



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

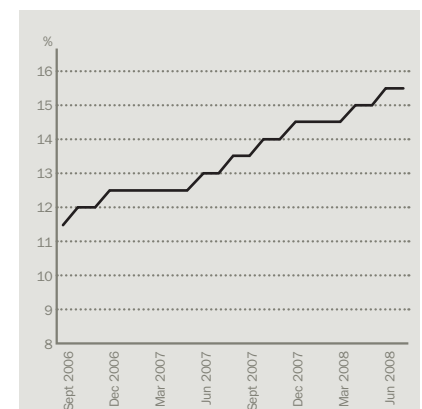
In South Africa, however, the monetary cycle was moving in the opposite direction, in our opinion correctly so. Interest rates had begun climbing in mid-2006 after staying flat for over three years. By the start of Massmart's 2008 financial year, the prime overdraft rate had risen by 2,5 percentage points 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.

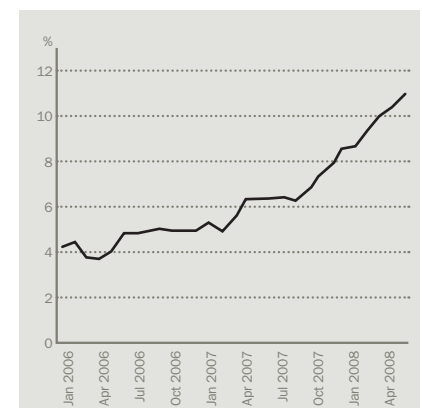
The difficulty is that there is a lag effect between interest rate increases and changes in actual consumer behaviour. This exists because consumers and companies have resources available to them other than debt, from which they can draw before monetary policy actually changes their behaviour. Generally, 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.

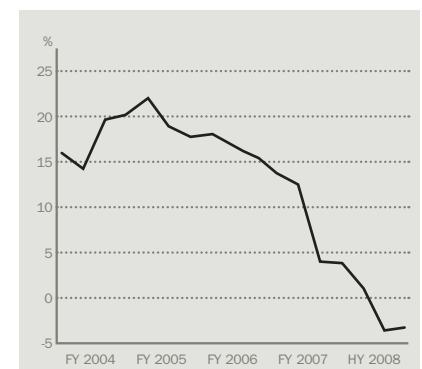
Prime overdraft interest rate %



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.

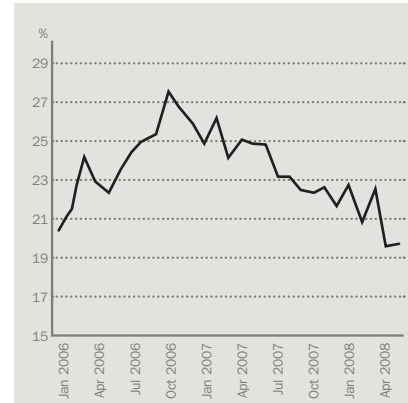
Expectations for the next year

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.

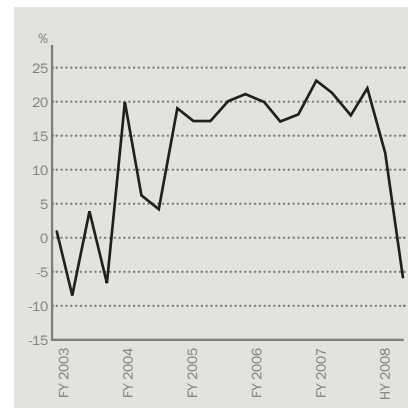
The impact on Massmart of the consumer spending scenario during the financial year was mixed. Massmart's reputation as a high-volume, low-margin retailer attracts consumers who 'trade-down' as a response to the tougher environment. This effect could lead to Massmart increasing market share in durable 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.



- 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



- 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

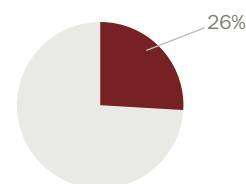
Over R10 billion in sales for the first time

Dion Wired profitable

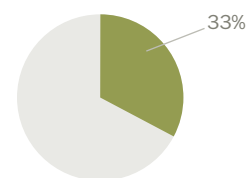
First regional distribution centre opened

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
<i>EBITA as a % of sales</i>	%	7,0	6,7	6,7
Operating profit before interest	Rm	724,5	620,1	546,4
<i>Operating profit before interest as % of sales</i>	%	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
<i>Operating profit after interest as % of sales</i>	%	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 directorates

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.

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%

Highlights

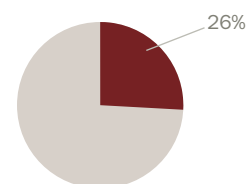
Silver Lakes store opened profitably

Over R10 billion in sales for the first time

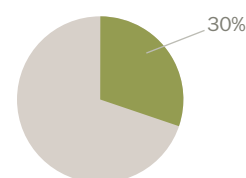
Automatic stock forecast and replenishment system piloted

Two stores' sales were more than R1 billion

Group contribution



Sales



EBITA

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
<i>EBITA as a % of sales</i>	%	6,3	5,4	3,8
Operating profit before interest	Rm	640,2	466,7	288,3
<i>Operating profit before interest as % of sales</i>	%	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
<i>Operating profit after interest as % of sales</i>	%	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, restaurateurs 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 VYYAN-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.



- 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



- 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



- 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

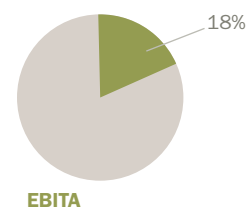
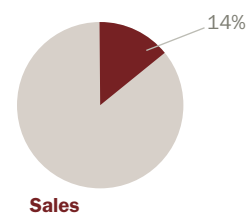
Significant improvement in stock efficiencies

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

7,6%

Medium-term target

9,0%

International benchmark

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
<i>EBITA as a % of sales</i>	%	6,9	7,3	7,5
Operating profit before interest	Rm	390,1	363,0	290,4
<i>Operating profit before interest as % of sales</i>	%	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
<i>Operating profit after interest as % of sales</i>	%	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 through 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



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



- 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

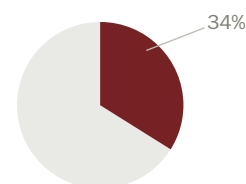
Profit before tax increased by 38,5%

Hybrid strategy significantly advanced

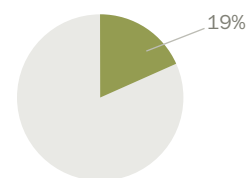
Successful trial of new point-of-sale and back-office system

Several small acquisitions approved

Group contribution



Sales



EBITA

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
<i>EBITA as a % of sales</i>	%	3,0	2,5	2,0
Operating profit before interest	Rm	398,2	277,8	203,0
<i>Operating profit before interest as % of sales</i>	%	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
<i>Operating profit after interest as % of sales</i>	%	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	6
		Nelspruit (Mpumalanga)	

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 directorates

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.

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.

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

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