6	88,6	243,0
Motor vehicles	64,5	33,5	31,0
	2 439,9	1 118,6	1 321,3
Capitalised leased assets			
Freehold land and buildings	49,4	7,2	42,2
Fixtures, fittings, plant and equipment	3,1	3,0	0,1
Computer hardware	0,2	0,2	–
Motor vehicles	53,7	24,3	29,4
	106,4	34,7	71,7
Total	2 546,3	1 153,3	1 393,0
2007			
Owned assets			
Freehold land and buildings	170,2	16,0	154,2
Fixtures, fittings, plant and equipment	1 229,9	651,4	578,5
Computer hardware	249,2	162,7	86,5
Leasehold improvements	258,9	62,3	196,6
Motor vehicles	47,8	19,7	28,1
	1 956,0	912,1	1 043,9
Capitalised leased assets			
Freehold land and buildings	49,4	5,2	44,2
Fixtures, fittings, plant and equipment	5,5	3,4	2,1
Computer hardware	0,2	0,2	–
Motor vehicles	54,7	21,1	33,6
	109,8	29,9	79,9
Total	2 065,8	942,0	1 123,8

A register of land and buildings as required by the Companies Act of South Africa is available for inspection by members at the registered offices of the companies in the Group.

Certain capitalised leased property, plant and equipment is encumbered as per note 23 on page 140.

11. Property, plant and equipment *continued*

	Opening net book value Rm	Additions Rm	Additions through acquisitions Rm	Disposals Rm	Depreciation Rm	Foreign exchange gain/(loss) Rm	Reclassifications Rm	Write-offs Rm	Assets classified as held for sale Rm	Closing net book value Rm
Reconciliation of property, plant and equipment										
2008										
Owned assets										
Freehold land and buildings	154,2	5,0	–	(0,1)	(4,6)	0,1	–	–	–	154,6
Fixtures, fittings, plant and equipment	578,5	368,3	–	(5,1)	(151,2)	6,7	1,0	–	–	798,2
Computer hardware	86,5	52,1	–	(0,9)	(43,5)	0,4	–	–	(0,1)	94,5
Leasehold improvements	196,6	59,9	–	(0,1)	(25,0)	11,6	–	–	–	243,0
Motor vehicles	28,1	12,7	–	(1,3)	(9,1)	0,3	0,3	–	–	31,0
	1 043,9	498,0	–	(7,5)	(233,4)	19,1	1,3	–	(0,1)	1 321,3
Capitalised leased assets										
Freehold land and buildings	44,2	–	–	–	(2,0)	–	–	–	–	42,2
Fixtures, fittings, plant and equipment	2,1	–	–	–	(1,3)	–	(0,7)	–	–	0,1
Motor vehicles	33,6	10,0	–	(1,0)	(12,6)	–	(0,6)	–	–	29,4
	79,9	10,0	–	(1,0)	(15,9)	–	(1,3)	–	–	71,7
Total	1 123,8	508,0	–	(8,5)	(249,3)	19,1	–	–	(0,1)	1 393,0
2007										
Owned assets										
Freehold land and buildings	156,2	2,7	–	–	(4,5)	(0,2)	–	–	–	154,2
Fixtures, fittings, plant and equipment	442,5	264,3	10,9	(5,9)	(119,6)	(7,6)	–	(6,1)	–	578,5
Computer hardware	74,6	47,3	2,0	(0,3)	(37,2)	0,1	–	–	–	86,5
Leasehold improvements	166,3	46,0	2,0	(0,8)	(18,1)	1,7	–	(0,5)	–	196,6
Motor vehicles	23,1	15,2	0,8	(1,5)	(8,2)	(1,3)	–	–	–	28,1
	862,7	375,5	15,7	(8,5)	(187,6)	(7,3)	–	(6,6)	–	1 043,9
Capitalised leased assets										
Freehold land and buildings	46,3	–	–	–	(2,1)	–	–	–	–	44,2
Fixtures, fittings, plant and equipment	3,0	–	–	–	(0,9)	–	–	–	–	2,1
Computer hardware	0,3	–	–	–	(0,3)	–	–	–	–	–
Motor vehicles	32,0	15,8	–	(2,5)	(11,7)	–	–	–	–	33,6
	81,6	15,8	–	(2,5)	(15,0)	–	–	–	–	79,9
Total	944,3	391,3	15,7	(11,0)	(202,6)	(7,3)	–	(6,6)	–	1 123,8

The write-off in the prior year related to the impairment of assets held in the original Dion format that were discontinued.

The Group has reviewed the residual values and useful lives of the assets for reasonability. There were no material adjustments in the current period.

There is no investment property in the Group and all assets are held at historical cost.

12. Goodwill

	2008 Rm	2007 Rm
Reconciliation of goodwill:		
At the beginning of the year	1 346,8	1 196,4
Additions	14,5	163,7
Impairment	–	(12,2)
Exchange differences	1,0	(1,1)
At the end of the year	1 362,3	1 346,8
Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of significant goodwill had been allocated as follows:		
Jumbo Cash & Carry (Pty) Ltd and Browns & Weirs Cash & Carry Holdings (Pty) Ltd	–	243,0
CCW Wholesalers (Pty) Ltd	–	203,4
Masscash Holdings (Pty) Ltd	493,7	–
Builders Warehouse (a division of Masstores (Pty) Ltd)	187,5	187,5
Federated Timbers (Pty) Ltd	336,9	336,9
De La Rey 1001 Building Materials (Pty) Ltd	223,4	223,4

Jumbo Cash & Carry (Pty) Ltd and Browns & Weirs Cash & Carry (Pty) Ltd, and CCW Wholesalers (Pty) Ltd do not have goodwill balances at year-end as there is a reallocation of their goodwill to Masscash Holdings (Pty) Ltd.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

When testing goodwill for impairment, the recoverable amounts of the CGUs are determined as the lower of value in use and fair value less costs to sell. The key assumptions for the value-in-use calculations are discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using rates that reflect current market assumptions of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts based on the CGUs' June 2008 results for the next five years. A terminal value is calculated based on an estimated growth rate of 3%. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows is 14%.

The 2008 additions relate to minor business acquisitions in the Masscash division. In the prior year, the buyout of the minorities in De La Rey 1001 Building Materials (Pty) Ltd makes up the significant portion of the additions.

In the prior year, Jumbo Cash & Carry (Pty) Ltd recognised a goodwill impairment of R12,2 million arising from a minor acquisition in 2001.

13. Other intangible assets

	Cost/carrying value Rm	Accumulated amortisation Rm	Net book value Rm
2008			
Owned assets			
Computer software	292,1	162,9	129,2
Trademarks	4,3	1,5	2,8
Total	296,4	164,4	132,0
2007			
Owned assets			
Computer software	243,4	116,0	127,4
Trademarks	3,0	0,2	2,8
Total	246,4	116,2	130,2

	Opening net book value Rm	Additions Rm	Disposals Rm	Amortisation Rm	Foreign exchange gain Rm	Impairments Rm	Closing net book value Rm
Reconciliation of other intangible assets							
2008							
Owned assets							
Computer software	127,4	54,1	(0,5)	(48,0)	–	(3,8)	129,2
Trademarks	2,8	1,3	–	(0,4)	–	(0,9)	2,8
Total	130,2	55,4	(0,5)	(48,4)	–	(4,7)	132,0
2007							
Owned assets							
Computer software	100,3	63,6	(0,4)	(38,2)	2,1	–	127,4
Trademarks	2,0	1,0	–	(0,2)	–	–	2,8
Total	102,3	64,6	(0,4)	(38,4)	2,1	–	130,2

Intangible assets are amortised over the estimated useful life of the asset, which, on average, is three years for computer software and ten years for trademarks.

14. Investments

	2008 Rm	2007 Rm
Investment in associate		
Share of post-acquisition profit, net of dividend received	0,6	0,5
Amounts owing to associate	0,8	0,2
	1,4	0,7
Details of the Group's associate at 30 June 2008 are as follows:		
Name of associate — Clidet No 484 (Pty) Ltd		
Place of incorporation and operation — South Africa		
Proportion of ownership interest — 33,3%		
Proportion of voting power held — 33,3%		
Principal activity — Investment property		
33,3% of the R100 share capital was purchased for R33. The financial reporting date for Clidet No 484 (Pty) Ltd is 30 June.		
Summarised financial information in respect of the Group's associate is set out below:		
Total assets	31,3	31,6
Total liabilities	29,3	30,1
Net assets	2,0	1,5
Group's share of associate's net assets	0,7	0,7
Revenue	5,4	5,4
Profit for the year	0,5	1,0
Group's share of associate's profit for the year has been included in 'Other operating costs' in the consolidated income statement.	0,2	0,3
Unlisted investments		
Fair value through profit or loss (FVTPL)		
Held-for-trading		
Bare dominium revaluation relating to certain Makro properties	45,2	38,9
Investment in offshore trading structure	243,2	168,2
Total financial assets classified as held for trading	288,4	207,1
Designated as at FVTPL		
Conditional right to cell-captive distribution	5,9	2,3
Total financial assets designated as at FVTPL	5,9	2,3
Total fair value through profit or loss (FVTPL)	294,3	209,4
Loans and receivables		
Trencor export partnership	4,1	4,6
Total loans and receivables	4,1	4,6
Held-to-maturity investments carried at amortised cost		
Preference share investment	560,7	485,3
Offset of related long-term liability	(549,5)	(459,3)
Other investments	0,1	0,3
Total held-to-maturity investments	11,3	26,3
Total unlisted investments	309,7	240,3
Listed investments		
Other investments	0,2	0,2
	0,2	0,2
Total investments	311,3	241,2

14. Investments *continued*

	2008 Rm	2007 Rm
Reconciliation of financial assets carried at fair value through profit or loss (FVTPL)		
Opening balance	209,4	149,4
Fair value adjustments taken to the income statement	57,6	61,1
Foreign exchange adjustment taken to the income statement	27,3	(1,1)
Closing balance	294,3	209,4
Reconciliation of loans and receivables		
Opening balance	4,6	4,9
Investment realised	(0,5)	(0,3)
Closing balance	4,1	4,6
This represents our participation in a Trencor import/export partnership.		
Reconciliation of held-to-maturity investments		
Opening balance	26,3	36,3
Amortisation taken to the income statement	(15,0)	(10,0)
Closing balance	11,3	26,3
The preference share investment represents cumulative preference shares in Fullimput 65 (Pty) Limited. A long-term liability of the Group is secured by a cession of the preference shares and legal offset is permitted.		
Reconciliation of available-for-sale investments		
Opening balance	–	–
Deconsolidation of Makro Zimbabwe	–	13,2
Fair value adjustment of investment in Makro Zimbabwe	–	(13,2)
Closing balance	–	–
Makro Zimbabwe was deconsolidated in the prior year and the investment has been carried as an available-for-sale financial asset. At the prior year-end, the fair value of this asset has been determined to be zero and the adjustment taken to equity as a reserve.		

The directors value the unlisted investments, net of the offset of the related long-term liability, at R309,7 million (2007: R240,3 million).

For IAS 39 *Financial Instruments: Recognition and Measurement* accounting treatment of these investments, see note 37, "Financial instruments".

15. Other financial assets

	2008 Rm	2007 Rm
Housing loans to the directors and Executive Committee members of Massmart Holdings Limited:		
Balance at the beginning of the year	0,3	1,9
Advanced during the year	–	–
Repayments	–	(1,6)
Balance at the end of the year	0,3	0,3
Employee share trust loans to the directors and Executive Committee members of Massmart Holdings Limited:		
Balance at the beginning of the year	127,1	144,5
Advanced during the year	58,9	32,8
Repayments	(11,6)	(50,2)
Balance at the end of the year	174,4	127,1
Other employee loans:		
Housing and staff loans	3,3	5,2
Employee share trust loans	0,8	1,5
Finance lease deposit	45,1	39,3
Other loans	2,8	–
	52,0	46,0
	226,7	173,4

These loans are classified as 'Loans and receivables' for IAS 39 *Financial Instruments: Recognition and Measurement* purposes. See note 37, 'Financial instruments', for IAS 39 accounting treatment.

All housing and staff loans, including loans to directors, bear interest at various rates below the prime interest rate. The loans to the employee share trust particpants, including executive directors, attract interest of zero percent and are secured by the underlying shares. The finance lease deposit accrues interest at 13,6%.

Detailed housing and employee share trust loans to the directors and Executive Committee members of Massmart Holdings Limited:

	Lamberti, MJ* Rm	Pattison, GM Rm	Hayward, GRC Rm	Other Executive Committee Rm
2008				
Balance at the beginning of the year	–	48,5	17,4	61,5
Advanced during the year	–	8,3	8,9	41,7
Repayments	–	(4,3)	(1,4)	(5,9)
Balance at the end of the year	–	52,5	24,9	97,3
2007				
Balance at the beginning of the year	31,5	45,3	20,0	49,6
Advanced during the year	0,8	6,9	0,7	24,4
Repayments	(32,3)	(3,7)	(3,3)	(12,5)
Balance at the end of the year	–	48,5	17,4	61,5

** Resigned as executive director on 30 June 2007 and appointed non-executive Chairman on 1 July 2007.*

16. Deferred taxation

	2008 Rm	2007 Rm
The movements during the year are analysed as follows:		
Net asset at the beginning of the year	317,3	312,3
Charge to profit or loss for the year	(44,3)	3,1
Debit to equity	0,3	1,9
Net asset at the end of the year	273,3	317,3
Deferred taxation balances are presented in the balance sheet as follows:		
Deferred taxation assets	415,2	432,8
Deferred taxation liabilities	(141,9)	(115,5)
	273,3	317,3

	Opening balance Rm	Charged to income Rm	Charged to equity Rm	Exchange differences Rm	Changes in tax rate Rm	Closing balance Rm
2008						
Temporary differences						
Trademarks	9,2	(7,5)	–	–	(0,3)	1,4
Assessed loss unutilised	45,4	(12,3)	–	4,0	(0,6)	36,5
Export partnerships	(5,1)	0,5	–	–	0,2	(4,4)
Debtors provisions	18,0	(7,0)	–	–	(0,6)	10,4
Prepayments	(87,1)	(22,9)	–	–	3,0	(107,0)
Creditors provisions	59,8	1,3	–	0,4	(1,7)	59,8
Property, plant and equipment	(22,8)	(6,4)	–	(0,2)	0,6	(28,8)
Finance leases	14,6	(0,9)	–	–	(0,5)	13,2
Long-term provisions	13,9	0,6	–	–	(0,5)	14,0
Income not accrued	(0,2)	(0,4)	–	–	–	(0,6)
Deferred income	56,0	11,8	–	0,1	(1,9)	66,0
Operating lease adjustment	223,8	11,6	–	0,3	(7,3)	228,4
Other temporary differences	(8,2)	(7,2)	0,3	(0,1)	(0,4)	(15,6)
Total	317,3	(38,8)	0,3	4,5	(10,0)	273,3
2007						
Temporary differences						
Trademarks	18,1	(8,9)	–	–	–	9,2
Assessed loss unutilised	47,8	(3,3)	–	0,9	–	45,4
Export partnerships	(5,4)	0,3	–	–	–	(5,1)
Debtors provisions	21,6	(3,4)	–	–	(0,2)	18,0
Prepayments	(75,3)	(11,8)	–	–	–	(87,1)
Creditors provisions	52,2	7,6	–	–	–	59,8
Property, plant and equipment	(20,4)	(4,6)	2,2	–	–	(22,8)
Finance leases	15,3	(0,7)	–	–	–	14,6
Long-term provisions	12,6	1,3	–	–	–	13,9
Income not accrued	(0,2)	(0,2)	0,2	–	–	(0,2)
Deferred income	45,5	10,5	–	–	–	56,0
Operating lease adjustment	214,0	10,3	–	(0,4)	(0,1)	223,8
Other temporary differences	(13,5)	5,7	(0,5)	0,1	–	(8,2)
Total	312,3	2,8	1,9	0,6	(0,3)	317,3

17. Inventories

	2008 Rm	2007 Rm
Food		
Inventory at cost	1 526,5	1 094,2
Provisions	(56,9)	(54,6)
	1 469,6	1 039,6
Liquor		
Inventory at cost	261,4	176,0
Provisions	(8,5)	(4,9)
	252,9	171,1
General merchandise		
Inventory at cost	2 410,1	2 196,4
Provisions	(226,4)	(209,1)
	2 183,7	1 987,3
Home improvements		
Inventory at cost	968,6	925,7
Provisions	(116,2)	(96,4)
	852,4	829,3
Total inventory net of provisions	4 758,6	4 027,3
Inventories are carried at the lower of cost or net realisable value.		
Carrying amount of inventories carried at net realisable value	109,8	13,6
Inventory write-down recognised as an expense	8,4	38,5

Inventory is fully funded by trade payables. Details of trade payables can be found in note 25 on page 141.

18. Trade receivables and prepayments

	2008 Rm	2007 Rm
Trade receivables	1 134,7	1 073,2
Allowance for doubtful debts	(60,0)	(92,4)
	1 074,7	980,8
Net consumer accounts receivable	–	283,4
Prepayments	50,9	27,8
Other accounts receivable	638,6	584,5
	1 764,2	1 876,5
Movement in allowance for doubtful debts		
Balance at the beginning of the year	92,4	80,3
(Decrease)/increase in allowance recognised in profit or loss	(32,4)	12,1
Balance at the end of the year	60,0	92,4

The net consumer accounts receivable balance for the current year is zero due to the sale of Massdiscounters retail debtors book. Refer to note 19 for further details.

Trade receivables are classified as 'Loans and receivables' for IAS 39 *Financial Instruments: Recognition and Measurement* purposes. See note 37, 'Financial instruments' for IAS 39 accounting treatment.

No interest is charged on the trade receivables for the first 30 days from the date of the invoice. Thereafter, differing structures exist between the Divisions with interest being charged between 12,5% and 26,0% per annum on the outstanding balance (the 26,0% relates to Massdiscounters consumer accounts receivable which is now classified as an asset held for sale). Trade receivables between 30 days and 180 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience. It is the Group's policy to provide fully for all receivables that are past due because historical experience is such that these receivables are generally not recoverable.

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed quarterly to once a year. There is no customer who represents more than 5% of the total balance of trade receivables.

Included in the Group's trade receivables balance are debtors with a carrying amount of R7,4 million which are past due at the reporting date for which the Group has not provided. The Group considers the amounts recoverable and currently holds security over these debtors. The average age of these receivables is 200 days.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are specific trade receivables with a balance of R0,5 million which have been placed under liquidation. This represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation proceeds.

19. Assets classified as held for sale

	2008 Rm	2007 Rm
Massmart has contractually concluded the cash sale of the Massdiscounters retail debtors book with effect from the first day of business in the 2009 financial year.		
The classes of assets comprising the operations classified as held-for-sale at the balance sheet date are as follows:		
Trade receivables	167,5	–
Computer hardware	0,1	–
	167,6	–

20. Issued capital

	Share capital		Share premium	
	2008 Rm	2007 Rm	**2008 Rm**	2007 Rm
Authorised				
500 000 000 (2007: 500 000 000) ordinary shares of 1 cent each	5,0	5,0	–	–
20 000 000 (2007: 20 000 000) non-redeemable cumulative non-participating preference shares of 1 cent each	0,2	0,2	–	–
18 000 000 (2007: 18 000 000) 'A' convertible redeemable non-cumulative participating preference shares of 1 cent each	0,2	0,2	–	–
2 000 000 (2007: 2 000 000) 'B' convertible redeemable non-cumulative participating preference shares of 1 cent each	–	–	–	–
Issued				
201 193 512 (2007: 201 072 831) ordinary shares of 1 cent each	2,0	2,0	151,7	254,7
17 868 125 (2007: 17 967 866) 'A' convertible redeemable non-cumulative participating preference shares of 1 cent each	–	–	–	–
1 979 060 (2007: 2 000 000) 'B' convertible redeemable non-cumulative participating preference shares of 1 cent each	–	–	–	–

	Number of shares	Share capital Rm	Share premium Rm
Ordinary shares			
Balance at the beginning of the previous year	201 040 697*	2,0	262,6
Shares issued in terms of the Massmart Thuthukani Empowerment Trust	32 134	–	(4,5)
Ordinary shares issued – June 2007	201 072 831	2,0	258,1
Treasury shares	(265 720)	–	(3,4)
Ordinary shares issued excluding treasury shares – June 2007	200 807 111	2,0	254,7
Balance at the beginning of the year	201 072 831*	2,0	254,7
Shares issued in terms of the Massmart Black Scarce Skills Trust	20 940	–	–
Shares issued in terms of the Massmart Thuthukani Empowerment Trust	99 741	–	–
Ordinary shares issued – June 2008	201 193 512	2,0	254,7
Treasury shares	(2 000 984)	–	(103,0)
Ordinary shares issued excluding treasury shares – June 2008	199 192 528	2,0	151,7

** The number of shares is before treasury shares.*

Ordinary shares, which have a par value of 1 cent, carry one vote per share and carry the right to dividends.

'A' convertible redeemable non-cumulative participating preference shares			
Balance at the beginning of the previous year	–	–	–
Shares issued in terms of the Massmart BEE transaction	18 000 000	0,2	–
Shares converted to ordinary shares	(32 134)	–	–
Treasury shares	(17 967 866)	(0,2)	–
Balance at 30 June 2007	–	–	–
Balance at the beginning of the year	–	–	–
Net shares issued in terms of the Massmart BEE transaction in prior year	17 967 866	–	–
Shares converted to ordinary shares	(99 741)	–	–
Treasury shares	(17 868 125)	–	–
Balance at 30 June 2008	–	–	–

'A' convertible redeemable non-cumulative participating preference shares, which have a par value of 1 cent, are held in the Thuthukani Empowerment Trust. These shares carry one vote per share, which is cast by the appointed trustees, and carry the right to dividends. On election of the beneficiary, the shares will convert to ordinary shares on a one-for-one basis and will rank *pari passu* with all ordinary shares then in issue.

20. Issued capital *continued*

	Number of shares	Share capital Rm	Share premium Rm
'B' convertible redeemable non-cumulative participating preference shares			
Balance at the beginning of the previous year	–	–	–
Shares issued in terms of the Massmart BEE transaction	2 000 000	–	–
Treasury shares	(2 000 000)	–	–
Balance at 30 June 2007	–	–	–
Balance at the beginning of the year	–	–	–
Net shares issued in terms of the Massmart BEE transaction in prior year	2 000 000	–	–
Shares converted to ordinary shares	(20 940)	–	–
Treasury shares	(1 979 060)	–	–
Balance at 30 June 2008	–	–	–

'B' convertible redeemable non-cumulative participating preference shares, which have a par value of 1 cent, are held in the Black Scarce Skills Trust. These shares carry one vote per share, which is cast by the trustees, and do not carry the right to dividends. On election of the beneficiary, the shares will convert to ordinary shares on a one-for-one basis and will rank *pari passu* with all ordinary shares then in issue.

Share options granted under the Massmart Holdings Limited Employee Share Trust

As at June 2008, executives and senior employees have options over 14 304 900 ordinary shares (of which 11 784 413 are unvested). As at June 2007, executives and senior employees have options over 10 239 002 ordinary shares (of which 7 217 626 are unvested).

Share options granted under the Employee Share Incentive Scheme carry no rights to dividends and no voting rights. Further details of the Employee Share Incentive Scheme are contained in note 27 on page 142 to the financial statements.

The total share buyback (including shares bought in the market by the Share Trust) for the year was 3,3 million shares (2007: 4,4 million) at an average price of R83,10 (2007: R71,85) totalling R271,8 million (2007: R313,2 million).

The directors have the authority, until the next annual general meeting, to issue the ordinary shares of the Company up to a maximum of 5% of the shares already issued.

The directors have the authority, until the next annual general meeting, to issue the non-redeemable cumulative non-participating preference shares of the Company.

21. Non-distributable reserves

	2008 Rm	2007 Rm
Foreign currency translation reserve	20,2	15,6
Hedging reserve	(0,7)	1,2
Share-based payment reserve	225,8	116,7
Capital redemption reserve fund	1,8	0,2
Deferred taxation on trademarks	0,6	6,4
Amortisation of trademarks	76,5	77,7
Fair value adjustment of available-for-sale financial asset	(13,2)	(13,2)
Change in minority interests	1,9	0,8
Treasury shares	(43,9)	–
	269,0	205,4
Reconciliation of the foreign currency translation reserve		
Balance at the beginning of the year	15,6	9,1
Translation on consolidation	4,6	0,6
Deconsolidation of Makro Zimbabwe	–	5,9
Balance at the end of the year	20,2	15,6

Exchange differences relating to the translation from the functional currencies of the Group's foreign subsidiaries into Rands are brought to account by entries made directly to the foreign currency translation reserve.

Reconciliation of the hedging reserve		
Balance at the beginning of the year	1,2	–
(Loss)/gain recognised on cash flow hedges	(1,9)	1,2
Balance at the end of the year	(0,7)	1,2

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The hedge is released from equity at the same time the forecast transaction is recognised in profit or loss. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

Reconciliation of the share-based payment reserve		
Balance at the beginning of the year	116,7	43,4
Share-based payment expense on Massmart Holdings Limited Employee Share Trust	42,0	19,0
Share-based payment expense on Massmart Thuthukani Empowerment Trust	62,3	52,2
Share-based payment expense on the Massmart Black Scarce Skills Trust	4,8	2,1
Balance at the end of the year	225,8	116,7

The share-based payment reserve arises on grant of share options to employees under the Employee Share Incentive Schemes. Details of the Employee Share Incentive Schemes can be found in note 27 on page 142. The share-based payment valuation was performed by Alexander Forbes for all periods and all schemes are equity-settled share schemes.

Massmart Share Schemes

Massmart Holdings Limited Employee Share Trust

Details of the share options outstanding during the year are as follows:

	2008 Number of share options	2008 Weighted average exercise price Rm	2007 Number of share options	2007 Weighted average exercise price Rm
Outstanding at the beginning of the year	10 239 002	48,86	12 206 168	26,79
Granted during the year	6 468 090	71,32	3 742 348	82,97
Forfeited during the year	(600 558)	75,14	(1 468 158)	43,29
Exercised during the year	(1 801 634)	26,27	(4 241 356)	17,29
Outstanding at the end of the year	14 304 900	60,76	10 239 002	48,86
Exercisable at the end of the year	2 913 504		3 021 376	

21. Non-distributable reserves *continued*

	2008	2007
Massmart Holdings Limited Employee Share Trust *continued*		
The weighted average share price at the date of exercise for share options exercised during the year was R72,62 (2007: R74,11). The options outstanding at the end of the year have a weighted average remaining contractual life of 4,5 years (2007: 4,1 years). In 2008, options were granted on 24 August 2007, 30 November 2007, 1 April 2008 and 26 May 2008. The estimated fair values of the options granted on those dates are R29,40, R23,46, R22,88 and R21,10 respectively. In 2007, options were granted on 25 August 2006, 1 October 2006, 15 November 2006, 23 February 2007, 2 April 2007 and 24 May 2007. The estimated fair values of the options granted on those dates are R16,22, R17,20, R18,30, R28,99, R24,55 and R27,47 respectively.		
These fair values were calculated using the binomial model. The inputs into the model were as follows:		
Weighted average share price (Rand)	70,26	86,40
Expected volatility	31,1% – 31,7%	29,7% – 31,3%
Expected life	3 – 5 years	3 – 5 years
Risk-free rate	9,0% – 9,6%	7,4% – 8,5%
Expected dividend yield	3,4% – 3,8%	3,6% – 3,9%
Expected volatility was determined by calculating the historical volatility of the Company's share price over the number of previous years corresponding with the option lifetime. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.		
Massmart Thuthukani Empowerment Trust		
The weighted average share price at the date of exercise for share options exercised during the year was R76,67. The options outstanding at the end of the year have a weighted average remaining contractual life of 4 years. In 2007, options were granted on 2 October 2006. The estimated fair values of the options granted on that date is R24,75.		
These fair values were calculated using the binomial model. The inputs into the model were as follows:		
Weighted average share price (Rand)	56,91	56,91
Expected volatility	30,1% – 32,3%	30,1% – 32,3%
Expected life	5,0	5,0
Risk-free rate	8,3% – 8,4%	8,3% – 8,4%
Expected dividend yield	3,7%	3,7%
Expected volatility was determined by calculating the historical volatility of the Company's share price over the number of previous years corresponding with the option lifetime. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.		
Massmart Black Scarce Skills Trust		
No options were exercised during the year. The options outstanding at the end of the year have a weighted average remaining contractual life of 4 years. In 2008, options were granted on 30 November 2007 and 1 April 2008. The estimated fair values of the options granted on those dates are R23,46 and R22,85 respectively. In 2007, options were granted on 1 October 2006 and 2 April 2007.The estimated fair values of the options granted on those dates are R17,20 and R24,55 respectively.		
These fair values were calculated using the binomial model. The inputs into the model were as follows:		
Weighted average share price (Rand)	70,08	58,26
Expected volatility	31,0% – 31,3%	30,1% – 31,3%
Expected life	3 – 5 years	4,1
Risk-free rate	9,0% – 9,1%	7,7% – 8,5%
Expected dividend yield	3,5% – 3,7%	3,7% – 3,9%
Expected volatility was determined by calculating the historical volatility of the Company's share price over the number of previous years corresponding with the option lifetime. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.		

22. Minority interest

	2008 Rm	2007 Rm
At the beginning of the year	25,8	50,6
Changes in minority interests	(3,0)	(37,3)
Income attributable to minorities	21,5	15,3
Distribution to minorities	(13,6)	(2,8)
At the end of the year	30,7	25,8

During the prior year, Massmart Holdings Limited purchased the remaining 49% shareholding in De La Rey 1001 Building Materials (Pty) Ltd.

The minority interest at year-end relates to the minority shareholders in subsidiaries of Masscash Holdings (Pty) Ltd.

23. Non-current liabilities

	2008 Rm	2007 Rm
Interest-bearing		
Unsecured		
Medium-term payable	15,1	3,4
Less: Included in current liabilities	(15,1)	(3,4)
Secured		
Medium-term bank loans	302,6	429,7
Less: Included in current liabilities	(116,9)	(116,2)
Foreign bank loan	52,6	54,9
Less: Related cash deposit	(52,6)	(54,9)
	185,7	313,5
Capitalised finance leases	96,2	101,2
Less: Included in current liabilities	(14,2)	(12,0)
	82,0	89,2
Total interest-bearing liabilities	267,7	402,7
Interest-free		
Unsecured		
Minority shareholders' loans	0,7	1,9
Income received in advance	141,1	140,8
Less: Included in trade and other payables	(52,0)	(47,6)
Operating lease liability	462,0	475,0
Less: Included in trade and other payables	5,4	(13,2)
Total non-interest-bearing liabilities	557,2	556,9
Total non-current liabilities	824,9	959,6

Included in current liabilities is a medium-term payable of R3,6 million (2007: R3,4 million), which is an amount owing to the Massmart Education Trust relating to cash held on its behalf.

Two medium-term bank loans, raised in 2001, were repayable in ten equal instalments over five years (last payment was during the 2007 financial year). One loan bore interest at a fixed rate of 9,2% and the other interest at a floating rate linked to the ninety-day JIBAR. The loans were secured by intragroup cross suretyships.

A further two medium-term bank loans, raised in the 2006 financial year to fund the Massbuild acquisitions, are repayable in nine equal instalments over five years. The loans bear interest at a fixed rate of 8,8% and 8,7% respectively. The loans are secured by intragroup cross suretyships.

The foreign bank loan relates to a US Dollar-denominated loan in one of Massdiscounters' foreign operations which has a legal right of offset with a US Dollar-denominated cash deposit. The interest rate is 0,5% below the US Dollar prime overdraft rate.

Capitalised finance leases include vehicles, fixtures, fittings, plant and computer equipment and property leases, repayable in monthly instalments varying from one to five years at varying interest rates (varying between 8,25% and 15,5%).

The capitalised finance leases are secured by movable assets with a book value of R29,5 million (2007: R35,7 million) and the property lease by the value of the underlying land amounting to R42,3 million (2007: R44,2 million).

The income received in advance is for extended warranties which are sold within the Group and which will be released over the next two to four years.

The operating lease liability relates to the lease smoothing adjustment required by IAS 17 *Leases*.

24. Non-current provisions

	2008 Rm	2007 Rm
Onerous lease provision	2,1	2,8
Less: Payable within one year included in current provisions	(0,7)	(0,7)
Provision for post-retirement medical aid contributions and other medical aid provisions	47,7	45,0
	49,1	47,1

	Repayable within 1 year* Rm	Repayable in 2 – 5 years Rm	Repayable after 5 years Rm	Total Rm
2008	0,7	1,4	47,7	49,8
2007	0,7	2,1	45,0	47,8

* Included in current provisions in note 26.

Certain Group companies provide post-retirement healthcare benefits to their retirees. The policy ceased to be offered to new employees with effect from 1999. This fund is accounted for as a defined benefit plan and measured using the projected unit credit method. The liability is unfunded. The main assumption used in calculating the costs and the provision is an "interest rate – medical inflation rate" gap of 1,0% (2007: 1,5%).

	2008 Rm	2007 Rm
The net expense recognised in the income statement is:		
Current service cost	2,2	1,8
Interest cost	3,4	3,3
Benefits paid against balance sheet held liability	(1,0)	(1,0)
Net actuarial (gain)/loss recognised in the year	(1,9)	1,9
Net expense recognised as part of employment costs	2,7	6,0
Movements in the post-retirement medical aid liability:		
Opening defined-benefit obligation	45,0	39,0
Expense as above	2,7	6,0
Closing defined-benefit obligation	47,7	45,0

The last valuation of the liability for the post-retirement medical aid contributions was performed as at 30 June 2008 by Alexander Forbes, Fellow of the Institute of Actuaries (2007: Alexander Forbes, Fellow of the Institute of Actuaries). The current year costs have been assessed in accordance with the advice of independent actuaries.

The net actuarial gain in the current year arose as a result of a combination of the following factors:

- Six members were transferred to RCS on 30 June 2008 and this resulted in a gain of R0,3 million.
- Alexander Forbes was unable to confirm the date of employment for certain employees. In consultation with Massmart, the date of joining the medical scheme was used to accrue the liability and this resulted in an unexpected gain of R0,9 million.
- Higher than expected increase in medical scheme contributions resulted in a gain of R1,0 million.
- Other miscellaneous items resulted in a net gain of R0,4 million.

Other than the changes listed above, the remaining assumptions are consistent with the assumptions applied in the prior year.

25. Trade and other payables

	2008 Rm	2007 Rm
Trade payables	5 928,1	5 285,8
Operating lease liability	(5,4)	13,2
Sundry payables and other accruals	1 457,3	1 456,7
	7 380,0	6 755,7

Trade and other payables are classified as 'Loans and receivables' for IAS 39 *Financial Instruments: Recognition and Measurement* purposes. See note 37, 'Financial instruments' for IAS 39 accounting treatment.

The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. Settlement discounts received range from 1,1% to 2,5%.

26. Provisions

	2008 Rm	2007 Rm
Restructuring costs raised on acquisition	1,9	1,8
Onerous lease provision	0,7	0,7
Other	8,9	1,4
	11,5	3,9

Provisions raised against specific assets, for example inventories and trade receivables, are offset against those assets.

	Opening balance Rm	Amounts provided Rm	Amounts utilised Rm	Unused amounts reversed Rm	Closing balance Rm
Reconciliation of provisions					
2008					
Restructuring costs raised on acquisition	1,8	–	–	0,1	1,9
Onerous lease provision	0,7	1,1	(0,7)	(0,4)	0,7
Other	1,4	7,5	–	–	8,9
	3,9	8,6	(0,7)	(0,3)	11,5
2007					
Restructuring costs raised on acquisition	4,3	–	–	(2,5)	1,8
Onerous lease provision	1,0	0,7	(1,0)	–	0,7
Other	–	1,4	–	–	1,4
	5,3	2,1	(1,0)	(2,5)	3,9

27. Employee share incentive schemes

	2008 000s	2007 000s
Massmart Holdings Limited Employee Share Trust		
Total shares and options available to the scheme	39 500	39 500
Total shares and options available to the scheme	39 500	39 500
Shares and options ever allocated to participants who are still employees	(31 726)	(37 514)
Shares which have been paid for and transferred which are more than ten years old	1 927	1 395
Remaining capacity for issue in terms of the JSE practice	9 701	3 381
Opening balance of shares and options	13 395	19 077
New shares and options offered to employees and executive directors	7 216	4 121
Shares and options sold by employees and directors	(1 869)	(8 189)
Shares repurchased from/forfeited by employees and options lapsed/forfeited	(637)	(1 614)
Closing balance of shares and options	18 105	13 395

The closing balance includes 3 800 048 (2007: 3 155 538) shares and 14 304 900 (2007: 10 239 002) options. Shares and options previously issued to employees who then subsequently left the Group are excluded from the figures above. In accordance with the new Schedule 14 of the JSE – 'Requirements for share incentive schemes' effective from 15 October 2008 the shares available for issue to the Share Trust will increase from the 9 701 000 shares above to 36 003 396 shares. Any amendments required to bring the Share Trust rules in line with the new Schedule 14 have to be approved by the JSE and shareholders by no later than 1 January 2011.

Options may be exercised at any time, but shares arising out of options may only be sold when they have vested with the participant. Vesting occurs over a five-year periods as follows:

- 25% two years after the offer date
- 50% three years after the offer date
- 75% four years after the offer date
- 100% five years after the offer date.

In terms of the scheme rules, all share loans on offers made prior to 22 May 2002 must be repaid or options exercised no later than ten years from the offer date. For subsequent offers, share loans must be repaid or options exercised no later than six years from the offer date.

27. Employee share incentive schemes *continued*

The following options granted to employees and directors in terms of the Massmart Employee Share Incentive Scheme have not yet been exercised:

Offer date	Expiry date	Exercise price (R)	No of options at June 2007	No of options forfeited and expired	No of options exercised	New options granted	No of options at June 2008
22 September 1999	21 September 2009	12,37	134 271	–	7 003	–	127 268
10 March 2000	9 March 2010	14,61	48 750	–	–	–	48 750
13 November 2000	12 November 2010	12,25	307 500	–	57 500	–	250 000
27 August 2001	26 August 2011	10,95	812 008	–	54 000	–	758 008
16 January 2002	15 January 2012	12,03	50 000	–	–	–	50 000
22 May 2002	21 May 2008	13,88	352 842	–	352 842	–	–
15 November 2002	14 November 2008	17,30	12 831	–	12 831	–	–
19 November 2002	18 November 2008	17,43	50 000	–	50 000	–	–
1 January 2003	31 December 2008	18,30	9 176	–	9 176	–	–
1 February 2003	31 January 2009	18,90	29 499	–	–	–	29 499
1 April 2003	31 March 2009	17,82	24 065	–	24 065	–	–
1 May 2003	30 April 2009	18,06	23 183	6 211	5 788	–	11 184
27 May 2003	26 May 2009	18,98	506 910	3 800	142 420	–	360 690
31 May 2003	30 May 2009	19,14	191 887	–	40 641	–	151 246
1 September 2003	31 August 2009	24,59	103 182	–	9 103	–	94 079
1 November 2003	31 October 2009	28,20	45 000	–	35 000	–	10 000
26 February 2004	25 February 2010	27,63	92 281	7 500	22 700	–	62 081
1 March 2004	28 February 2010	27,90	7 428	–	–	–	7 428
1 April 2004	31 March 2010	30,22	20 044	–	7 046	–	12 998
15 April 2004	14 April 2010	32,55	19 454	–	19 454	–	–
26 May 2004	25 May 2010	29,87	608 280	7 645	145 977	–	454 658
31 May 2004	30 May 2010	30,20	427 580	–	391 726	–	35 854
1 September 2004	31 August 2010	35,31	701 579	20 000	228 211	–	453 368
25 February 2005	24 February 2011	45,24	39 565	12 424	9 641	–	17 500
1 April 2005	31 March 2011	41,91	403 058	3 058	–	–	400 000
1 May 2005	30 April 2011	43,42	36 393	5 338	–	–	31 055
27 May 2005	26 May 2011	42,97	538 086	13 323	78 774	–	445 989
31 May 2005	30 May 2011	42,88	139 628	2 895	5 388	–	131 345
1 October 2005	30 September 2011	52,48	8 642	–	543	–	8 099
1 November 2005	31 October 2011	51,91	68 248	2 474	19 210	–	46 564
30 November 2005	29 November 2011	51,19	203 803	26 982	26 450	–	150 371
1 April 2006	31 March 2012	58,74	134 329	16 599	5 532	–	112 198
23 May 2006	22 May 2012	54,13	547 152	29 875	40 613	–	476 664
25 August 2006	24 August 2012	51,93	267 946	9 868	–	–	258 078
1 October 2006	30 September 2012	56,42	104 367	4 289	–	–	100 078
15 November 2006	14 November 2012	62,04	228 028	–	–	–	228 028
23 February 2007	22 February 2013	67,79	453 353	5 844	–	–	447 509
2 April 2007	1 April 2013	82,67	39 398	–	–	–	39 398
24 May 2007	23 May 2013	94,25	2 449 256	316 863	–	–	2 132 393
24 August 2007	23 August 2013	80,75	–	–	–	260 456	260 456
30 November 2007	29 November 2013	71,58	–	–	–	275 130	275 130
1 April 2008	31 March 2014	66,91	–	105 570	–	1 955 322	1 849 752
26 May 2008	25 May 2014	72,86	–	–	–	3 977 182	3 977 182
			10 239 002	600 558	1 801 634	6 468 090	14 304 900

27. Employee share incentive schemes *continued*

	2008 000s	2007 000s
Massmart Thuthukani Empowerment Trust		
Total share units available to the scheme	18 000	18 000
Opening balance of share units	17 231	–
New share units offered to eligible employees	–	18 124
Share units sold	(128)	(111)
Share units repurchased from/forfeited by employees and share units lapsed/forfeited	(1 825)	(782)
Closing balance of share units	15 278	17 231

Vesting occurs over a six-year period as follows:

- 33,3% four years after the offer date
- 33,3% five years after the offer date
- 33,4% six years after the offer date.

The following share units granted to eligible employees in terms of the Massmart Thuthukani Empowerment Trust have not yet been exercised:

Offer date	Expiry date	Exercise price (R)	No of share units at June 2007	No of share units forfeited and expired	No of share units exercised	New share units granted	No of share units at June 2008
2008							
1 October 2006	2 October 2012	49,98	17 230 925	1 824 770	128 150	–	15 278 005
2007							
1 October 2006	2 October 2012	49,98	–	782 440	111 225	18 124 590	17 230 925

27. Employee share incentive schemes *continued*

	2008 000s	2007 000s
Massmart Black Scarce Skills Trust		
Total share units available to the scheme	2 000	2 000
Opening balance of share units	626	–
New share units offered to employees	1 048	687
Share units sold by employees	(21)	–
Share units repurchased from/forfeited by employees and share units lapsed/forfeited	(29)	(61)
Closing balance of share units	1 624	626

Vesting occurs over a five-year period as follows:

- 25% two years after the offer date
- 50% three years after the offer date
- 75% four years after the offer date
- 100% five years after the offer date.

The following share units granted to eligible employees in terms of the Massmart Black Scarce Skills Trust have not yet been exercised:

Offer date	Expiry date	Exercise price (R)	No of share units at June 2007	No of share units forfeited and expired	No of share units exercised	New share units granted	No of share units at June 2008
2008							
1 October 2006	2 October 2011	56,42	600 524	29 026	20 940	–	550 558
2 April 2007	3 April 2012	82,67	25 464	–	–	–	25 464
30 November 2007	29 November 2013	71,58	–	–	–	10 794	10 794
1 April 2008	31 March 2014	66,97	–	–	–	1 037 045	1 037 045
			625 988	29 026	20 940	1 047 839	1 623 861
2007							
1 October 2006	2 October 2011	56,42	–	60 947	–	661 471	600 524
2 April 2007	3 April 2012	82,67	–	–	–	25 464	25 464
			–	60 947	–	686 935	625 988

28. Retirement benefit information

All full-time permanent Massmart staff are members of either the Massmart Pension Fund, the Massmart Provident Fund or the SACCAWU National Provident Fund. These funds are defined-contribution funds and are subject to the Pension Funds Act, 1956. Following the recent acquisitions, many of their staff are still members of the retirement funds of the previous business owners. Projects are underway to transfer these employees to one of the above funds in future.

The Massmart Pension Fund and the Massmart Provident Fund are not required to submit a statutory actuarial valuation to the Financial Services Board every three years as they have been granted valuation exemption with effect from 1 March 2007. The funds' valuator certified that the funds were financially sound at 28 February 2006, being the last statutory actuarial valuation date of the funds and the assets were suitable in nature, in terms of the liabilities as at valuation date.

Contributions received by the funds for the year ended 30 June 2008 amounted to R210 million (2007: R187 million). The Group's contribution of R126 million (2007: R112 million) was included in the income statement for the year as part of the employee costs.

29. Commitments

	2008 Rm	2007 Rm
Commitments in respect of capital expenditure approved by directors:		
Contracted for	278,0	101,0
Not contracted for	287,2	327,7
	565,2	428,7

Commitments contracted for in the current year include three new Builders Warehouse stores, four new Game stores, one new Dion Wired store and two new Builders Trade Depot stores. Two Game stores are to be relocated and four Game stores are to be refurbished. There will be a general Makro store refurbishment as well as SAP upgrades at Builders Warehouse and Makro, and an IT wishlist at Massdiscounters.

Commitments not contracted for in the current year include a Great Plains upgrade at Shield, a SAP upgrade at Builders Warehouse and various store refurbishments, and tangible and intangible asset purchases.

Massmart has the right of first refusal on the sale of any shares by the minority shareholders in various CBW stores. Historically Massmart has exercised this right. The amount to be paid in future, should Massmart exercise its rights, totals R111,7 million (2007: R73,5 million).

Capital commitments will be funded utilising current facilities.

	2008 Rm	2007 Rm
30. Operating lease commitments		
Land and buildings		
Year 1	713,5	667,5
Years 2 to 5	2 977,5	2 728,6
Subsequent to year 5	2 446,3	2 625,6
	6 137,3	6 021,7
Plant and equipment		
Year 1	17,2	19,2
Years 2 to 5	27,5	31,8
Subsequent to year 5	0,5	2,0
	45,2	53,0
Other		
Year 1	3,5	3,6
Years 2 to 5	3,1	4,2
	6,6	7,8

Promissory notes that represent commitments under non-cancellable operating leases of R936,1 million (2007: R1 059,9 million) entered into by Masstores (Pty) Ltd on behalf of Makro are included in operating lease commitments in land and buildings. These leases terminate in December 2020 and have a discounted present value of R601,6 million (2007: R678,9 million), discounted at 15%. In accordance with IAS 17 *Leases*, the rentals paid are amortised over the entire remaining lease period on a straight-line basis.

	2008 Rm	2007 Rm
31. Contingent liabilities		
	–	–

There are no legal or arbitration proceedings, of which the Group is aware, which may have a material effect on the Group's financial position.

	2008 Rm	2007 Rm
32. Related-party transactions		
Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.		
Compensation of key management personnel		
The remuneration of directors and other key management (defined as the Massmart Executive Committee) during the year was as follows:		
Short-term benefits	46,2	66,2
Post-employment benefits	1,6	1,6
Other long-term benefits	14,6	8,1
Gains on exercise of share options	2,7	91,5
	65,1	167,4

The remuneration of directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends. In 2008, there are two less members in the Executive Committee than in 2007.

Other related-party transactions

Certain properties used by CBW are leased from CCW Property Holdings (Pty) Ltd in which Robin Wright has an 8,54% shareholding. Robin Wright is a director and a former owner of CBW.

From time to time, in the normal course of business, Massmart and its divisions make use of private aircraft hired from competitively selected charter companies, two of which operate aircraft indirectly beneficially owned by Mark Lamberti.

Loans to directors have been disclosed in note 15 on page 132.

33. Directors' emoluments

The comments below provide further background and context to the figures disclosed in this note, Directors' emoluments, and Interests of executive directors in the Company's Share Scheme (note 34).

GM Pattison

Grant received a 17,2% increase to his salary and allowances for the 2008 financial year, from R2,2 million to R2,6 million. In line with the Group's Short-term Executive Incentive Scheme which rewards executives based on growth in HEPS (growth in HEPS excluding the first-time effect of the Thuthukani IFRS 2 charge was 23,8%), he received R3,9 million. The figure of R3,9 million includes bonus retention amounts totalling R0,9 million from previous years now released to him (and also to all other participants of the Massmart Short-term Executive Incentive Scheme). The balance of the bonus represents 15 months' salary.

Grant did not sell any Massmart shares or options during the 2008 financial year.

Through the Share Scheme, Grant has 1 931 386 Massmart shares and options. The average length of time that he has held these shares and options is 3,8 years and the average strike price is R40,09 per share. Grant also owns 11 800 Massmart shares directly.

GRC Hayward

Guy received a 13,1% increase to his salary and allowances for the 2008 financial year, from R1,8 million to R2,0 million. In line with the Group's Short-term Executive Incentive Scheme which rewards executives based on growth in HEPS (growth in HEPS excluding the first-time effect of the Thuthukani IFRS 2 charge was 23,8%), he received R2,8 million. The figure of R2,8 million includes bonus retention amounts totalling R0,8 million from previous years now released to him. The balance of the bonus represents 12 months' salary.

In terms of the rules of the Massmart Holdings Employee Share Trust, shares or options issued after 2002 must be exercised within six years of issue. During the 2008 financial year, Guy therefore had to convert and sell 50 000 Massmart options which he had held for more than five years. With the cash proceeds from the realised gain of R2,7 million, and after paying tax thereon, he purchased 22 000 Massmart shares.

Through the Share Scheme, Guy still has 817 697 Massmart shares and options. The average length of time that he has held these shares and options is 3,7 years and the average strike price is R41,17 per share. Guy also owns 22 000 Massmart shares directly.

33. Directors' emoluments *continued*

	Services as directors of Massmart Holdings Ltd R000	Salary and allowances R000	Bonuses and performance related payments[5] R000	Other benefits R000	Retirement and related benefits R000	Otherwise in connection with the affairs of Massmart Holdings Ltd R000	Subtotal R000	Fringe benefit of interest-free loans used to finance shares[6] R000	Gains on exercise of share options R000	Total R000
For the year ended 30 June 2008										
Executive directors										
Pattison, GM[1]	–	2 550	3 880	187	258	800[8]	7 675	5 325	–	13 000
Hayward, GRC	–	2 036	2 796	289	214	–	5 335	2 033	2 742[7]	10 110
	–	4 586	6 676	476	472	800	13 010	7 358	2 742	23 110
Non-executive directors										
Lamberti, MJ[2]	799	–	–	–	–	–	799	–	–	799
Seabrooke, CS[3]	722	–	–	–	–	–	722	–	–	722
Brand, MD[4]	359	–	–	–	–	–	359	–	–	359
Combi, ZL	370	–	–	–	–	–	370	–	–	370
Dlamini, KD	185	–	–	–	–	–	185	–	–	185
Gwagwa, NN	185	–	–	–	–	–	185	–	–	185
Hodkinson, JC	185	–	–	–	–	–	185	–	–	185
Langeni, P	272	–	–	–	–	–	272	–	–	272
Matthews, IN	642	–	–	–	–	40	682	–	–	682
Maw, P	359	–	–	–	–	–	359	–	–	359
Mokhobo, DNM	359	–	–	–	–	–	359	–	–	359
Rubin, MJ	272	–	–	–	–	–	272	–	–	272
	4 709	–	–	–	–	40	4 749	–	–	4 749
Total	4 709	4 586	6 676	476	472	840	17 759	7 358	2 742	27 859

1 Appointed CEO on 1 July 2007.

2 Appointed Non-executive Chairman on 1 July 2007.

3 Appointed Deputy Chairman on 1 July 2007.

4 Individual not recipient of fees – fees paid to Company.

5 In order to match incentive awards with the performance to which they relate, bonuses above reflect the amounts accrued in respect of each year and not amounts paid in that year.

6 Held in terms of the rules of the Company's share scheme.

7 With these proceeds he acquired 22 000 Massmart shares.

8 Restraint paid an appointment as CEO.

33. Directors' emoluments *continued*

	Services as directors of Massmart Holdings Ltd R000	Salary and allowances R000	Bonuses and per-formance related payments[8] R000	Other benefits R000	Retirement and related benefits R000	Otherwise in connection with the affairs of Massmart Holdings Ltd R000	Subtotal R000	Fringe benefit of interest-free loans used to finance shares[9] R000	Gains on exercise of share options R000	Total R000
For the year ended 30 June 2007										
Executive directors										
Lamberti, MJ[2]	–	2 901	9 800	99	189	–	12 989	939	–	13 928
Lamberti, MJ[1,2]	–	–	–	–	–	–	–	1 083	–	1 083
Pattison, GM[6]	–	2 175	3 538	158	213	3 100[7]	9 184	4 269	–	13 453
Hayward, GRC	–	1 800	3 189	267	189	–	5 445	1 730	9 835	17 010
Nothnagel, S[5]	–	1 789	–	12	173	–	1 974	–	17 045	19 019
	–	8 665	16 527	536	764	3 100	29 592	8 021	26 880	64 493
Non-executive directors										
Seabrooke, CS[3]	757	–	–	–	–	–	757	–	–	757
Brand, MD[10]	339	–	–	–	–	–	339	–	–	339
Combi, ZL	350	–	–	–	–	–	350	–	–	350
Dlamini, KD[4]	117	–	–	–	–	–	117	–	–	117
Gwagwa, NN[4]	117	–	–	–	–	–	117	–	–	117
Hodkinson, JC	175	–	–	–	–	–	175	–	–	175
Langeni, P	257	–	–	–	–	–	257	–	–	257
Matthews, IN	607	–	–	–	–	30	637	–	–	637
Maw, P	339	–	–	–	–	–	339	–	–	339
Mokhobo, DNM	339	–	–	–	–	–	339	–	–	339
Rubin, MJ	257	–	–	–	–	–	257	–	–	257
	3 654	–	–	–	–	30	3 684	–	–	3 684
Total	3 654	8 665	16 527	536	764	3 130	33 276	8 021	26 880	68 177

1 Relates to the 1 000 000 shares issued pursuant to the signing in March 2003 of a four-year service contract which terminated in June 2007.

2 Resigned as executive director on 30 June 2007 and appointed non-executive Chairman on 1 July 2007.

3 Appointed Chairman 1 July 2003 and resigned as Chairman on 30 June 2007 and appointed Deputy Chairman on 1 July 2007.

4 Appointed on 1 November 2006.

5 Executive director from 25 May 2005 and resigned as a director on 30 November 2006. This figure includes his notice period.

6 Appointed CEO on 1 July 2007.

7 Restraint of R3,1 million paid on appointment as CEO.

8 In order to match incentive awards with the performance to which they relate, bonuses above reflect the amounts accrued in respect of each year and not amounts paid in that year.

9 Held in terms of the rules of the Company's share scheme.

10 Individual not recipient of fees – fees paid to Company.

34. Interests of executive Directors in the Company's share scheme

	Relevant date	Subscription price (R)	Market price (R)	Number of shares/ share options	Gain on sale/ exercise (R000s)	Expiry date
Details of directors' shares and share options per director:						
Pattison, GM						
Balance at the beginning of the previous year				1 791 138		
New shares/options granted	24 May 2007	94,25		55 000		23 May 2013
Balance at the beginning of the year				1 846 138		
New shares/options granted	26 May 2008			85 248		
Balance at the end of the year				1 931 386		
Comprising:	13 November 2000	12,25		400 000		12 November 2010
	27 August 2001	10,95		150 000		26 August 2011
	27 May 2003	18,98		55 219		26 May 2009
	26 May 2004	29,87		35 919		25 May 2010
	1 April 2005	41,91		400 000		31 March 2011
	23 May 2006	54,13		750 000		22 May 2012
	24 May 2007	94,25		55 000		23 May 2013
	26 May 2008	72,86		85 248		25 May 2014
Hayward, GRC						
Balance at the beginning of the previous year				1 052 524		
Options exercised	3 November 2006	10,95	60,12	(200 000)	9 835	
Shares sold	16 March 2007	14,61	81,99	(56 389)		
	20 March 2007	14,61	79,01	(93 611)	6 029	
New shares/options granted	24 May 2007	94,25		49 889		23 May 2013
Balance at the beginning of the year				752 413		
Options exercised	29 February 2008	17,43	72,26	(50 000)	2 742	
New shares/options granted	1 April 2008	66,91		40 641		1 April 2014
	26 May 2008	72,86		74 643		26 May 2014
Balance at the end of the year				817 697		
Comprising:	10 March 2000	14,61		8 643		9 March 2010
	13 November 2000	12,25		100 000		12 November 2010
	27 August 2001	10,95		150 000		26 August 2011
	26 May 2004	29,87		43 881		25 May 2010
	1 April 2005	41,91		200 000		31 March 2011
	23 May 2006	54,13		150 000		22 May 2012
	24 May 2007	94,25		49 889		23 May 2013
	1 April 2008	66,91		40 641		1 April 2014
	26 May 2008	72,86		74 643		25 May 2014
Lamberti, MJ						
Balance at the beginning of the previous year				4 632 791		
Shares sold/options exercised	15 November 2006	4,29	62,97	(1 532 791)	89 951	
	15 November 2006	10,95	62,97	(600 000)	31 214	
	15 November 2006	12,50	62,97	(465 463)	23 493	
	22 May 2007	17,42	94,72	(3 791)	293	
	22 May 2007	12,50	94,72	(1 034 537)	85 061	
	23 May 2007	17,42	94,52	(496 209)	38 254	
Shares settled and transferred from share trust				(500 000)		
Balance at the beginning of the year				–		

34. Interests of executive Directors in the Company's share scheme *continued*

	Relevant date	Subscription price (R)	Market price (R)	Number of shares/ share options	Gain on sale/ exercise (R000s)	Expiry date
Nothnagel, S						
Balance at the beginning of the previous year				944 688		
Options exercised	29 November 2006	29,87	68,17	(7 757)	297	
	29 November 2006	17,82	68,17	(104 552)	5 265	
	2 April 2007	17,82	83,86	(76 745)	5 068	
	3 April 2007	17,82	83,10	(23 767)	1 552	
	3 April 2007	41,91	83,10	(100 000)	4 119	
	4 April 2007	17,82	84,02	(4 040)	267	
	29 May 2007	29,87	91,35	(7 757)	477	
Options forfeited				(620 070)		
Balance at the beginning of the year				–		
No movement*				–		
Balance at the end of the year				–		

* *Executive director from 25 May 2005 and resigned as director on 30 November 2006.*

35. Principal subsidiaries

Details of Massmart's material subsidiary companies are as folllows:

	Number of shares in issue 000s	Place of incorporation and operation	Ownership %	Voting power %	Principal activity	Shares at book value Rm	Indebtedness Rm
2008							
Name of company							
De La Rey 1001 Building Materials (Pty) Ltd	–	South Africa	100	100	Selling of building materials	28,4	210,4
Federated Timbers (Pty) Ltd	–	South Africa	100	100	Wholesale and retail of DIY products	–	0,4
Jumbo Cash & Carry (Pty) Ltd	–	South Africa	100	100	Wholesale cash and carry	74,5	–
Masscash Holdings (Pty) Ltd	–	South Africa	100	100	Holding company	1,0	–
Massmart International Holdings Limited	–	Mauritius	100	100	Holding company	–	81,5
Massmart Management & Finance Company (Pty) Ltd	–	South Africa	100	100	Management, investment and finance	–	(164,4)
Masstores (Pty) Ltd	200	South Africa	100	100	Retailing, warehousing, mass merchandising	–	(478,0)
Servistar (Pty) Ltd	–	South Africa	100	100	DIY retailer	–	112,7
						103,9	(237,4)
2007							
Name of company							
De La Rey 1001 Building Materials (Pty) Ltd	–	South Africa	100	100	Selling of building materials	28,4	210,4
Federated Timbers (Pty) Ltd	–	South Africa	100	100	Wholesale and retail of DIY products	–	0,4
Jumbo Cash & Carry (Pty) Ltd	–	South Africa	100	100	Wholesale cash and carry	74,5	–
Masscash Holdings (Pty) Ltd	–	South Africa	100	100	Holding company	1,0	–
Massmart International Holdings Limited	–	Mauritius	100	100	Holding company	–	81,5
Massmart Management & Finance Company (Pty) Ltd	–	South Africa	100	100	Management, investment and finance	–	(164,4)
Masstores (Pty) Ltd	200	South Africa	100	100	Retailing, warehousing, mass merchandising	–	(478,0)
Servistar (Pty) Ltd	–	South Africa	100	100	DIY retailer	–	112,7
Shield Buying & Distribution (Pty) Ltd	4 443	South Africa	100	100	Wholesale and retail marketing and distribution	30,4	24,6
						134,3	(212,8)

The above details are given in respect of interests in subsidiaries, where material. A full list of subsidiaries is available to shareholders, on request, at the registered office of the Company.

36. Notes to the cash flow statement

	2008 Rm	2007 Rm
36.1 Cash flow from trading		
Profit before taxation	2 021,0	1 628,9
Adjustment for:		
Depreciation, amortisation and impairment	302,6	267,2
Net loss on disposal of property, plant and equipment	3,8	0,7
Interest income	(46,5)	(56,0)
Interest expense	110,6	100,4
Investment income	(47,7)	(53,6)
Dividend income	(2,2)	(2,5)
Share-based payment expense	109,1	73,3
Unrealised foreign exchange loss	(20,3)	(1,0)
Other non-cash movements	(35,5)	(31,0)
	2 394,9	1 926,4
36.2 Working capital movements		
Increase in inventories	731,4	819,5
Increase in trade receivables and prepayments	53,7	110,4
Increase in trade payables	(704,3)	(903,0)
(Increase)/decrease in provisions	(7,6)	1,4
	73,2	28,3
36.3 Taxation paid		
Normal taxation:		
Amounts owing at the beginning of the year	282,6	259,2
Amounts owing at the end of the year	(232,7)	(282,6)
Amounts charged to the statement of changes in equity	–	(2,9)
Taxation charged to the income statement (excluding deferred taxation)	618,2	557,9
	668,1	531,6
36.4 Investment to maintain operations		
Land and buildings/leasehold improvements	36,1	13,9
Vehicles	13,4	17,6
Plant and equipment	170,5	77,6
Computer hardware	23,4	14,7
Computer software	24,9	29,1
	268,3	152,9
36.5 Investment to expand operations		
Land and buildings/leasehold improvements	28,8	34,8
Vehicles	9,3	13,4
Plant and equipment	197,8	186,7
Computer hardware	28,7	32,6
Computer software	29,2	34,5
Trademarks and other	1,3	1,0
Goodwill	14,5	14,9
	309,6	317,9

36. Notes to the cash flow statement *continued*

		2008 Rm	2007 Rm
36.6	**Proceeds on disposal of property, plant and equipment**		
	Land and buildings/leasehold improvements	0,1	0,1
	Vehicles	2,6	7,8
	Plant and equipment	1,6	2,4
	Computer equipment	0,9	0,3
		5,2	10,6
36.7	**Investment in subsidiaries**		
	Fair value of assets and liabilities acquired in subsidiaries:		
	Property, plant and equipment	–	15,7
	Goodwill	–	148,8
	Minorities	–	(4,5)
	Cash impact of acquisition, net of cash and cash equivalents acquired	–	160,0
36.8	**Other investing activities**		
	Off-shore investment	74,9	68,5
	Treasury shares	157,1	–
	Other	93,5	2,1
		325,5	70,6
36.9	**Net acquisition of treasury shares**		
	BEE transaction costs	–	4,5
	Deficit from the share trust	96,3	216,5
	Share premium movement on treasury shares acquired	3,4	5,0
		99,7	226,0
36.10	**Cash and cash equivalents at the end of the year**		
	Cash on hand and balances with banks	1 059,6	1 245,7
	Bank overdrafts	(37,7)	(37,0)
	Cash and cash equivalents at the end of the year	1 021,9	1 208,7

37. Financial instruments

37.1 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances.

The capital structure of the Group consists of debt, more specifically medium-term interest-bearing debt and equity attributable to equity holders of the parent, comprising share capital, share premium, non-distributable reserves and retained profit. (See notes 20 and 21 respectively on pages 136 and 138.)

The targeted level of gearing is determined after consideration of the following key factors:

– the needs of the Group to fund current and future capital expenditure to achieve its stated production growth target
– the desire of the Group to maintain its gearing within levels considered to be acceptable taking into account potential business and position of the Group in the business cycle.

The Group has entered into certain debt facilities that dictate certain requirements in respect of capital management.

These covenants include:

– maximum gearing ratio
– minimum interest cover
– specified levels of shareholders' equity.

37.2 Significant accounting policies

Details of significant accounting policies, including the recognition criteria, the basis for measurement and the basis on which income and expenses are recognised, in respect of each category of financial asset, financial liability and equity instrument, are disclosed under the notes in accounting policies (in note 1 on page 113).

37.3 Categories of financial instruments

Fair values of financial instruments

All financial instruments have been classified according to the relevant IAS 39 *Financial Instruments: Recognition and Measurement* category. There is no difference between their fair value and carrying value and they are accounted for as follows:

Financial assets

Fair value through profit or loss (FVTPL)

These are held at fair value and any adjustments to fair value are taken to the income statement. Listed investments are carried at market value by reference to stock exchange quoted selling prices.

Loans and receivables

These are held at amortised cost less any impairment losses recognised to reflect irrecoverable amounts.

Held-to-maturity investments

These are held at amortised cost less any impairment losses recognised to reflect irrecoverable amounts.

Available-for-sale investments

These are held at fair value and any adjustment to fair value is taken to equity. In the prior year, the total value taken to equity amounted to R13,2 million.

Financial liabilities

All financial liabilities are held as non-trading liabilities and are shown at amortised cost.

The cash flows expected from the Group's participation in export partnerships over the next two to five years cannot, in the opinion of the directors, be accurately fair valued and therefore have not been discounted. For fair presentation purposes, it is noted that any fair value impairment in the amounts due to the Group by virtue of its participation in such partnerships would result in a corresponding reduction in the fair value of the related deferred tax liability. Consequently, such fair value impairment would have no impact on either the cash flow statement or income statement of the Group.

37. Financial instruments *continued*

	2008 Rm	2007 Rm
Financial assets		
Fair value through profit or loss (FVTPL)		
Held for trading	288,4	207,1
Designated as at FVTPL	5,9	2,3
Loans and receivables		
Investments	4,1	4,6
Trade receivables	1 713,2	1 848,7
Housing and staff loans	3,6	5,5
Employee share trust loans	175,2	128,6
Finance lease deposit	45,1	39,3
Held-to-maturity investments	11,3	26,3
Available-for-sale financial assets	0,2	0,2
Financial liabilities		
Loans and receivables		
Interest-bearing liabilities – non-current	267,7	402,7
Interest-free liabilities – non-current	0,7	1,9
Interest-bearing liabilities – current	146,2	131,6
Bank overdraft	37,7	37,0
Trade and other payables	7 380,0	6 755,7

37. Financial instruments *continued*

37.4 Financial risk management

The Group does not trade in financial instruments but, in the normal course of its operations, the Group is primarily exposed to currency, credit, interest rate and liquidity risks. In order to manage these risks, the Group may enter into transactions that make use of financial instruments. The Group has developed a comprehensive risk management process to facilitate, control and monitor these risks. This process includes formal documentation of policies, including limits, controls and reporting structures. The Executive Committee and the Chief Financial Officer are responsible for risk management activities within the Group.

Interest rate management

During the year, the position of the Group alternated between having surplus cash and being in a borrowed position. The size of the Group's position, be it either surplus cash or borrowings, exposes it to interest rate risk. The interest-bearing debt funding requirements and the investment of surplus cash funds are managed by Massmart through commercial bank facilities.

The carrying amount of the Group's financial assets and liabilities at balance sheet date that are subject to interest rate risk is as follows:

	Subject to interest rate movements			
	Fixed Rm	Floating Rm	Non-interest-bearing Rm	Total Rm
2008				
Financial assets				
Investments	–	4,1	–	4,1
Loans and receivables				
Housing loans	3,1	–	–	3,1
Staff loans	0,5	–	–	0,5
Employee share trust loans	–	–	175,2	175,2
Finance lease deposit	45,1	–	–	45,1
Trade receivable	–	–	1 713,2	1 713,2
Cash and cash equivalents	–	1 059,6	–	1 059,6
	48,7	1 063,7	1 888,4	3 000,8
Financial liabilities				
Obligations due under finance leases	82,0	–	–	82,0
Interest-bearing liabilities – non-current	185,7	–	–	185,7
Interest-free liabilities – non-current	–	–	0,7	0,7
Interest-bearing liabilities – current	146,2	–	–	146,2
Accounts payable	–	–	5 928,1	5 928,1
	413,9	–	5 928,8	6 342,7
2007				
Financial assets				
Investments	–	4,6	–	4,6
Loans and receivables				
Housing loans	4,0	–	–	4,0
Staff loans	1,5	–	–	1,5
Employee share trust loans	–	–	128,6	128,6
Finance lease deposit	39,3	–	–	39,3
Trade receivable	–	–	1 848,7	1 848,7
Cash and cash equivalents	–	1 245,7	–	1 245,7
	44,8	1 250,3	1 977,3	3 272,4
Financial liabilities				
Obligations due under finance leases	89,2	–	–	89,2
Interest-bearing liabilities – non-current	313,5	–	–	313,5
Interest-free liabilities – non-current	–	–	1,9	1,9
Interest-bearing liabilities – current	131,6	–	–	131,6
Accounts payable	–	–	5 285,8	5 285,8
	534,3	–	5 287,7	5 822,0

37. Financial instruments *continued*

Interest rate sensitivity

The Group is sensitive to the movements in the SA prime interest rate. The rates of sensitivity represents management's assessment of the possible change in interest rates. If the SA prime interest rate increased or decreased by 50 average basis points (2007: increased or decreased by 50 average basis points) at year-end, the income for the year would have decreased or increased by R1,1 million respectively (2007: decreased or increased by Rnil respectively).

Liquidity risk management

Liquidity risk is the risk that the Group will be unable to meet a financial commitment in any location or currency. This risk is minimised through the holding of cash balances and sufficient available borrowing facilities (refer to note 23). In addition, detailed cash flow forecasts are regularly prepared and reviewed, so that the cash needs of the Group are managed according to its requirements.

The following table details the Group's contractual maturity for its non-derivative financial liabilities. The table has been compiled based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to repay the liability. The cash flows include both the principal and interest payments.

	Less than 12 months Rm	2 – 5 years Rm	Greater than 5 years Rm	Total Rm
2008				
Obligations due under finance leases	25,5	66,8	47,6	139,9
Interest-bearing borrowings	141,1	213,6	–	354,7
Accounts payable	5 928,1	–	–	5 928,1
	6 094,7	280,4	47,6	6 422,7
2007				
Obligations due under finance leases	22,9	68,5	61,2	152,6
Interest-bearing borrowings	150,4	354,1	–	504,5
Accounts payable	5 285,8	–	–	5 285,8
	5 459,1	422,6	61,2	5 942,9

Credit risk management

Potential areas of credit risk include trade and consumer accounts receivable and short-term cash investments. Credit risk arises from the risk that a counterparty may default or not meet its obligations timeously. Trade accounts receivable consist primarily of a large, widespread customer base. Group companies regularly monitor the financial position of their customers. Where considered appropriate, credit guarantee insurance is used. The granting of credit is controlled by application and account limits. Provision is made for both specific and general bad debts, and at the year-end management did not consider there to be any material credit risk exposure that was not already covered by credit guarantee insurance or bad debt provisions.

The carrying amount of the financial assets represents the Group's maximum exposure to credit risk without taking into consideration any collateral provided:

	Maximum credit risk	
	2008 Rm	2007 Rm
Financial assets and other credit exposures		
Investments	4,1	4,6
Accounts receivable	1 713,2	1 848,7
Cash and cash equivalents	1 059,6	1 245,7
	2 776,9	3 099,0

37. Financial instruments *continued*

Currency risk management

All foreign-denominated trading liabilities are covered by exchange contracts. Foreign-denominated assets are not covered by forward exchange contracts.

The carrying amount of the Group's foreign currency denominated monetary assets at balance sheet date are as follows:

	South African Rand Rm	United States Dollar Rm	Euro Rm	Other Rm	Total Rm
2008					
Investments	68,1	243,2	–	–	311,3
Accounts receivable	1 618,1	–	–	95,1	1 713,2
Cash and cash equivalents	720,7	122,2	1,5	215,2	1 059,6
	2 406,9	365,4	1,5	310,3	3 084,1
2007					
Investments	72,9	168,3	–	–	241,2
Accounts receivable	1 771,2	–	–	77,5	1 848,7
Cash and cash equivalents	1 018,7	88,0	5,0	134,0	1 245,7
	2 862,8	256,3	5,0	211,5	3 335,6

Foreign currency sensitivity

The US Dollar is the primary currency to which the Group is exposed. The following table indicates the Group's sensitivity at year-end to indicate movements in the US Dollar on financial instruments, excluding forward exchange contracts. The rates of sensitivity are the rates used when reporting the currency risk to the Executive Committee of the Group and represents management's assessment of the possible change in reporting foreign currency exchange rates. The Rand/US Dollars year-end rate was R7,96 (2007: R7,20).

	US Dollar	
	Rm 5% increase	Rm 5% decrease
2008		
Profit/(loss)	4,3	(4,3)
Financial assets	18,3	(18,3)
Financial liabilities	(22,6)	22,6
	5% increase	5% decrease
2007		
Profit/(loss)	(0,7)	0,7
Financial assets	12,8	(12,8)
Financial liabilities	(12,1)	12,1

Forward foreign exchange contracts

Forward exchange contracts are entered into to manage exposure to fluctuations in foreign currency exchange rates on specific trading transactions. The Group's policy is to enter into forward contracts for all committed foreign currency purchases.

Forward foreign exchange contracts have been accounted for according to IAS 39 *Financial Instruments: Recognition and Measurement*. Fair value has been determined using money market derivative rates at 30 June 2008 and the net gain or exposure on the contracts has been reflected in the financial statements.

At year-end, the open forward exchange contracts were as follows:

	Foreign currency (millions)	Fair value adjustment Rm	Contract equivalent Rm	Average exchange rate
2008				
USD	54,4	(2,0)	440,3	7,3
GBP	0,3	–	4,4	14,6
Euro	1,4	(0,3)	16,9	10,7
		(2,3)	461,6	
2007				
USD	55,2	(0,7)	399,3	7,2
GBP	0,2	–	3,0	14,3
Euro	3,1	0,2	30,6	9,9
		(0,5)	432,9	

37. Financial instruments *continued*

Forward foreign exchange contracts – sensitivity

The following table indicates the Group's sensitivity of the outstanding forward exchange contracts at the balance sheet date to indicate the movements in the US Dollar which is the primary currency in which the Group has entered into forward foreign exchange contracts. The rates of sensitivity represents management's assessment of the possible change in foreign currency exchange rates. The Rand/US Dollar year-end rate was R7,96 (2007: R7,20).

	US Dollar	
	Rm 5% increase	Rm 5% decrease
2008		
Profit/(loss)	32,6	(11,6)
Derivative financial assets	26,6	(17,7)
	5% increase	**5% decrease**
2007		
Profit/(loss)	(34,8)	(68,8)
Derivative financial assets	20,5	(18,0)

38. Segmental reporting

Primary business segments

The Group is organised into four divisions for operational and management purposes, being Massdiscounters, Masswarehouse, Massbuild and Masscash. Massmart reports its primary business segment information on this basis. The principal offering for each division is as follows:

Massdiscounters – general merchandise discounter
Masswarehouse – warehouse club discounter
Massbuild – home improvement retailer and building materials supplier
Masscash – food wholesaler and buying association

	Total Rm	Corporate Rm	Mass-discounters Rm	Mass-warehouse Rm	Massbuild Rm	Masscash Rm
2008						
Sales	39 783,6	–	10 406,5	10 103,8	5 662,9	13 610,4
EBITA*	2 089,7	(67,1)	724,5	640,2	390,1	402,0
Net finance (costs)/income	(64,1)	(293,6)	58,6	90,6	42,9	37,4
Profit before tax	2 021,0	(361,5)	783,1	730,8	433,0	435,6
Inventory	4 758,6	1,2	1 766,8	1 043,6	852,5	1 094,5
Total assets	11 900,9	(1 989,9)	4 131,6	3 250,5	2 944,8	3 563,9
Total liabilities	9 134,4	(4 248,3)	4 080,9	3 518,2	2 693,2	3 090,4
Net capital expenditure	572,7	(19,7)	208,8	153,7	138,8	91,1
Depreciation and amortisation	297,7	7,6	115,2	51,0	75,1	48,8
Impairment losses	4,6	0,9	–	–	–	3,7
Non-cash items other than depreciation and impairment	71,3	132,6	(52,0)	(51,6)	43,8	(1,5)
Cash flow from operating activities	929,5	220,4	(6,2)	286,3	265,6	163,4
Cash flow from investing activities	(898,2)	(206,8)	(208,6)	(166,1)	(138,6)	(178,1)
Cash flow from financing activities	(222,7)	(580,1)	202,5	82,3	73,2	(0,6)
2007						
Sales	34 807,6	–	9 424,5	8 640,1	4 948,3	11 794,7
EBITA*	1 699,6	(54,3)	634,2	466,7	363,0	290,0
Net finance (costs)/income	(44,4)	(185,9)	52,1	58,7	16,8	13,9
Profit before tax	1 628,9	(240,2)	672,2	525,4	379,8	291,7
Inventory	4 027,3	28,0	1 597,8	807,2	829,3	765,0
Total assets	10 849,6	(1 249,9)	3 867,5	2 688,3	2 643,0	2 900,7
Total liabilities	8 584,8	(3 184,8)	3 816,6	2 963,0	2 436,6	2 553,4
Net capital expenditure	460,2	38,9	210,5	49,8	101,2	59,8
Depreciation and amortisation	240,9	12,1	95,5	39,7	53,4	40,2
Impairment losses	26,3	(56,8)	13,8	0,3	56,8	12,2
Non-cash items other than depreciation and impairment	30,3	98,4	(72,5)	(16,1)	(1,1)	21,6
Cash flow from operating activities	813,1	(217,1)	43,2	375,8	277,5	333,7
Cash flow from investing activities	(690,8)	(55,6)	(210,0)	(58,3)	(274,8)	(92,1)
Cash flow from financing activities	(288,4)	(886,2)	252,8	16,8	78,0	250,2

The corporate column includes certain consolidation entries.

All intercompany transactions have been eliminated in the above results.

** EBITA is earning before interest, tax and asset impairments.*

38. Segmental reporting *continued*

Secondary geographic segments

The Group's four divisions operate in two principal geographical areas – South Africa and the rest of Africa.

	Total 2008 Rm	South Africa 2008 Rm	Rest of Africa 2008 Rm	Total 2007 Rm	South Africa 2007 Rm	Rest of Africa 2007 Rm
Sales	39 783,6	36 848,6	2 935,0	34 807,6	32 712,4	2 095,2
Segment assets	11 900,9	11 225,4	675,5	10 849,6	10 371,7	477,9
Net capital expenditure	572,7	564,3	8,4	460,2	418,7	41,5

All intercompany transactions have been eliminated in the above results.

39. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in note 1, management has not made any critical judgements that have a significant effect on the amounts recognised in the financial statements apart from those involving estimations.

Key sources of estimation uncertainty

Key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate only to the impairment of goodwill. Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was R1 362,3 million (2007: R1 346,8 million). In the prior year an impairment loss of R12,2 million was recognised. No impairment loss was recognised in the current year. Details of the impairment loss calculation are provided in note 12 on page 128.

Two additional areas of estimation uncertainty that could have an immaterial adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the IFRS 2 *Share-based Payment* and the post retirement medical aid valuations. By obtaining an external valuation by accredited valuators, Management feels that this risk has been mitigated. For more details on the valuations, please see note 21 on page 138 and note 24 on page 141 respectively.

40. Events after the balance sheet date

Subsequent to 30 June 2008, Masscash Holdings (Pty) Ltd signed an agreement to acquire Brett Four (Pty) Ltd, trading as Cambridge Foods, which owns five food retail stores operating in the Durban area. The acquisition is subject to Competition Tribunal approval. The financial effects of this pending acquisition are not material.

On the first day of the 2009 financial year, the sale of the Massdiscounters Consumer Credit Division and associated debtors book became effective and cash proceeds of R174 million were received on the same date.

At the August 2008 meeting, the Board resolved to proceed, subject to shareholder approval, with assisting our black non-executive Directors to become shareholders in the Company. When the Group's BEE staff equity schemes were implemented in 2006, the black non-executive directors were not included as the Board was of the view that the design of those schemes was more suited to the Group's general staff. It is now proposed that the five designated black non-executive Directors will each be given the opportunity to purchase at par 20 000 shares in Massmart, and then be restricted in the sale of these shares – half for three years and half for five years.

The Company regards the cost of this transaction as part of the engagement cost of these directors over the five-year period in addition to their annual fees. The Board has considered the effect of this transaction on the continued independence of those directors and believes that the limited size and its one-off nature are sufficient to ensure their continued ability to act independently.

Shareholders are referred to pages 182 to 187 *Notice of sale of shares currently held as treasury shares to the black non-executive Directors* and *Fairness Opinion by an Independent Professional Expert* which contains all the information required in terms of the JSE and the Companies Act.

41. Shareholder analysis

	Number	%	Number of shares	%
The following analysis of shareholders was extracted from the shareholders' register as at June 2008:				
Shareholder spread				
1 – 1 000 shares	7 556	69,9	2 843 315	1,4
1 001 – 10 000 shares	2 806	25,9	7 940 032	4,0
10 001 – 100 000 shares	329	3,0	10 545 366	5,2
100 001 – 1 000 000 shares	92	0,9	27 616 277	13,7
1 000 001 shares and over	34	0,3	152 248 522	75,7
	10 817	100,0	201 193 512	100,0
Distribution of shareholders				
Banks	115	1,1	121 953 014	60,6
Close corporations	112	1,0	168 315	0,1
Endowment funds	98	0,9	575 106	0,3
Individuals	7 367	68,1	8 110 264	4,0
Insurance companies	30	0,3	5 500 212	2,7
Investment companies	27	0,3	2 215 724	1,1
Medical aid schemes	3	–	59 306	–
Mutual funds	270	2,5	22 366 983	11,1
Nominees and trusts	2 059	19,0	6 131 667	3,1
Other corporations	216	2,0	705 102	0,4
Pension funds	132	1,2	24 981 852	12,4
Private companies	353	3,3	2 235 520	1,1
Public companies	32	0,3	372 983	0,2
Treasury stock (share buyback)	1	–	1 839 492	0,9
Share trusts	2	–	3 977 972	2,0
	10 817	100,0	201 193 512	100,0
Public/non-public shareholders				
Non-public shareholders:				
Directors of the Company	8	0,1	3 185 275	1,6
Share trust	2	–	1 674 638	0,8
Treasury stock (share buyback)	1	–	1 839 492	0,9
Public shareholders	10 806	99,9	194 494 107	96,7
	10 817	100,0	201 193 512	100,0
Beneficial shareholders holding 5% or more				
Public Investment Corporation			16 981 154	7,1
Foreign custodians and managers holding 5% or more				
The following foreign custodians and managers held beneficially, directly or indirectly, more than 5% of the Company's shares:				
Aberdeen Asset Management Group			24 480 469	12,2
Lazard Asset Management			19 464 344	9,7
JP Morgan Asset Management			11 716 847	5,8
Franklin Resources Inc			11 345 038	5,6

For details of the Directors' shareholdings see page 107 of the Directors' Report.



Company Financial Statements

A packer at Jumbo Crown Mines unpacks Select biscuits, one of Massmart's private label brands.

"Food and energy inflation continued to drive general inflation, forcing interest rates higher and putting the middle-income consumer under pressure. It also put low-income consumers…under even greater pressure. This has challenged both government and ourselves to redouble efforts to provide support to those who cannot support themselves."

GRANT PATTISON CHIEF EXECUTIVE OFFICER

Income statement

for the year ended 30 June 2008

	Notes	2008 Rm	2007 Rm
Revenue	1	1 175,0	1 082,4
Management and administration fees received		19,5	35,2
Dividends received		1 155,5	1 047,2
Employment costs		(14,7)	(31,7)
Net operating income		62,2	1,7
Operating profit	2	1 222,5	1 052,4
Finance costs		(7,1)	(8,5)
Finance income		5,9	1,1
Net finance costs	3	(1,2)	(7,4)
Profit before taxation		1 221,3	1 045,0
Taxation	4	(72,2)	(63,1)
Profit after taxation		1 149,1	981,9
Dividend per share (cents)			
Interim		223,0	197,0
Final*		163,0	123,0
Total		386,0	320,0

** Declared after the financial year-end.*

Details of the dividend can be found in note 9 on page 124 in the consolidated financial statements.

The accounting policies are in line with the Massmart Group accounting policies. Refer to page 113 of the annual financial statements.

Balance sheet

as at 30 June 2008

	Notes	2008 Rm	2007 Rm
Assets			
Non-current assets		766,1	494,3
Interests in subsidiaries	5	199,6	–
Other financial assets	6	566,5	490,6
Deferred taxation	7	–	3,7
Current assets		16,8	16,5
Trade receivables and prepayments		16,8	–
Cash and bank balances		–	16,5
Total assets		782,9	510,8
Equity and liabilities			
Capital and reserves		749,3	405,1
Share capital	8	2,0	2,0
Share premium	8	264,7	254,7
Non-distributable reserve	9	3,7	0,9
Retained profit		478,9	147,5
Preference shares	8	0,2	0,2
Total equity		749,5	405,3
Current liabilities		33,4	105,5
Trade and other payables		13,8	90,1
Taxation		18,3	15,3
Bank overdraft		1,2	
Current liabilities		0,1	0,1
Total equity and liabilities		782,9	510,8

The accounting policies are in line with the Massmart Group accounting policies. Refer to page 113 of the annual financial statements.

Cash flow statement

for the year ended 30 June 2008

	Notes	2008 Rm	2007 Rm
Cash flow from operating activities			
Operating cash before working capital movements	11.1	69,8	7,8
Working capital movements	11.2	(93,0)	11,1
Cash generated from operations		(23,2)	18,9
Interest received		5,9	1,1
Interest paid		(7,1)	(8,5)
Investment income		1 155,5	1 047,2
Taxation paid	11.3	(65,5)	(56,9)
Dividends paid	11.4	(721,4)	(565,8)
Net cash inflow from operating activities		344,2	436,0
Other investing activities		(262,2)	(210,3)
Net cash outflow from investing activities		(262,2)	(210,3)
Net acquisition of treasury shares	11.5	(99,7)	(226,0)
Proceeds from current borrowings		–	0,1
Net cash outflow from financing activities		(99,7)	(225,9)
Net decrease in cash and cash equivalents		(17,7)	(0,2)
Cash and cash equivalents at the beginning of the year		16,5	16,7
Cash and cash equivalents at the end of the year		(1,2)	16,5

The accounting policies are in line with the Massmart Group accounting policies. Refer to page 113 of the annual financial statements.

Statement of changes in equity

for the year ended 30 June 2008

	Share capital Rm	Share premium Rm	Preference shares Rm	Non-distributable reserve Rm	Retained profit Rm	Total Rm
Balance as at 30 June 2007	2,0	262,6	–	–	(52,1)	212,5
Profit for the year	–	–	–	–	981,9	981,9
Share trust loss	–	–	–	–	(216,5)	(216,5)
BEE transaction costs and shares issued	–	(4,5)	0,2	–	–	(4,3)
Dividends paid	–	–	–	–	(565,8)	(565,8)
Treasury shares	–	(3,4)	–	–	–	(3,4)
Share-based payment reserve	–	–	–	0,9	–	0,9
Balance as at 30 June 2007	**2,0**	**254,7**	**0,2**	**0,9**	**147,5**	**405,3**
Profit for the year	–	–	–	–	1 149,1	1 149,1
Share trust loss	–	–	–	–	(96,3)	(96,3)
Dividends paid	–	–	–	–	(721,4)	(721,4)
Realisation of prior year treasury shares	–	20,0	–	–	–	20,0
Treasury shares	–	(10,0)	–	–	–	(10,0)
Share-based payment reserve	–	–	–	2,8	–	2,8
Balance as at 30 June 2008	**2,0**	**264,7**	**0,2**	**3,7**	**478,9**	**749,5**

The accounting policies are in line with the Massmart Group accounting policies. Refer to page 113 of the annual financial statements.

Notes to the annual financial statements

for the year ended 30 June 2008

	2008 Rm	2007 Rm
1. Revenue		
Dividends received (included are dividends from subsidiary companies)	1 155,5	1 047,2
Management and administration fees received (included are management and administration fees from subsidiary companies)	19,5	35,2
	1 175,0	1 082,4
2. Operating profit		
Credits to operating profit include:		
Foreign exchange profit	0,7	0,4
Profit on intra-group sale of Shield Buying and Distribution (Pty) Ltd	52,0	–
Charges to operating profit include:		
Foreign exchange loss	0,5	–
Share-based payment	2,8	0,9
Contribution to pension scheme	0,5	–
3. Net finance costs		
Finance costs		
Interest on Group loans	(7,1)	(8,5)
Finance income		
Interest on Group loans	5,9	1,1
Net finance costs	(1,2)	(7,4)
4. Taxation		
Current year		
South African normal taxation		
Current taxation	4,6	6,4
Deferred taxation	3,7	(0,8)
Secondary taxation on companies	64,0	57,5
	72,3	63,1
Prior year overprovision:		
South African normal taxation		
Current taxation	(0,1)	–
	(0,1)	–
Total	72,2	63,1
	%	%
The rate of taxation is reconciled as follows:		
Standard corporate taxation rate	28,0	29,0
Exempt income	(26,4)	(29,1)
Disallowable expenditure	–	0,5
Secondary tax on companies	5,5	5,5
Profit on intra-group sale of Shield Buying and Distribution (Pty) Ltd	(1,2)	–
Foreign income	–	0,1
Effective rate	5,9	6,0

	2008 Rm	2007 Rm
5. Interest in subsidiaries		
Shares at cost less amounts written off	103,9	134,3
Amounts owing by/(to) subsidiaries	95,7	(134,3)
	199,6	–
Details of net shares at cost can be found in note 35 on page 153 in the consolidated financial statements.		
6. Other financial assets		
Unlisted investments		
Preference shares – Fullimput 65 (Pty) Ltd[1]	560,7	485,3
Investment in Imagegate Limited (UK)[2]	5,4	4,9
Investment in Massmart Black Scarce Skills Trust and Massmart Thuthukani Empowerment Trust	0,2	0,2
Listed investments	0,2	0,2
	566,5	490,6
The directors' valuation of the unlisted investments at 30 June 2008 is R566,3 million (2007: R490,4 million).		
The preference share investment represents cumulative preference shares in Fullimput 65 (Pty) Ltd.		
A long-term liability of the Group is secured by a cession of the preference shares.		
Notes		
[1] *Classified as a "held-to-maturity" financial asset for IAS 39 purposes.*		
[2] *Classified as a "loan and receivable" financial asset for IAS 39 purposes.*		
For IAS 39 accounting treatment of these financial assets, see note 37 on page 156 in the consolidated financial statements.		
7. Deferred taxation		
The major movements during the year are analysed as follows:		
Net asset at the beginning of the year	3,7	2,9
(Release)/charge to profit or loss for the year	(3,7)	0,8
Net asset at the end of the year	–	3,7
The major components of deferred taxation are analysed as follows:		
Other temporary differences	–	3,7
	–	3,7

8. Issued capital

	Share capital		Share premium	
	2008 Rm	2007 Rm	**2008 Rm**	2007 Rm
Authorised				
500 000 000 (2007: 500 000 000) ordinary shares of 1 cent each	2,0	5,0	–	–
20 000 000 (2007: 20 000 000) non-redeemable cumulative non-participating preference shares of 1 cent each	0,2	0,2	–	–
18 000 000 (2007: 18 000 000) 'A' convertible redeemable non-cumulative participating preference shares of 1 cent each	0,2	0,2	–	–
2 000 000 (2007: 2 000 000) 'B' convertible redeemable non-cumulative participating preference shares of 1 cent each	–	–	–	–
Issued				
201 193 512 (2007: 201 072 831) ordinary shares of 1 cent each	2,0	2,0	264,7	254,7
17 868 125 (2007: 17 967 866) 'A' convertible redeemable non-cumulative participating preference shares of 1 cent each	0,2	0,2	–	–
1 979 060 (2007: 2 000 000) 'B' convertible redeemable non-cumulative participating preference shares of 1 cent each	–	–	–	–

	Number of shares	Share capital Rm	Share premium Rm
Ordinary shares			
Balance at the beginning of the year	201 040 697	2,0	262,6
Converted preference shares of the Massmart Thuthukani Empowerment Trust	32 134	–	(4,5)
Ordinary shares in issue – June 2007	201 072 831	2,0	258,1
Treasury shares	(265 720)	–	(3,4)
Ordinary shares in issue excluding treasury shares – June 2007	200 807 111	2,0	254,7
Balance at the beginning of the year	201 072 831	2,0	254,7
Shares issued in terms of the Massmart Black Scarce Skills Trust	20 940	–	–
Shares issued in terms of the Massmart Thuthukani Empowerment Trust	99 741	–	–
Ordinary shares in issue – June 2008	201 193 512	2,0	254,7
Issue of shares	–	–	20,0
Treasury shares	(2 000 984)	–	(10,0)
Ordinary shares in issue excluding treasury shares – June 2008	199 192 528	2,0	264,7

Ordinary shares, which have a par value of 1 cent, carry one vote per share and carry the right to dividends.

'A' convertible redeemable non-cumulative participating preference shares			
Balance at the beginning of the previous year	–	–	–
Shares issued in terms of the Massmart BEE transaction	18 000 000	0,2	–
Shares converted to ordinary shares	(32 134)	–	–
Balance at the beginning of the year	17 967 866	(0,2)	–
Shares converted to ordinary shares	(99 741)	–	–
Balance at the end of the year	17 868 125	(0,2)	–

'A' convertible redeemable non-cumulative participating preference shares, which have a par value of 1 cent, are held in the Thuthukani Empowerment Trust. These shares carry one vote per share, which is cast by the appointed trustees, and carry the right to dividends. On election of the beneficiary, the shares will convert to ordinary shares, on a one-for-one basis and will rank *pari passu* with all ordinary shares then in issue.

8. Issued capital *continued*

	Number of shares	Share capital Rm	Share premium Rm
'B' convertible redeemable non-cumulative participating preference shares			
Balance at the beginning of the previous year	–	–	–
Shares issued in terms of the Massmart BEE transaction	2 000 000	–	–
Balance at the beginning of the year	2 000 000	–	–
Shares converted to ordinary shares	(20 940)	–	–
Balance at the end of the year	1 979 060	–	–

'B' convertible redeemable non-cumulative participating preference shares, which have a par value of 1 cent, are held in the Black Scarce Skills Trust. These shares carry one vote per share, which is cast by the appointed trustees, and do not carry the right to dividends. On election of the beneficiary, the shares will convert to ordinary shares on a one-for-one basis and will rank *pari passu* with all ordinary shares then in issue.

Share options granted under the Massmart Holdings Limited Employee Share Trust

As at June 2008, executives and senior employees have options over 14 304 900 ordinary shares (of which 11 784 413 are unvested). As at June 2007, executives and senior employees have options over 10 239 002 ordinary shares (of which 7 217 626 are unvested).

Share options granted under the Employee Share Incentive Scheme carry no rights to dividends and no voting rights. Further details of the Employee Share Incentive Scheme are contained in note 27 on page 142 to the financial statements.

The preference shares issued during the year were issued at par value.

The total share buyback (including shares bought in the market by the Share Trust) for the year was 3.3 million shares (2007: 4,4 million) at an average price of R83,10 (2007: R71,85) totalling R271,8 million (2007: R313,2 million).

The Directors have the authority, until the next annual general meeting, to issue the ordinary shares of the Company up to a maximum of 5% of the shares already issued.

	2008 Rm	2007 Rm
9. Non-distributable reserves		
Balance at the beginning of the year	0,9	–
Share-based payment reserve	2,8	0,9
	3,7	0,9

The share-based payment reserve arises on grant of share options to employees under the Employee Share Incentive Scheme. Details of the Employee Share Incentive Scheme can be found in note 27 on page 142 in the consolidated financial statements. The share-based payment valuation was performed by Alexander Forbes for all periods and the scheme is equity-settled.

	2008 Rm	2007 Rm
10. Cross-suretyships and promissory notes		
Cross-suretyships under banking and other financial facilities	4 463,8	4 171,2
	4 463,8	4 171,2

Banking facilities incorporate, amongst others, letters of credit, forward exchange contracts and electronic fund transfers. These facilities have been secured by cross-suretyships between Group companies.

Other financial facilities relate to promissory notes that represent commitments under non-cancellable operating leases of R936,1 million (2007: R1 060 million) entered into by Masstores (Pty) Limited on behalf of Makro and are included in operating lease commitments in land and buildings. These leases terminate in December 2020 and have a discounted present value of R601,6 million (2007: R697 million). In accordance with IAS 17 *Leases*, the rentals paid are amortised over the entire remaining lease period on a straight line basis.

At the balance sheet date the Massmart Group was net cash positive.

	2008 Rm	2007 Rm
11. Notes to the cash flow statement		
11.1 Cash flow from trading		
Profit before taxation	1 221,3	1 045,0
Adjustment for:		
Interest received	(5,9)	(1,1)
Interest paid	7,1	8,5
Investment income	(1 155,5)	(1 047,2)
Share-based payment expense	2,8	0,9
Other non-cash movements	–	1,7
	69,8	7,8
11.2 Working capital movements		
(Increase)/decrease in trade and other receivables	(18,8)	2,3
(Decrease)/increase in trade and other payables	(74,2)	8,8
	(93,0)	11,1
11.3 Taxation paid		
Amounts owed at the beginning of the year	15,3	8,3
Amounts charged to the income statement	72,2	63,1
Deferred taxation	(3,7)	0,8
Amounts owed at the end of the year	(18,3)	(15,3)
Cash amounts paid	65,5	56,9
11.4 Dividends paid		
Amounts owing at the beginning of the year	–	–
Amounts charged to the income statement	721,4	565,8
Amounts owing at the end of the year	–	–
Cash amount paid	721,4	565,8
11.5 Net acquisition of treasury shares		
BEE transaction costs	–	4,5
Loss from the share trust	96,3	216,5
Share premium movement on treasury shares acquired	3,4	5,0
	99,7	226,0



Shareholder Information

Thami Maphalala, Warehouse Assistant at the Pinetown distribution centre, one of our 24 308 employees.

We strive to provide useful and frequent disclosure to our shareholders, regardless of how hard this may be in periods of difficulty or underperformance.

Notice of annual general meeting

for the year ended 30 June 2008

Notice is hereby given that the annual general meeting of the Company will be held at 08:30 at Massmart House, 16 Peltier Drive, Sunninghill Ext 6, Sandton, on Wednesday, 26 November 2008, for purposes of:

1. Transacting the following business:

   1.1 to receive and adopt the annual financial statements of the Company and the Group for the year ended 30 June 2008

   1.2 to elect directors in the place of those retiring in accordance with the Company's Articles of Association

   1.3 to transact such other business as may be transacted at an annual general meeting.

2. Considering and, if deemed fit, passing, with or without modification, the following ordinary and special resolutions:

Ordinary resolutions

1. "Resolved that the annual financial statements of the Company and the Group for the year ended 30 June 2008, circulated together with this notice, be and are hereby adopted."

2. "Resolved that Mr IN Matthews, who retires by rotation and has offered himself for re-election, be and is hereby re-elected to the Board of Directors of the Company."

3. "Resolved that Ms DNM Mokhobo, who retires by rotation and has offered herself for re-election, be and is hereby re-elected to the Board of Directors of the Company."

4. "Resolved that Mr GM Pattison, who retires by rotation and has offered himself for re-election, be and is hereby re-elected to the Board of Directors of the Company."

5. "Resolved that Mr MJ Rubin, who retires by rotation and has offered himself for re-election, be and is hereby re-elected to the Board of Directors of the Company."

6. "Resolved that Mr CS Seabrooke, who retires by rotation and has offered himself for re-election, be and is hereby re-elected to the Board of Directors of the Company."

7. "Resolved that the non-executive directors' annual remuneration for the 2009 financial year be set as follows:

Chairman of the Board	R675 000
Deputy Chairman	R490 000
Directors	R200 000
Committee chairmen	R200 000
Committee members	R94 000

with members of the Audit Committee receiving an additional R25 000 each due to the increased meetings and responsibilities brought about by the Corporate Laws Amendment Act."

8. "Resolved that Messrs Deloitte & Touche (with Mr André Dennis as the Audit Partner) be and are hereby re-elected as the Company's auditors for the ensuing financial year, as approved by the Massmart Audit Committee."

9. "Resolved that all the ordinary shares in the authorised but unissued share capital of the Company be and are hereby placed under the control of the directors in terms of section 221(2) of the Companies Act, 1973 (Act 61 of 1973), as amended ("the Act"), who shall be authorised to allot and issue such shares to such person or persons on such terms and conditions as they may deem fit but not exceeding 5% of the number of shares already in issue. Such allotment will be in accordance with the Act and the Listings Requirements of the JSE Limited ("JSE")."

10. "Resolved that, subject to the JSE Listings Requirements, the directors be and are hereby authorised to issue the ordinary shares in the authorised but unissued share capital of the Company for cash to such person or persons on such terms and conditions as they may deem fit, subject to the following:

    10.1 the shares shall be of a class already in issue.

    10.2 the shares shall be issued to public shareholders (as defined in the JSE Listings Requirements) and not to related parties (as defined in the JSE Listings Requirements).

    10.3 the issues in the aggregate in any one financial year shall not exceed 5% (five percent) of the number of shares already in issue.

    10.4 the maximum discount at which the shares may be issued shall be 10% (ten percent) of the weighted average traded price of the shares over the 30 (thirty) business days prior to the date that the price of the issue is determined or agreed by the directors.

    10.5 the authority hereby granted will be valid until the Company's next annual general meeting, provided that it will not extend to beyond 15 (fifteen) months.

    10.6 once the securities have been issued, the Company shall publish an announcement in accordance with paragraph 11.22 of the JSE Listings Requirements.

Pursuant to the requirements of JSE Limited, the Company will only be entitled to implement this general authority to allot and issue ordinary shares for cash if this resolution number 10 is passed by a majority of 75% or more of the votes cast by all Massmart shareholders present or represented by proxy at the annual general meeting, excluding any votes which may be cast by the Massmart Employee Share Trust.

11. "Resolved that the Directors be and are hereby authorised by way of a specific authority in terms of paragraph 5.51 of the Listings Requirements of the JSE Limited to implement the sale by the Company's wholly-owned subsidiary, Massmart Management & Finance Company (Proprietary) Limited, of 100 000 Massmart ordinary shares of 1 cent each, at a sale price of 1 cent per share, which amount will be payable by the purchasers, who are all non-executive directors of the Company, as set out below:

Mr ZL Combi	20 000 shares
Mr KD Dlamini	20 000 shares
Ms NN Gwagwa	20 000 shares
Ms P Langeni	20 000 shares
Ms DNM Mokhobo	20 000 shares"

Pursuant to the requirements of JSE Limited, the Company will only be entitled to implement the sale of the Massmart ordinary shares which are the subject of ordinary resolution number 11 if that resolution is passed by a majority of 75% or more of the votes cast by all Massmart shareholders present or represented by proxy at the annual general meeting, excluding any votes which may be cast by the Massmart Employee Share Trust and the purchasers of the Massmart shares named above, or their associates, as defined in the Listings Requirements of the JSE Limited.

Special resolutions

Provided members holding in the aggregate not less than 25% of the total votes of all members entitled to vote at the annual general meeting are present in person or by proxy, the approval of a 75% (seventy-five percent) majority of the votes cast by members present or represented by proxy at the annual general meeting and entitled to vote is required for these resolutions to become effective:

1. "Resolved that the Company and its subsidiaries be and are hereby authorised in terms of sections 85(2) and 85(3) of the Act, and the JSE Listings Requirements, from time to time to acquire the ordinary and/or preference shares in the issued share capital of the Company from such shareholder/s, at such price, in such manner and subject to such terms and conditions as the directors may deem fit, but subject to the Articles of Association of the Company, the Act and the JSE Listings Requirements, and provided that:

   1.1 the authority hereby granted will be valid until the Company's next annual general meeting, provided that it will not extend to beyond 15 (fifteen) months from the date of registration of this special resolution.

   1.2 acquisitions may not be made at a price greater than 10% (ten percent) above the weighted average of the market value for the shares determined over the 5 (five) business days prior to the date that the price for the acquisition is effected.

   1.3 acquisitions in the aggregate in any one financial year shall not exceed 15% (fifteen percent) of that class of the Company's issued share capital.

   1.4 the repurchase of securities will be effected through the order book operated by the JSE trading system and will be done without any prior understanding or arrangement between the Company and the counterparty.

   1.5 the Company will only appoint one agent to effect the repurchases on the Company's behalf.

   1.6 the Company will only undertake a repurchase of securities if, after such repurchases, the Company complies with the JSE listing shareholder spread requirements.

   1.7 neither the Company nor its subsidiaries may repurchase securities during a prohibited period unless a repurchase programme is in place where the dates and quantities of securities to be traded during the relevant period are fixed and where full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period.

   1.8 an announcement complying with 11.27 of the JSE Listings Requirements will be published by the Company when the Company and/or its subsidiaries over any twelve month period have cumulatively repurchased 3% (three percent) of the Company's issued ordinary and/or preference share capital and for each 3% (three percent) in aggregate thereafter."

Statement by the Board of Directors

In accordance with the JSE Listings Requirements, the directors state that:

a) the intention of the directors is to utilise the authority at a future date, provided that the cash resources of the Company are in excess of its requirements. In this regard, the directors will take into account, inter alia, an appropriate capitalisation structure for the Company and the long-term cash needs of the Company, and will ensure that any such utilisation is in the interests of the shareholders.

b) having considered the effect of the maximum number of ordinary and preference shares that may be acquired pursuant to the authority and the date upon which such acquisition/s will take place:

   – the Company and its subsidiaries will be able in the ordinary course of business to pay their debts for a period of twelve months after the date of this notice of annual general meeting.

   – the assets of the Company and its subsidiaries will be in excess of the liabilities of the Company and its subsidiaries for a period of twelve months after the date of this notice of annual general meeting, such assets and liabilities being fairly valued in accordance with International Financial Reporting Standards and in accordance with the accounting policies used in the Company and the Group annual financial statements for the year ended 30 June 2008.

   – the issued share capital and reserves of the Company and its subsidiaries will be adequate for purposes of the business of the Company and its subsidiaries for a period of twelve months after the date of this notice of annual general meeting.

   – the working capital available to the Company and its subsidiaries will be adequate for purposes of the business of the Company and its subsidiaries for a period of twelve months after the date of this notice of annual general meeting.

The Company will ensure that its sponsor provides the necessary sponsor letter on the adequacy of the working capital in terms of the JSE Listings Requirements, prior to the commencement of any purchase of the Company shares on the open market.

Reason and effect

The reason for special resolution number 1 is to give a mandate to the directors to repurchase ordinary and preference shares in the Company.

The effect of special resolution number 1 will be that the Company and its subsidiaries will be authorised to acquire ordinary and preference shares in the Company.

2. "Resolved that Massmart Management & Finance Company (Proprietary) Limited (a wholly-owned subsidiary of the Company) and the Company be and are hereby authorised in terms of section 38(2A) of the Act to give financial assistance by the disposal of 20 000 ordinary shares in the Company by Massmart Management & Finance Company (Proprietary) Limited to each of ZL Combi, KD Dlamini, NN Gwagwa, P Langeni and DNM Mokhobo at a purchase price of 1 cent per share on the terms set out in the agreements concluded between the Company, Massmart Management & Finance Company (Proprietary) Limited and each of ZL Combi, KD Dlamini, NN Gwagwa, P Langeni and DNM Mokhobo, which have been initialled by the Chairman for identification and tabled at this annual general meeting.

The Directors of the Company are satisfied that subsequent to the transfer of shares as described, the consolidated assets of the Company fairly valued will be more than its consolidated liabilities and subsequent to providing the financial assistance and for the duration of the transaction, the Company and Massmart Management & Finance Company (Proprietary) Limited will be able to pay their debts as they become due in the ordinary course of business.

Reason and effect

The reason and effect of special resolution number 2 is to sanction the terms upon which financial assistance is to be given to the black non-executive Directors in order to assist such Directors to become shareholders of the Company.

Massmart Management & Finance Company (Proprietary) Limited has passed a special resolution on the same terms referred to above which will be lodged for registration simultaneously with the lodging of this special resolution.

Voting and proxies

All holders of ordinary and preference shares in the share capital of the Company are entitled to attend and vote at the annual general meeting. Subject to any rights or restrictions for the time being attached to any ordinary and/or preference shares, on a show of hands, every holder of ordinary and/or preference shares who is present in person, or a proxy, or in the case of a company, the representative appointed in terms of section 188 of the Act, has one vote irrespective of the number of shares he/she holds or represents. On a poll, each holder of ordinary and/or preference shares or his/her proxy has so many votes for each ordinary and preference share (as the case may be) as is determined in accordance with section 195 of the Act, read with the Company's Articles of Association.

In terms of the Listings Requirements, Massmart ordinary shares held by and registered in the name of The Massmart Holdings Limited Employee Share Trust will not have their votes at the annual general meeting taken into account for Listings Requirements resolution approval purposes.

However, Massmart preference shares held by the Massmart Thuthukani Empowerment Trust and the Massmart Black Scarce Skills Trust will have their votes at the annual general meeting taken into account for Listings Requirements resolution approval purposes.

If you hold certificated shares (ie have not dematerialised your shares in the Company) or are registered as an 'own name' dematerialised shareholder, then:

- you may attend and vote at the annual general meeting; alternatively
- you may appoint a proxy to represent you at the meeting by completing the attached form of proxy and returning it to the registered office of the Company to be received by no later than 48 hours prior to the time appointed for the holding of the meeting (excluding Saturdays, Sundays and public holidays within SA).

If you own dematerialised shares (ie have replaced the paper share certificates representing the shares with electronic records of ownership under the JSE's electronic settlement system, Strate Limited ("Strate")), and are not registered as an 'own name dematerialised shareholder' (ie have not specifically instructed your Central Securities Depository Participant ("CSDP") to hold your shares in your own name on the Company's subregister), then, subject to the mandate between yourself and your CSDP or broker:

- if you wish to attend the annual general meeting you must contact your CSDP or broker, as the case may be, and obtain the relevant letter of representation from it; alternatively
- if you are unable to attend the annual general meeting but wish to be represented at the meeting, you must contact your CSDP or broker, as the case may be, and furnish it with your voting instructions in respect of the annual general meeting. You must not complete the attached form of proxy. The instructions must be provided in accordance with the mandate between yourself and your CSDP or broker, as the case may be, within the time period required by your CSDP or broker, as the case may be.

CSDPs, brokers or their nominees, as the case may be, recorded in the Company's subregister should, when authorised in terms of their mandate or instructed to do so by the owner on behalf of whom they hold dematerialised shares in the Company, vote by either appointing a duly authorised representative to attend and vote at the annual general meeting or by completing the attached form of proxy in accordance with the instructions thereon and returning it to the registered office of the Company to be received not less than 48 hours prior to the time appointed for the holding of the meeting.

In terms of the JSE Listings Requirements for special resolution number 1 and ordinary resolution number 11, general information is included in the annual report attached, including:

(i) Directors and management (pages 11 to 15);
(ii) Major shareholders (page 164);
(iii) Material changes (page 108);
(iv) Directors' interests in securities (page 107);
(v) Share capital of the Company (page 136); and
(vi) Litigation (page 108).

The Directors whose names appear on pages 11 to 13 of the annual report collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the notice to the annual general meeting contains all information required by law and the JSE Listings Requirements.

By order of the Board



Ilan Zwarenstein
Company Secretary

Johannesburg
1 October 2008

Notice of sale of shares currently held as treasury shares to the black non-executive Directors

Definitions

In this Notice, unless the context indicates otherwise:

– reference to the singular shall include the plural and vice versa, and words denoting one gender include the others;
– expressions denoting natural persons include juristic persons and associations of persons, and vice versa; and
– the words in the first column have the meanings stated opposite them in the second column, as follows:

'act of wrongdoing'	Any action or behaviour contrary to morality, law or regulation; misconduct; and/or a failure to act in the proper fulfilment of a non-executive director's duties; which shall be decided by the Massmart Remuneration and Nominations Committee;
'annual general meeting'	The annual general meeting of members, convened to be held at 08:30 on Wednesday, 26 November 2008, at 16 Peltier Drive, Sunninghill Ext 6, to consider and if deemed appropriate to approve, inter alia, the resolutions regarding the sale of shares for cash as contemplated in this Notice;
'BBBEE Act'	Broad-Based Black Economic Empowerment Act, 2003 (Act 53 of 2003), as amended;
'black persons' or 'black people'	Black people as defined in the BBBEE Act;
'black non-executive Directors'	Black directors on the Board of Massmart who are not involved in the day-to-day management of Massmart;
'Board'	The Board of Directors of Massmart;
'Companies Act'	The Companies Act, 1973 (Act 61 of 1973), as amended;
'JSE'	JSE Limited (registration number 2005/022939/06), a company licensed to operate an exchange under the Securities Services Act, 2004 (Act 36 of 2004), as amended;
'Listings Requirements'	The Listings Requirements of the JSE, as amended from time to time by the JSE;
'Massmart' or 'the Company'	Massmart Holdings Limited (registration number 1940/014066/06), a public company duly registered and incorporated with limited liability in accordance with the company laws of South Africa, all the ordinary shares of which are listed on the JSE;
'Massmart shareholders'	Holders of the ordinary shares of 1 cent each and/or the 'A' convertible redeemable non-cumulative participating preference shares of 1 cent each and/or the 'B' convertible redeemable non-cumulative participating preference shares of 1 cent each in the issued share capital of Massmart;
'Notice'	This notice relating to the sale of shares to the black non-executive Directors;
'this document'	The document of which this Notice forms part, being the 2008 Annual Report to members of Massmart, dated 1 October 2008;
'the transaction'	the sale of an aggregate of 100 000 treasury shares to the black non-executive Directors; and
'treasury shares'	Massmart shares in the issued share capital of Massmart held as treasury shares by Massmart Management & Finance Company (Proprietary) Limited (Registration number 1992/004084/07), a wholly-owned subsidiary of Massmart.

1. Introduction and rationale

The Board considers it appropriate to assist its black non-executive Directors to become shareholders in the Company. When the BEE employee share trust schemes were implemented in 2006, the black non-executive Directors were not included as the Board was of the view that the design of those schemes was geared more generally to the Group's staff. It is now proposed that the five designated black persons will each be given the opportunity to purchase 20 000 ordinary shares at par (which shares will represent 0,05% in aggregate of Massmart's total issued share capital after the sale) and be restricted in the sale of these shares – half for three years and half for five years.

The Company regards the cost of this transaction as part of the engagement cost of these Directors over the five-year period in addition to their annual fees. The Board has considered the effect of this sale of treasury shares on the continued independence of the Directors and believes that the limited size of the transaction and its once-off nature are sufficient to ensure their continued ability to act independently on the Board.

In accordance with the provisions of section 38 of the Companies Act, Massmart shareholders are required to pass a special resolution as the sale of treasury shares constitutes the giving of financial assistance by a subsidiary of the Company. Massmart shareholders will be requested to vote separately on resolutions, authorising the sale of treasury shares to each of the directors concerned, as specified in paragraph 3 below.

In addition, in order to comply with the Listings Requirements, Massmart shareholders will be requested to consider and vote on a resolution authorising the sale of these treasury shares to the five designated black persons in the manner set out in these requirements. Accordingly, the resolutions necessary to implement this initiative have been proposed as part of the resolutions to be placed before shareholders at the annual general meeting, the notice convening which is included in this document.

Pursuant to the Listings Requirements Massmart will only be entitled to implement the sale of the treasury shares which are the subject of ordinary resolution number 11 if that resolution is passed by a majority of 75% or more of the votes cast by all Massmart shareholders present and voting at the annual general meeting, excluding any votes cast by the five designated black persons and the Massmart Holdings Limited Employee Share Trust.

2. Salient features of the transaction

The salient features of the transaction include the following:

- The Massmart shares to be sold to the Massmart directors named in paragraph 3 below rank pari passu with the existing ordinary shares in the issued share capital of Massmart and will be sold at their par value, being 1 cent per share.
- At the current share price (R76,50), this represents shares worth a total of R7,65m, or R1,53m per director.
- The shares will have full voting and dividend rights.
- The shares will be released to the directors in equal tranches at the end of year three and year five from date of sale.
- The date of sale will be three days after the Wednesday, 26 November 2008 annual general meeting.
- The sale of shares is subject to approval of the shareholders at the annual general meeting.
- If a director is dismissed for an act of wrongdoing, or is not re-elected by shareholders at the annual general meeting of the company following an act of wrongdoing, any unreleased shares will be forfeited.
- If a director dies or is incapacitated during his/her term in office, then the remaining unreleased shares will be released to him/her or to his/her estate.
- If a director resigns from the Board before the third anniversary of the sale date, that director's shares will be forfeited to the Company.
- If a director resigns from the Board after the third anniversary of the sale date, then all unreleased shares shall be released to that director, but those shares may not be disposed of for a period of at least six months from date of resignation.

The shares to be sold are treasury shares and are currently listed on the JSE.

3. Related-party considerations

The following black non-executive directors of Massmart will each be entitled to purchase 20 000 Massmart ordinary shares with a par value of 1 cent each:

Zitulele Luke Combi

Kuseni Douglas Dlamini

Nolulamo Nobambiswano Gwagwa

Phumzile Langeni

Dawn Noncebe Merle Mokhobo

A short resumé of each director can be found on pages 11 to 13.

In terms of the Listings Requirements, if treasury shares are used, such use must comply with the Listings Requirements as if such use was a fresh issue of shares. Therefore, the sale of shares for cash to directors of Massmart must comply with the Listings Requirements for a specific issue of shares for cash. In terms of these requirements:

- Massmart has appointed Deloitte & Touche to provide an independent fairness opinion on the terms of the sale.
- The sale of shares is subject to the achievement of a 75% majority of the votes cast at the AGM on the respective resolutions by all shareholders present or represented by proxy at the annual general meeting, excluding the directors participating in the sale of shares for cash, and their associates and the Massmart Holdings Limited Employee Share Trust.

The black non-executive Directors are classified as related parties in terms of the Listings Requirements, although the aggregate value of the transaction falls below the Listings Requirements' threshold of a small related party transaction. Messrs ZL Combi and KD Dlamini and Mmes NN Gwagwa, P Langeni and DNM Mokhobo will therefore refrain from voting on the resolutions in terms of which the sale of shares will be implemented, and have instructed their associates, if relevant, to do the same.

The remuneration of the black non-executive Directors will not change as a result of this transaction.

4. Interests of the Directors

The interests of the Massmart directors, including the black non-executive directors, in the ordinary shares of Massmart are set out on page 107.

The interests of the black non-executive Directors in this sale of treasury shares for cash are disclosed in paragraph 3 above. None of the directors of Massmart have been materially interested in any transaction which occurred during the current or immediately preceding financial year, or during an earlier financial year and which remains in any respect outstanding or unperformed.

5. Financial effects of the sale of shares

The sale of treasury shares will have a negligible effect on the net asset value per share, the net tangible asset value per share, the earnings per share and the headline earnings per share of Massmart. For this reason pro forma effects of the transaction are not shown.

The par value of the shares sold, being an aggregate amount of R1 000, will be paid by the black non-executive Directors. All other costs will be borne by Massmart. The estimated costs involved in effecting the transaction include:

Capacity	Provider	Amount
Sponsor	Deutsche Securities SA (Proprietary) Limited	100 000
Independent expert	Deloitte & Touche	80 000
Legal adviser	Edward Nathan Sonnenbergs	25 000
SA Revenue Service	Issue duty	100
Transfer secretaries	Computershare Investor Services (Proprietary) Limited	250
Total		**R205 350**

6. Opinion of the board

The Board of Directors of Massmart, excluding the five black non-executive directors concerned, has considered and approved the proposed sale of treasury shares. In doing so, the non-conflicted Board members have taken into account all the factors surrounding the sale of treasury shares and the terms at which the sale is to take place, and they are of the opinion that the sale is fair insofar as the shareholders of Massmart are concerned. In arriving at this opinion, the non-conflicted members of the Board have taken into account the fairness opinion received from Deloitte & Touche. Deloitte & Touche has provided Massmart with the opinion on pages 186 to 187.

Deloitte & Touche have given, and have not withdrawn, their consent to the issue of this Notice including references to their fairness opinion. This consent is included in the letter from Deloitte & Touche referred to in paragraph 10 below.

7. Directors' responsibility statement

The Directors, whose names and details are given on pages 11 to 13 of this document, collectively and individually accept full responsibility for the accuracy of the information given, and certify that, to the best of their knowledge and belief, there have been no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this annexure, read together with the rest of this document, contains all the information required by the Listings Requirements.

8. Issue of securities over the last three years

Massmart has made the following allotments over the last three years:

- 9 September 2005 – 100 000 ordinary shares were issued to the Employee Share Trust.
- 23 May 2006 – 1 300 000 ordinary shares were issued to the Employee Share Trust.
- 1 October 2006 – 20 000 000 preference shares were issued to the Thuthukani and Black Scarce Skills Trusts.

9. Share price history

Quarterly

Date	High (cents)	Low (cents)	Volume
30/09/06	5 797	4 300	56 093 985
31/12/06	7 072	5 605	67 637 237
31/03/07	8 800	6 702	45 538 999
30/06/07	9 997	8 271	63 082 226
30/09/07	9 724	7 675	55 492 580
31/12/07	8 900	6 815	92 013 595
31/03/08	7 480	6 299	64 481 442
30/06/08	7 650	5 910	38 188 511
30/09/08	8 699	5 650	50 095 872

Monthly

Date	High (cents)	Low (cents)	Volume
31/08/07	9 200	7 675	21 894 730
30/09/07	9 255	8 100	12 836 704
31/10/07	8 900	7 764	32 687 165
30/11/07	8 300	6 815	35 748 742
31/12/07	7 600	6 903	23 577 688
31/01/08	7 400	6 299	34 100 386
29/02/08	7 480	6 650	16 393 850
31/03/08	7 467	6 323	13 987 206
30/04/08	7 475	6 604	10 808 799
31/05/08	7 650	6 827	14 376 648
30/06/08	7 100	5 910	13 003 064
31/07/08	7 573	5 650	19 016 265
31/08/08	8 330	6 980	19 594 059

Daily

Date	High (cents)	Low (cents)	Volume
01/09/08	8 321	8 026	663 677
02/09/08	8 350	8 048	1 006 291
03/09/08	8 445	8 154	348 172
04/09/08	8 467	8 200	1 199 462
05/09/08	8 699	8 180	2 072 789
08/09/08	8 600	8 400	645 950
09/09/08	8 600	8 455	1 931 390
10/09/08	8 600	8 351	1 474 684
11/09/08	8 569	8 050	994 186
12/09/08	8 185	7 914	1 148 947
15/09/08	8 149	7 600	1 246 850
16/09/08	7 700	7 517	3 317 009
17/09/08	7 899	7 531	953 871
18/09/08	7 723	7 511	1 449 126
19/09/08	8 000	7 550	1 387 260
22/09/08	8 148	7 505	386 874
23/09/08	7 990	7 512	743 975
25/09/08	7 875	7 351	568 048
26/09/08	7 700	7 500	165 460
29/09/08	7 659	7 100	521 793

10. Documents available for inspection

Copies of the following documents will be available for inspection at any time during normal business hours from 1 October 2008, until the close of the annual general meeting at 16 Peltier Drive, Sunninghill Ext 6, South Africa:

10.1 the Memorandum and Articles of Association of the Company

10.2 the audited annual financial statements of the Company for the last three years ended 30 June 2008

10.3 the signed agreements between the Company, Massmart Management & Finance Company (Pty) Ltd and the black non-executive Directors

10.4 the signed fairness opinion referred to in paragraph 6 above

10.5 the trust deeds applicable to the Thuthukani Trust and the Black Scarce Skills Trust

10.6 this Notice, signed on behalf of the Directors.

Fairness opinion by an Independent Professional Expert

1 October 2008

The Directors
Massmart Holdings Limited
Massmart House
16 Peltier Drive
Sunninghill Extension 6
Sandton
2196

Attention: Mr Ilan Zwarenstein

Dear Sirs

Fairness opinion on the proposed sale of Massmart ordinary shares to certain black non-executive Directors of Massmart Holdings Limited ("Massmart" or "the company")

Introduction

Massmart Management and Finance (Proprietary) Limited ("MMF"), a wholly owned subsidiary of Massmart, has entered into an agreement with five of Massmart's black non-executive Directors to sell 100 000 Massmart ordinary shares, currently held by MMF as treasury shares, to them at their par value of 1 cent per share ("the transaction").

In terms of section 5.51 of the Listings Requirements ("Listings Requirements") of the JSE Limited ("JSE"), as the Massmart shares are to be sold at their par value, which is at a discount to the weighted average traded price of Massmart shares on the securities exchange operated by the JSE measured over the 30 business days prior to the date that the sale of the Massmart shares is agreed, a fairness opinion is required from an independent professional expert acceptable to the JSE on the terms and conditions of the transaction. Furthermore, in terms of the Listings Requirements, as the transaction is with related parties, a fairness opinion is required.

As a consequence of the above, the directors of Massmart have appointed the Corporate Finance division of Deloitte & Touche to provide the required opinion, indicating whether the transaction is fair to all the shareholders of Massmart.

Scope and limitations of review

The scope of our work was limited to the matters set out herein.

Our procedures and enquiries did not include verification work nor did the scope of our work constitute an audit in terms of statements of International Standards on Auditing. Accordingly, we do not express any opinion on the financial data reviewed by ourselves.

Our fairness opinion does not purport to cater for individual shareholder positions but rather the general body of Massmart shareholders. Each Massmart shareholder's decision may be influenced by their particular circumstances. We suggest that a shareholder should consult an independent advisor if they are in any doubt as to the merits of the transaction considering their personal circumstances.

Information utilised and procedures carried out

In arriving at our opinion, we have considered information from the following sources:

- a strategic analysis of the company, including, *inter-alia*, a summary of the strengths, weaknesses, opportunities and threats applicable thereto as well as details regarding market share and market growth rates
- sale of shares agreement between MMF and the black non-executive Directors entered into pursuant to the transaction
- the forecast financial information of Massmart for its financial year ending 30 June 2009, prepared by management
- the historic financial information of Massmart for its financial years ended 30 June 2007 and 2008
- recent analysts' reports on Massmart and the industry in which it operates

- review of publicly available information on emoluments payable to black non-executive directors by other entities listed on the securities exchange operated by the JSE
- a price earnings multiple valuation of Massmart ordinary shares which we have prepared to estimate the pecuniary benefit to be received by the black non-executive Directors pursuant to the transaction

We consider a comparative earnings multiple valuation approach to be appropriate in this instance as the shares of Massmart and its peers are widely traded.

Where practical, we have corroborated the reasonability of the information provided to us for the purpose of our opinion, including publicly available information, whether in writing or obtained in discussion with management of Massmart.

Our approach to considering the transaction

For the purposes of our opinion, fairness was based primarily on a quantitative assessment. In considering the transaction, we performed a benchmarking exercise on the estimated pecuniary benefit to be received by the black non-executive Directors pursuant to the transaction, compared to the benefit received by other black non-executive directors involved in similar recent transactions. In addition, we compared the emoluments paid by Massmart to its black non-executive Directors to emoluments paid by other entities listed on the securities exchange operated by the JSE to their black non-executive directors.

In estimating the pecuniary benefit to be received by the black non-executive Directors pursuant to the transaction, we performed a valuation of Massmart ordinary shares. The key external value driver of our valuation is forecast levels of consumer spending and the key internal value driver of our valuation is new store openings planned by Massmart.

The transaction would be considered fair to Massmart shareholders if the aggregate of the pecuniary benefit to be received by the black non-executive Directors of Massmart as a consequence of the transaction and their current emoluments received from Massmart is less than or equal to the emoluments paid by other entities listed on the securities exchange operated by the JSE to their black non-executive directors.

Opinion

We determined that the transaction brings the emoluments that Massmart pays to its black non-executive Directors in line with emoluments paid to other black non-executive directors by other entities listed on the securities exchange operated by the JSE, taking into account the difference between the sale price of the shares to be sold and our market valuation of the Massmart shares.

Based upon and subject to the aforegoing, we are of the opinion that the terms and conditions of the transaction are fair to the shareholders of Massmart.

Our opinion is based upon the market, regulatory and trading conditions as they currently exist and can only be evaluated as at the date of this letter. It should be understood that subsequent developments may affect our opinion, which we are under no obligation to update, revise or re-affirm.

Limiting conditions

Forecasts relate to uncertain future events and are based on assumptions, which may not remain valid for the whole of the forecast period. Consequently, forecast financial information cannot be relied upon to the same extent as that derived from audited financial statements for completed accounting periods. We express no opinion as to how closely actual results will correspond to projections made by the management of Massmart and made available to us during the course of our review.

Our procedures and inquiries did not constitute an audit in terms of International Standards on Auditing. Accordingly, we cannot express an audit opinion on the financial data or other information used in arriving at our fairness opinion.

Independence

We confirm that we have no financial interest in Massmart, MMF and the outcome of the transaction. Furthermore, we confirm that our professional fees are not contingent upon the successful conclusion of the transaction and are payable in cash.

Deloitte & Touche, of which Deloitte & Touche Corporate Finance forms a part, is appointed as the independent auditor of Massmart and MMF.

Consent

We hereby consent to this letter lying open for inspection at the registered office of Massmart and references thereto in the 2008 Annual Report of Massmart in the form and context in which they appear.

Yours faithfully



David McDuff
Partner

Deloitte.

Administration and financial calendar

Company Secretary

I Zwarenstein, CA(SA)

Contact details

Registered office
Massmart House
16 Peltier Drive
Sunninghill Ext 6
Sandton
2191

Postal address
Private Bag X4
Sunninghill
2157

Telephone number
+ 27 (0) 11 517 0000

Facsimile number
+ 27 (0) 11 517 0020

www.massmart.co.za

Indicators

Company registration number
1940/014066/06
(incorporated in South Africa)

JSE share code
MSM

ISIN code
ZAE000029534

Corporate partners

Transfer secretaries
Computershare Investor Services (Pty) Ltd
70 Marshall Street
Johannesburg
2000

Principal bankers
Nedbank Group Limited
ABSA Bank Limited
The Standard Bank of South Africa Limited
First National Bank
(A division of FirstRand Bank Limited)

Auditors
Deloitte & Touche

Corporate law advisors
Edward Nathan Sonnenbergs

Lead sponsor
Deutsche Securities

Financial calendar

Financial year-end
June

Annual report
October

Annual general meeting
November

Interim report
February

Dividends

Declared	
Interim	February
Final	August

Payable	
Interim	March
Final	September

Form of proxy

For use by certificated and 'own name' dematerialised shareholders only
Massmart Holdings Limited
Registration number 1940/014066/06
JSE share code: MSM
ISDN code: ZAE000029534

I/We (Please print names in full) .....

of (address) .....

being a member/members of the abovementioned Company and holding ..... ordinary shares and/or .....

preference shares in the Company hereby appoint .....

or failing him/her, ... or failing him/her, the Chairman of the annual general meeting as my/our proxy to vote for me/us on my/our behalf at the annual general meeting of the Company to be held at 08:30 on Wednesday, 26 November 2008 at Massmart House, 16 Peltier Drive, Sunninghill Ext 6, Sandton, and at every adjournment of that meeting.

Signed at ..... this ..... day of ..... 2008.

Signature.....

Please indicate with an "X" in the appropriate space below how you wish your vote to be cast. If you return this form duly signed, without any specific directions, the proxy shall be entitled to vote as he/she thinks fit.

	In favour of resolution		Against resolution		Abstain from voting	
	Ordinary shares	Preference shares	Ordinary shares	Preference shares	Ordinary shares	Preference shares
Ordinary resolutions						
1. Adoption of the annual financial statements						
2. Re-election of Mr IN Matthews to the Board of Directors						
3. Re-election of Ms DNM Mokhobo to the Board of Directors						
4. Re-election of Mr GM Pattison to the Board of Directors						
5. Re-election of Mr MJ Rubin to the Board of Directors						
6. Re-election of Mr CS Seabrooke to the Board of Directors						
7. Approval of the non-executive directors' annual remuneration						
8. Re-election of Messrs Deloitte & Touche as the Company's auditors						
9. Placement of the unissued ordinary share capital under the control of the directors						
10. Authorisation for the directors to issue ordinary shares for cash, limited to 5% of the shares in issue						
11. Authorisation for the sale of 100 000 shares to the black non-executive Directors						
Special resolutions						
1. Authorisation for the Company to buy back its own shares						
2. Authorisation for the giving of financial assistance for the purchase of shares by the black non-executive Directors						

A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company. Proxies must be lodged at the registered office of the Company not less than 48 (forty-eight) hours before the time for holding the meeting.

Notes to the proxy

1. A form of proxy is only to be completed by those shareholders who are:

   1.1 holding shares in certificated form; or

   1.2 recorded on the subregister in dematerialised electronic form in 'own name'.

2. If you have already dematerialised your ordinary and/or preference shares through a Central Securities Depository Participant ("CSDP") or broker and wish to attend the annual general meeting, you must request your CSDP or broker to provide you with a letter of representation or you must instruct your CSDP or broker to vote by proxy on your behalf in terms of the agreement entered into between yourself and your CSDP or broker.

3. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space provided. The person whose name stands first on the form of proxy and who is present at the annual general meeting of shareholders will be entitled to act as proxy to the exclusion of those whose names follow.

4. A member's instructions to the proxy must be indicated by the insertion of the relevant numbers of votes exercisable by the member in the space provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the member's votes exercisable thereat. A member or the proxy is not obliged to use all the votes exercisable by the member or by the proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the member or by the proxy.

5. Forms of proxy must be lodged with or posted to the Company's registered office, Massmart House, 16 Peltier Drive, Sunninghill, Ext 6, Sandton, 2191 (Private Bag X4, Sunninghill, 2157), to be received no later than 08:30 on Monday, 24 November 2008.

6. The completion and lodging of this form of proxy will not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.

7. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity or other legal capacity must be attached to this form of proxy, unless previously recorded by the transfer secretaries or waived by the Chairman of the annual general meeting.

8. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.

9. Notwithstanding the aforegoing, the Chairman of the annual general meeting may waive any formalities that would otherwise be a prerequisite for a valid proxy.

10. If any shares are jointly held, the first name appearing in the register shall, in the event of any dispute, be taken as a member.