



# Operational Review

**CLOCKWISE:** Employees representing Massbuild, Massdiscounters, Masswarehouse and Masscash.

South African CPIX averaged 5,4% for the 2007 financial year while national Food inflation was higher at 8,2%.

# The Economy – A Backward Glance

Broadly speaking, the higher Food inflation assisted Masscash while the tightening interest rate environment depressed sales growth in Massdiscounters.

South African consumer confidence as measured by the Stellenbosch BER peaked in the first quarter of 2007 but eased in the second quarter.

At the beginning of the June 2007 financial year the South African economic environment was positive but latterly, as interest rates were tightened, it became benign at best and began to adversely affect consumer confidence and spending.

During the financial year to June 2007, the Rand/US Dollar exchange rate averaged R7,22, with a high of R7,92 and a low of R6,74. This was weaker than the R6,42 average for the June 2006 financial year but the feed-through effect into South African inflation was muted.

Consumer inflation, measured by CPIX (being inflation excluding interest), averaged 5,4% for the financial year, with a low of 4,9% in February and a high of 6,4% in June. Within this measure, average national Food inflation was higher at 8,2%. The higher Food inflation was primarily caused by supply-side constraints, particularly in commodities. Other significant contributors to CPIX were Services and Fuel & Energy costs which averaged 5,0% and 9,2% respectively.

Given the South African Reserve Bank's inflation-targeting mechanism, this higher inflation resulted in five interest rate increases totalling 2,5%. The first of these was in August 2006 and the last in August 2007. Interest rates increased 2,0% during Massmart's 2007 financial year.

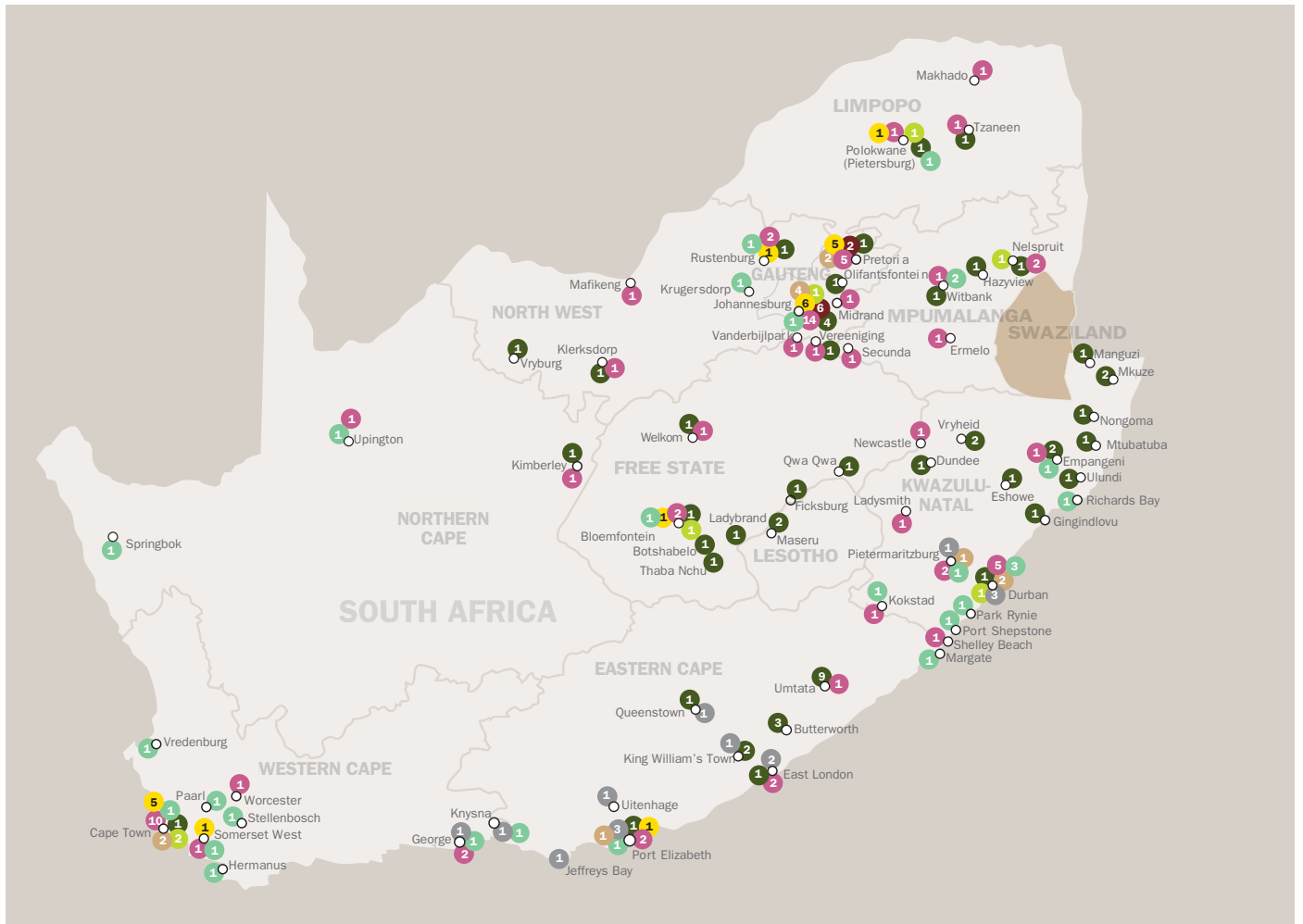
The higher interest rates did not, initially, affect South African consumer spending as measured by Personal Consumption Expenditure (PCE). Growth in PCE was reported at 7,6% quarter-on-quarter annualised in the third quarter of the 2006 calendar year but had declined to 5,5% by the second quarter of the 2007 calendar year.

With this economic backdrop, South African consumer confidence as measured by the Stellenbosch Bureau of Economic Research peaked in the first quarter of 2007 but had eased in the second quarter.

The broad effects of the above on the Group were twofold: the higher Food inflation increased nominal sales in the Group's wholesale food businesses while the tightening interest rate environment slowed the sales of General Merchandise in Game.

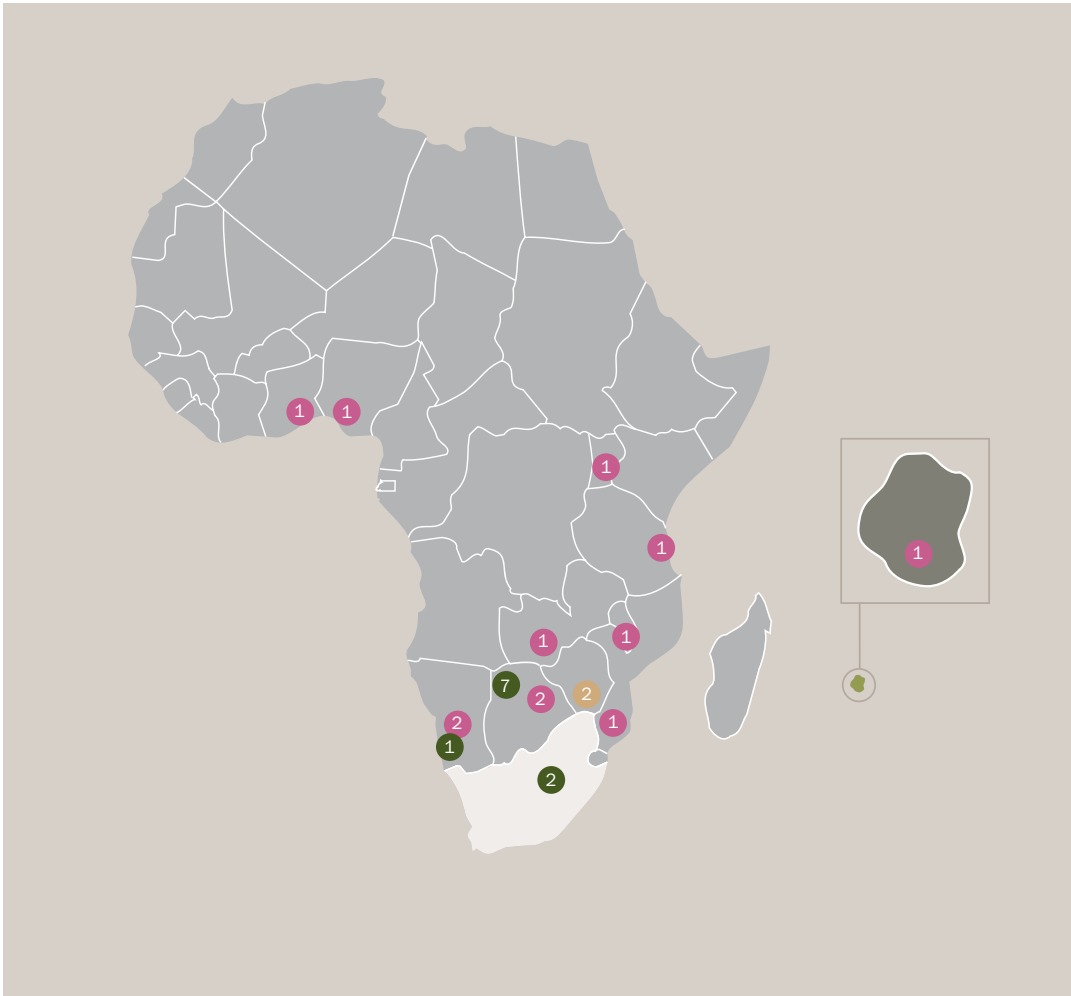
Our thanks to Mr. Michael Biggs, Deutsche Bank's South African economist, for his assistance with this note.

# Store Location Map



Divisional/chain store distribution

Divisions	Stores by Chain	Inside South Africa	Outside South Africa	Total
Massdiscounters	● Game	70	12	82
	● Dion (including 2 Dion Wired stores)	8	—	8
Masswarehouse	● Makro	12	—	12
Massbuild	● Builders Warehouse	21	—	21
	● Builders Trade Depot	28	—	28
	● Builders Express	15	—	15
Masscash	● CBW	55	10	65
	● Jumbo	7	—	7
<b>Total</b>		<b>216</b>	<b>22</b>	<b>238</b>



## International stores

Chain Country	Number of stores	City
<b>Game</b>		
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
<b>Makro</b>		
Zimbabwe *	2	Bulawayo and Harare
<b>CBW</b>		
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 54 as their results have not been consolidated. See note 8 on page 135 of the financial statements for details.

# Massdiscounters Divisional Review



**Highlights include...**

Sales of R9,4 billion, reflect 15,1% real growth

Profit before tax of R672,2 million and a 7,1% return on sales

Ten stores opened in South Africa and three in Africa

Total trading space increased by 7,6% to 346 387 m<sup>2</sup>

ABOVE: Jan Potgieter, Managing Director of Massdiscounters, in the new Dion Wired store in Fourways, Johannesburg.

### At a glance...

26 stores acquired 1 July 1998

Now 82 stores

Operating in RSA, Botswana, Namibia, Mauritius, Mozambique, Uganda, Zambia, Nigeria, Malawi, Tanzania, Ghana

General merchandise and non-perishable groceries

LSM 5 – 10



20 stores acquired 31 May 1993

Now 8 stores

Operating in Gauteng province of RSA

General merchandise

LSM 6 – 10



Massdiscounters comprises 90 retail discount stores offering a wide range of general merchandise and non-perishable groceries to customers seeking value. 82 Game stores trade in South Africa, Namibia, Botswana, Zambia, Uganda, Mozambique, Nigeria, Mauritius, Malawi, Tanzania and Ghana. Six Dion stores and two Dion Wired stores trade in Gauteng, South Africa.

#### Grant Pattison (36)

BSc (Eng)  
Chairman

#### Guy Hayward (42)

BCom, CTA, CA(SA)  
Non-executive Director

#### Jan Potgieter (38)

BCompt (Hons), CTA, CA(SA)  
Managing Director  
Joined Massdiscounters 2005

#### Mark Turner (37)

BCompt (Hons), CA(SA)  
Marketing Director  
Joined Massdiscounters 2006

#### Rob Barrell (50)

Store Operations Director  
Joined Game 1981

#### John Hart (40)

BCom, MBA  
Systems and  
Supply Chain Director  
Joined Massdiscounters 2005

#### Tyrone Vieira (35)

Merchandise Director  
Joined Dion 1991

#### Pearl Maphoshe (39)

BA, MA  
Human Resources Director  
Joined Massdiscounters 2006

Chain	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	70	11 Greenstone mall (Gauteng, Johannesburg) Festival Mall (Gauteng, Johannesburg) Soweto (Gauteng, Johannesburg) Cape Gate (Western Cape) Mossel Bay (Western Cape) Paarl (Western Cape) Uppington (Northern Cape) Umtata (Eastern Cape) Blantyre (Malawi) Accra (Ghana) Dar es Salaam (Tanzania)	3 Eastgate Mall (Gauteng, Johannesburg) Northgate Mall (Gauteng, Johannesburg) Southgate Mall (Gauteng, Johannesburg)	-2 Bruma (Gauteng, Johannesburg) La Lucia (KZN, Durban)	82
Dion	10	2 Dion Wired – Centurion (Gauteng, Johannesburg) Dion Wired – Fourways (Gauteng, Johannesburg)	-3 Eastgate mall (Gauteng, Johannesburg) Northgate mall (Gauteng, Johannesburg) Southgate mall (Gauteng, Johannesburg)	-1 Edenvale (Gauteng, Johannesburg)	8

# Massdiscounters Divisional Review

## Overview

The Game brand is a trusted icon of general merchandise and non-perishable groceries for a broad sector of the population in their respective trading territories. Comparable store sales grew 6,8%, with product inflation averaging 1,3% over the year.

We have decided to discontinue the original Dion format and will have closed or converted all Dion stores to Game by June 2008. This decision gave rise to an after-tax impairment charge of R11,9 million.

During the year, Game continued its aggressive new store rollout programme, opening 13 new stores (three of those in African territories). Game trades from large stores (up to 6 000 m<sup>2</sup>) and the newer smaller-format stores (3 200 m<sup>2</sup>), whose location is determined by site availability and researched local market needs. In addition, three underperforming stores were closed, three converted from Dion to Game and seven refurbished. The performance of these conversions to Game has exceeded our expectations by attracting significantly more customers. Commendably, in the past two years, Game has opened 22 stores – including four in Africa, without disrupting focus on normal trading.

Trading in Africa requires informed understanding of the social, economic and political environment in each territory and between territories. Backed by prudent country and site selection and thorough due diligence processes, Game has successfully completed the first phase of its African expansion with very positive consumer response to its comprehensive offering. We are currently in the process of researching a second-phase African store rollout.

Early in the year, the division discontinued its clothing range to optimise trading space for furniture, outdoor and camping goods.

The combination of a significantly larger comparable store base and aggressive merchandising and marketing initiatives during the year underpinned the sales growth of 16,4%. Due to working capital discipline, effective operating control and good expense management, the division exceeded its targeted return on sales of 7,0% approaching its international benchmark of 7,4%. The operating profit before tax growth of 16,6% was despite a foreign currency translation loss of R18,1 million (prior year R17,6 million gain) and store pre-opening costs of R39,5 million (prior year R24,2 million).

Capital expenditure doubled during the year to R210,9 million, a level set to continue as Game's store development programme and continuous improvement initiatives gain momentum.

A new import warehouse in Pinetown, near Durban, was successfully opened. The pilot phase of a new supply chain model for Massdiscounters is under way with a regional distribution centre being constructed in Cape Town. This distribution centre will service the 14 stores in the Western Cape region. An advanced supplier information system is providing better interaction with Game's top suppliers and will be rolled out to the full supplier base.

During the year a new electronic funds transfer system to integrate the in-store switching of credit and debit card was rolled out, which will improve convenience for customers while lowering operating costs.

FROM LEFT: In-store pictures of Game and Dion Wired in Fourways, Johannesburg.



A radio frequency scanning automated stock receipt system has been rolled out to all South African stores. The National Credit Act was implemented smoothly in June 2007 and our credit customers experienced minimal disruption despite the new legislated requirements.

The launch of the first two Dion Wired consumer electronics stores during the 2007 financial year proved popular with Gauteng's shoppers. Dion Wired's sophisticated store layouts and cutting-edge hi-tech and audio-visual product ranges from global brand leaders are supported by delivery, installation, after-sales service and support. Two more stores are planned for the current financial year, potentially expanding to a national footprint in time.

Through innovative store design, aggressive marketing, effective merchandising and rigorous working capital and cost control, Massdiscounters is well positioned to continue entrenching its position as southern Africa's leading general merchandise discounter.

In the last two years Game has opened 22 new stores, including four in Africa.

We were proud of the business innovation displayed in establishing Dion Wired and the IT systems upgrades and improvements.

#### TRADING PROFIT BEFORE TAX RETURN ON SALES

Actual 2007	Previous target	Revised medium-term target	International benchmark 2007
<b>7,3%</b>	7,0%	8,0%	7,4%

The difference between operating and trading profit before tax is the impairment charge.

Massdiscounters		2007	2006	2005	
Sales	Rm	9 424,5	8 095,7	7 396,6	<p>Sales</p>
EBITA	Rm	634,2	546,4	466,4	
EBITA as % sales	%	6,7	6,7	6,3	<p>EBITA</p>
Operating profit before interest	Rm	620,1	546,4	466,4	
Operating profit before interest as % sales	%	6,6	6,7	6,3	
Net finance costs	Rm	52,1	30,0	(1,0)	
Operating profit after interest	Rm	672,2	576,4	465,4	
Operating profit after interest as % sales	%	7,1	7,1	6,3	
Inventories	Rm	1 597,8	1 272,5	1 046,6	
Inventory days	days	84	78	70	
Net capital expenditure*	Rm	210,5	120,3	177,1	
Cash flow from operating activities	Rm	43,2	458,6	304,3	
Number of stores		90	80	72	
Trading area	m <sup>2</sup>	346 387	322 066	297 407	
Average trading area per store	m <sup>2</sup>	3 849	4 026	4 131	
Number of employees		10 681	9 925	9 545	
Sales per store	R000	104 038	101 196	102 731	
Sales per m <sup>2</sup>	R000	27	25	25	
Sales per employee	R000	877	816	775	

\*Net capital expenditure is defined as capital expenditure less disposal proceeds. The ratios have been calculated using year-end balance sheet figures.

# Masswarehouse Divisional Review



## Highlights include...

Sales of R8,6 billion reflect 8,1% real growth

Profit before tax of R525,4 million exceeds 4,0%, the medium-term benchmark

Excellent margin management through optimising merchandise mix, cost control and working capital focus

Total South African trading space maintained at 107 575 m<sup>2</sup>

ABOVE: Kevin Vyvyan-Day, Divisional Chief Executive of Masswarehouse, in the Makro Woodmead store, Johannesburg.

### At a glance...

As a 6-store chain, Makro was the founding entity of Massmart

Now 12 stores

Operating in RSA, Zimbabwe

Food/ liquor/ general merchandise

Liquor and general merchandise LSM 6 – 10 and food LSM 2 – 4



Masswarehouse comprises 12 Makro warehouse club stores, trading in Food, General Merchandise and Liquor in South Africa.

#### Grant Pattison (36)

BSc (Eng)

Chairman

#### Guy Hayward (42)

BCom, CTA, CA(SA)

Non-executive Director

#### Jay Currie (33)

BSc

Non-executive Director

#### Kevin Vyvyan-Day (42)

BCom (Wits), BAcc (Wits), CA(SA)

Divisional Chief

Executive

Joined Makro 2005

#### Bruce Cayzer (47)

Food Director

Joined Makro 1999

#### Douglas Jones (34)

BCom, PGDA, CA(SA)

Financial Director

Joined Makro 2007

#### Derick Kalan (39)

General Merchandise Director

Joined Makro 1986

#### Gert Lourens (53)

Operations Director

Joined Makro 1993

#### Thuli Mpshe (48)

BCom, Postgraduate Certificate in

Business Management

Human Resources Director

Joined Makro 2003

#### Chris Nezar (49)

BCom, MBA

Marketing Director

Joined Makro 1989

Chain	Number of stores at the start of the year	Stores deconsolidated	Number of stores at the end of the year
Makro	14	-2 Bulawayo (Zimbabwe) Harare (Zimbabwe)	12

# Masswarehouse Divisional Review

## Overview

Makro is a unique business model, that straddles most South African consumer segments and provides a complementarity of margin and cash flow resulting from its mix of essential and non-essential categories. This model has proven to be resilient through economic cycles. The stores trade a comprehensive range of food, general merchandise and liquor.

The division recorded excellent results for the year, with higher sales, and improved merchandise mix and well-controlled expenses. Divisional sales grew 14,4% with estimated average product inflation of 4,7%, with no new stores opened.

The financial results for the two Zimbabwean stores were deconsolidated from this division during the year due to government legislation preventing management no longer having effective day-to-day control of that business.

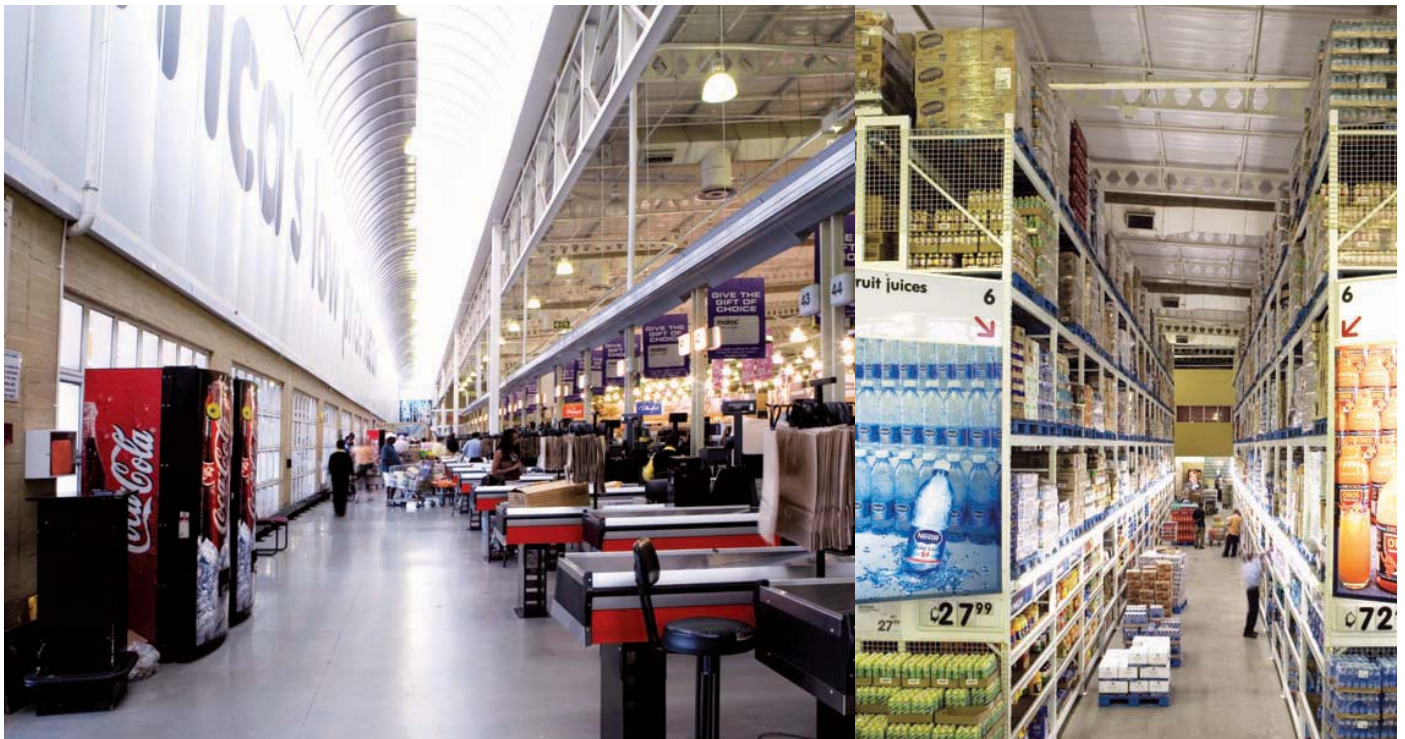
During the year, one store was refurbished at a cost of R21 million. A new store in Pretoria East will open in the fourth quarter of 2008 and plans are well advanced for the opening of two more stores in the short-term. Given the size of Makro stores, finding suitable sites remains a challenge in expanding this division.

Capital expenditure increased to R49,9 million due to the store refurbishment and ongoing enhancements to the information technology systems. Planning and testing for a business-wide SAP system and database upgrade in July 2008 is progressing well.

Changes being implemented in certain of Makro's food sections – from enhancing the aesthetic appeal to a greater variety in pack sizes – are providing the expected return on investment and similar changes will be instituted in other perishable departments. Equally, the success of the pilot phase of a dedicated sporting goods section with expanded ranges has seen the concept rolled out in six stores, and customers are responding positively. Grocer's liquor licences have been awarded to two stores, enhancing convenience for customers who may now shop for selected liquor ranges in the main store.

The strength of Makro's relationships with key suppliers enabled the chain to take a proactive approach to the occasional raw material and product shortages experienced during the year.

FROM LEFT: In-store pictures of Makro Woodmead, Johannesburg.



Given the plethora of anticipated new legislation – for Makro, this relates primarily to amendments to the Liquor Act – exacerbated by uncertainty of timing, the division has prepared for full compliance and continues to work with industry bodies and the authorities to achieve the stated aims of the legislation.

Building on a base of 1,5 million active cardholders, Makro continues to refine its innovative merchandising skills and considerable customer relationship management capability to pursue higher quality sales, while always effectively managing inventory and expenses. Although sales in 2008 will show good growth because of the new store, operating profit will grow at a lower rate than that of 2007 and 2006.

The strength of Makro's relationships with key suppliers enabled us to take a proactive approach to the occasional product shortages.

A new Makro store will open in October 2007, with advanced plans for another two stores.

#### TRADING PROFIT BEFORE TAX RETURN ON SALES

Actual 2007	Previous target	Revised medium-term target	International benchmark 2007
<b>6,1%</b>	4,0%	6,0%	5,0%

The difference between operating and trading profit before tax is the impairment charge.



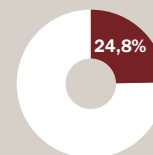
### Masswarehouse

		2007	2006	2005
Sales	Rm	8 640,1	7 661,1	7 178,8
EBITA	Rm	466,7	288,3	173,6
EBITA as % sales	%	5,4	3,8	2,4
Operating profit before interest	Rm	466,7	288,3	173,6
Operating profit before interest as % sales	%	5,4	3,8	2,4
Net finance costs	Rm	58,7	29,6	19,0
Operating profit after interest	Rm	525,4	317,9	192,6
Operating profit after interest as % sales	%	6,1	4,1	2,7
Inventories	Rm	807,2	682,3	620,0
Inventory days	days	40	38	36
Net capital expenditure*	Rm	49,8	34,3	132,7
Cash flow from operating activities	Rm	375,8	289,1	245,6
Number of stores		12	14	14
Trading area	m <sup>2</sup>	107 575	120 435	120 440
Average trading area per store	m <sup>2</sup>	8 965	8 674	8 603
Number of employees		2 570	2 794	2 641
Sales per store	R000	720 010	547 221	512 771
Sales per m <sup>2</sup>	R000	80	63	60
Sales per employee	R000	3 362	2 742	2 718

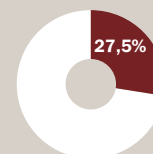
\*Net capital expenditure is defined as capital expenditure less disposal proceeds.

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

Masswarehouse includes Makro Zimbabwe for 2005 and 2006, but not 2007. Details can be found in note 8 in the annual financial statements on page 135.



Sales



EBITA

# Massbuild Divisional Review



### Highlights include...

Sales of R4,9 billion reflect 20,6% real growth

Profit before tax of R379,8 million and a 7,7% return on sales

SAP IT systems implemented in two brands, two regional head offices relocated and divisional re-branding almost complete

Total trading space increased by 2,1% to 294 039 m<sup>2</sup>

ABOVE: Joe Owens, Divisional Chief Executive of Massbuild, in the Builders Warehouse store in Zambezi Drive, Pretoria.

### At a glance...

8 Builders Warehouse stores acquired 28 February 2003,  
3 De La Rey stores acquired 1 June 2005, rebranded to  
Builders Warehouse

Now 21 stores

Operating in RSA

Home improvement supplies/ tools/ building materials

LSM 5 – 10



14 Servistar stores acquired 1 June 2005, rebranded to Builders Express

Now 15 stores

Operating in RSA

Home improvement supplies/ tools/ building materials

LSM 5 – 10



34 Federated Timbers stores acquired 1 June 2005, rebranded to Builders  
Trade Depot

Now 28 stores

Operating in RSA

Building materials/ tools

LSM 5 – 10



Massbuild has 64 outlets, trading in  
DIY, Home Improvement and Builders'  
Hardware, under the Builders  
Warehouse, Builders Express and  
Builders Trade Depot brands in  
South Africa.

#### Grant Pattison (36)

BSc (Eng)  
Chairman

#### Guy Hayward (42)

BCom, CTA, CA(SA)  
Non-executive Director

#### Gareth ("Joe") Owens (58)

Divisional Chief Executive  
Joined Makro 1971 and  
Massbuild 2005

#### Aubrey Cimring (36)

BCom (Hons), CA(SA)  
Deputy Divisional Chief Executive  
Managing Director  
Builders Warehouse  
Joined Massmart 2003 and  
Massbuild 2006

#### Graham Booysen (43)

MBA (Henley)  
Managing Director  
Builders Trade Depot  
Joined Makro 1994 and  
Builders Trade Depot 2006

#### Llewellyn Steeneveldt (38)

BSc Metallurgical (Eng),  
GDE (Ind.Eng.), MBA  
Managing Director  
Builders Express  
Joined Massmart 2002 and  
Massbuild 2005

#### Robbie Best (43)

BCom, CA(SA)  
Director Builders Warehouse  
Joined De La Rey 2003

#### Alison Lambert (49)

BA, HDE  
Systems and  
Supply Chain Director  
Joined Makro 1989 and  
Massbuild 2005

#### Alex Rymaszewski (55)

Store Development Director  
Joined Builders  
Warehouse 2003

Chain	Number of stores at the start of the year	Stores opened	Stores closed	Number of stores at the end of the year
Builders Warehouse	20	1 Century City (Western Cape, Cape Town)	–	21
Builders Express	14	1 Jeffreys Bay (Eastern Cape)	–	15
Builders Trade Depot	31	–	-3 Kakamas (Northern Cape) Gardens (Western Cape, Cape Town) Kenilworth (Western Cape, Cape Town)	28

# Massbuild Divisional Review

## Overview

Trading under the three focused and complementary chains – Builders Warehouse, Builders Express and Builders Trade Depot – the division focuses on home improvement and decorative hardware products, tools, sanitaryware, builders' hardware, tiles and garden services.

- Builders Warehouse is a large-store format (approximately 8 000 m<sup>2</sup>) in major cities and urban areas, aimed at homeowners and those involved in home improvement, small and medium building contractors and the DIY hobbyist. The Western Cape-based De La Rey stores, an identical format, have been re-branded Builders Warehouse and its management incorporated into this chain, which now has 21 stores.
- Builders Express is the re-branded Servistar and operates through 15 smaller stores (approximately 2 000 m<sup>2</sup>) which are being expanded from its traditional base in KwaZulu-Natal and Eastern Cape. Builders Express is focused on homeowners and home improvers, and includes gardening and outdoor ranges.
- Builders Trade Depot, formerly Federated Timbers, is a builders' merchant format trading through 28 outlets, operating from functional low-cost depots, located in selected urban areas and towns, targeted primarily at contractors and tradesmen.

Massbuild caters for the entire South African residential and commercial construction sector. Reinforced by a focused marketing drive and strong supplier relationships, Massbuild's approach of maximising choice and convenience for customers under one roof is delivering significant benefits.

In a year characterised by the consolidation and re-branding of the three 2005 acquisitions, Massbuild grew sales by a very commendable 27,1% with average product inflation of 6,5%.

Aggressive trading created a platform for the division to register significant progress in implementing its strategic initiatives: divisional and regional leadership was strengthened; merchandise skills were augmented; the marketing platform was defined; and IT systems, including point-of-sales, upgraded.

Capitalising on the economies of scale presented by Massbuild, and supported by trained personnel equipped to advise and educate customers, the newly established divisional merchandising department expanded product ranges and made good progress with developing private label and exclusive brands. Environmentally friendly ranges have begun to find favour with ecologically sensitive shoppers, although South African consumers are generally not yet as attuned to conservation issues as, for example, their European counterparts.

FROM LEFT: In-store pictures of Builders Warehouse in Zambezi Drive, Pretoria, and Builders Express in Robindale, Johannesburg.



Capital expenditure for the period was R109,1 million. Apart from once-off re-branding and consolidation costs, eight Builders Warehouse and three Builders Trade Depot stores were refurbished. A Builders Express and a Builders Warehouse store were each opened in Jeffreys Bay, Eastern Cape and Cape Town respectively, and three smaller Builders Trade Depot stores were closed during the year.

Massbuild is well on track to enhance the performance of unique home improvement and building supply stores, underpinned by effective management structures, advanced and uniform systems, intensive training and effective logistics. In 2008 it is expected to make some progress towards its revised medium-term return on sales target of 9,0%.

We finalised the integration of our three complementary but differentiated brands. We are making significant progress with establishing divisional leadership structures, business processes and IT systems.

**TRADING PROFIT BEFORE TAX RETURN ON SALES**

Actual 2007	Previous target	Revised medium-term target	International benchmark 2007
<b>7,7%</b>	8,0%	9,0%	10,0%

The difference between operating and trading profit before tax is the impairment charge.



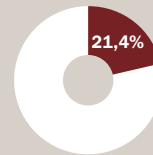
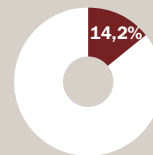
**Massbuild**

		2007	2006	2005
Sales	Rm	4 948,3	3 892,8	1 509,5
EBITA	Rm	363,0	290,4	144,4
EBITA as % sales	%	7,3	7,5	9,6
Operating profit before interest	Rm	363,0	290,4	144,4
Operating profit before interest as % sales	%	7,3	7,5	9,6
Net finance costs	Rm	16,8	6,4	4,4
Operating profit after interest	Rm	379,8	296,8	148,8
Operating profit after interest as % sales	%	7,7	7,6	9,9
Inventories	Rm	829,3	602,4	410,9
Inventory days	days	86	80	146
Net capital expenditure*	Rm	101,2	105,6	47,1
Cash flow from operating activities	Rm	277,5	191,4	57,3
Number of stores		64	65	62
Trading area	m <sup>2</sup>	294 039	287 914	238 919
Average trading area per store	m <sup>2</sup>	4 594	4 429	3 854
Number of employees		6 400	5 125	3 760
Sales per store	R000	77 317	59 889	114 259
Sales per m <sup>2</sup>	R000	17	14	16
Sales per employee	R000	773	760	1 103

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

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

Massbuild includes Builders Warehouse, Federated Timbers, De La Rey and Servistar. For 2005, the one-month figures for Federated Timbers, De La Rey and Servistar, acquired on 1 June 2005, have been excluded when calculating the ratios. The latter three chains are currently being rebranded to Builders Trade Depot, Builders Warehouse and Builders Express respectively.



# Masscash Divisional Review



### Highlights include...

Sales of over R11,8 billion reflect real growth of 5,7%

Profit before tax of R291,7 million and a 2,5% return on sales

Margin management, cost control and working capital continue to improve

Total trading space increased by 1,9% to 246 276 m<sup>2</sup>

ABOVE: Robin Wright, Divisional Chief Executive of Masscash, in the Jumbo Store in Crown Mines, Johannesburg.

### At a glance...

14 CCW stores acquired 1 June 1998, 22 Browns and Weirs stores acquired 1 July 2001  
Two chains combined under CBW format from 1 July 2001

Now 65 stores

Operating in RSA, Lesotho, Namibia, Botswana

Food/ liquor/ groceries

LSM 2 – 6

# CBW

6 stores acquired 1 April 2001

Now 7 stores

Operating in RSA

Food/ groceries/ ethnic cosmetics

LSM 2 – 6



378 members acquired 1 March 1992

Now 574 members and 658 outlets

Operating in RSA, Botswana, Namibia, Swaziland

Food/ groceries

LSM 2 – 6



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

### CBW, Shield and Jumbo

#### Grant Pattison (36)

BSc (Eng)

Chairman

#### Guy Hayward (42)

BCom, CTA, CA(SA)

Non-executive Director

#### Jay Currie (33)

BSc

Non-executive Director

#### Robin Wright (51)

BCom, CA(SA)

Divisional Chief Executive

Founded CCW 1985

#### Neville Dunn (38)

BCom, CA(SA)

Financial Director

Joined CBW 2002

#### Mike Marshall (50)

FCMA

Business Systems and

Process Director

Joined Shield 2004

#### Craig Surmon (45)

Marketing Director

Joined CBW 1987

#### Fred Cresswell (40)

BSc (Civil Eng), MBA

Operations Director

Joined Massmart 2001 and

Jumbo 2002

#### Jane Bruyns (46)

Management Diploma (Henley Bus.

College)

HR Director

Joined Dion October 1994 and

Jumbo June 2005

Chain	Number of stores at the start of the year	Stores acquired	Stores closed	Number of stores at the end of the year
CBW	62	5 Soweto (Gauteng, Johannesburg) City Deep (Gauteng, Johannesburg) Thaba Nchu (Free State) Botshabelo (Free State) Ladybrand (Free State)	-2 Meadowdale (Gauteng, Johannesburg) King Williams Town (Eastern Cape)	65
Jumbo	7	-	-	7

# Masscash Divisional Review

## Overview

With 72 CBW and Jumbo wholesale cash and carry outlets, Masscash is a primary supplier of essential grocery items to a broad base of consumers – from individuals to small traders, entrepreneurs and feeding schemes in the public and private sectors. Its Shield division is a voluntary buying organisation serving some 658 independent food outlets.

During the year, Masscash mitigated the twin challenges of rising inflation and multiple product shortages through superior procurement skills and leverage with suppliers to ensure a steady flow of affordable products to its broad range of customers, particularly those in rural areas.

The division grew sales by 14,4%, with average product inflation of 8,7%, reflecting steady volumes and a slightly increased market share. Operating profit before tax of R291,7 million grew by 34,9% reflecting improving margins from recently implemented regional procurement structures, good expense control and improved working capital. The integration of Jumbo into CBW's management and reporting structures is proceeding well and is expected to be complete before the end of calendar 2007. Regional procurement structures were established, covering all chains, to enhance routes to market.

Management capacity and information systems continue to be strengthened and improved. Jumbo's finance and accounting functions were converted onto the Great Plains IT platform during the financial year and these functions are expected to be combined with CBW in the coming financial year. The development and testing of an enhanced point-of-sale system, to replace several disparate systems in CBW, was completed. Early in the new financial year, this system was successfully piloted and rollout to all Masscash stores will commence shortly.

Good progress is being made with CBW's programme to expand service departments – including meat, bakery, fruit and vegetables – in certain of its stores, and to enhance retail grocery ranges. Private label ranges are also receiving focus to cater more closely for customer needs.

CBW secured several contracts for public and private sector feeding schemes during the year, underscoring the validity of its high-volume/ low-margin business model.

The division acquired Thaba Powersave Cash & Carry during the year, an established and profitable business with three outlets covering the

FROM LEFT: In-store pictures of Multisave in Meyerton, Johannesburg, and Jumbo in Crown Mines, Johannesburg.



broader Bloemfontein area. These outlets use a hybrid model that features a retail and wholesale offering in the same store. This acquisition enhances our regional presence and has allowed us to better understand the strength of this hybrid model which we intend to selectively rollout to the CBW store base.

In recent years, in addition to the above, significant management attention has been given to restoring the trading performances of Jumbo and Shield and these results demonstrate that this has largely been achieved. In the new financial year, the focus will shift to optimising Masscash's trading format to capitalise on its unique positioning in the southern African wholesale/ retail landscape.

The consolidation of CBW, Shield and Jumbo into a unitary Masscash division is proceeding well.

The performances of the three hybrid stores exceeded expectations and excites us about this format's potential.

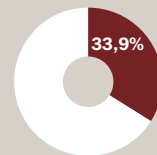
TRADING PROFIT BEFORE TAX RETURN ON SALES

Actual 2007	Previous target	Revised medium-term target	International benchmark 2007
<b>2,6%</b>	3,0%	3,0%	3,0%

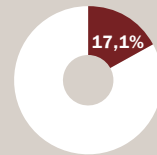
The difference between trading and operating profit before tax is the impairment charge.



Masscash		2007	2006	2005
Sales	Rm	11 794,7	10 314,0	9 296,6
EBITA	Rm	290,0	208,4	207,9
EBITA as % sales	%	2,5	2,0	2,2
Operating profit before interest	Rm	277,8	203,0	207,9
Operating profit before interest as % sales	%	2,4	2,0	2,2
Net finance costs	Rm	13,9	13,2	(0,8)
Operating profit after interest	Rm	291,7	216,2	207,1
Operating profit after interest as % sales	%	2,5	2,1	2,2
Inventories	Rm	765,0	654,1	593,2
Inventory days	days	26	25	25
Net capital expenditure*	Rm	59,8	72,4	45,5
Cash flow from operating activities	Rm	333,7	155,0	3,5
Number of stores		72	69	65
Trading area	m <sup>2</sup>	246 276	241 701	221 112
Average trading area per store	m <sup>2</sup>	3 421	3 503	3 402
Number of employees		4 608	4 375	4 180
Sales per store	R000	133 775	120 104	113 661
Sales per m <sup>2</sup>	R000	39	34	33
Sales per employee	R000	2 560	2 356	2 224



Sales



EBITA

\*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 (i.e. this represents only a portion of the outlets' sales).

The above results exclude amounts relating to the discontinued operation (Furnex). Details can be found in note 3 in the annual financial statements on page 131.

# Channel and Shared Services Collaboration Review

Shared services must respond to Divisional needs and be of higher value than can be sourced externally.

Channel leads and facilitates collaboration across the Group in high impact areas of competence.

We are steadily proving that meaningful collaboration between our four divisions, under the stewardship of resources at the Massmart centre, makes the value of the Group significantly greater than the sum of its parts. This collaboration occurs under two broad sets of activities, referred to internally as Channel and Shared Services.

## Channel

Channel leads and facilitates collaboration between the Divisions by organising forums in particular areas of competence and interest that bring together the very best skills in the Group.

**Each Forum is chaired by a member of the Group Executive Committee tasked with extracting value from that Forum in four ways:**

- **Synergies** through sharing profit-generating and cost-reduction opportunities.
- **Peer review** of performance and the adherence to good standards across the divisions.
- **Shared learning** through peer review and the measurement of internal performance, external market shares and sharing qualitative learning between divisions.
- **Standards and legislative compliance** by our Chains.

Forum performance is measured by the value extracted through collaboration, as recognised by the Divisions, both quantitatively and qualitatively. It is also measured in the quality of the communities that are developed around functional areas across the Divisions.

The Channel has both trading forums and non-trading functional forums.

## Trading forums

The Trading Forums – Food and Liquor; General Merchandise; Cellular; and Home Improvement – focus on the procurement and sale of goods in these broad categories through our stores.

During the year, the Forums continued to drive their now relatively mature agendas, achieving meaningful commercial objectives such as joint strategic supplier reviews, internal product category reviews and enhancing private and exclusive label strategies across our Divisions.

The Home Improvement Forum is the newest forum but has already had a positive impact across the Group.

The Cellular Forum was reorganised and reconstituted to shift its focus from tactical trading issues to strategic concerns with a more material impact on the Group.

## Functional forums

The Functional Forums – Technology, Information and Process; Human Resource; and Operations – focus on the management of skills and the procurement of resources and services required to support key Group-wide activities.

The Human Resource forum has successfully driven shared initiatives across the Group, including Equity Graduates, Scarce Skills and Diversity programmes, while the Technology, Information and Process forum (TIP) has concentrated on several joint procurement and peer-review initiatives that have created significant value for the Group this year. The Operations forum is in its infancy but will become a powerful vehicle to drive synergies within the community of skills and resources tasked with operating Massmart's stores and warehouses.

## Shared Services

Unlike the looser collaboration found in the Channel, Shared Services represents a formal commitment to provide appropriate services from the Massmart centre to more than one Division. 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 service team's relationship with the Divisions is as a service provider – the Divisions are their customers and their reason for existing. Therefore services must at all times strive for excellence and become best of breed in relation to their competitors.

Shared Services currently includes: Supplier Contract negotiation and administration; International Commerce; Internal Audit; Employee Benefits; Group Training; and our new initiative – Private Label management. This latter service will focus on the sustainable management of brands that are private or exclusive to Massmart and shared across trading divisions.