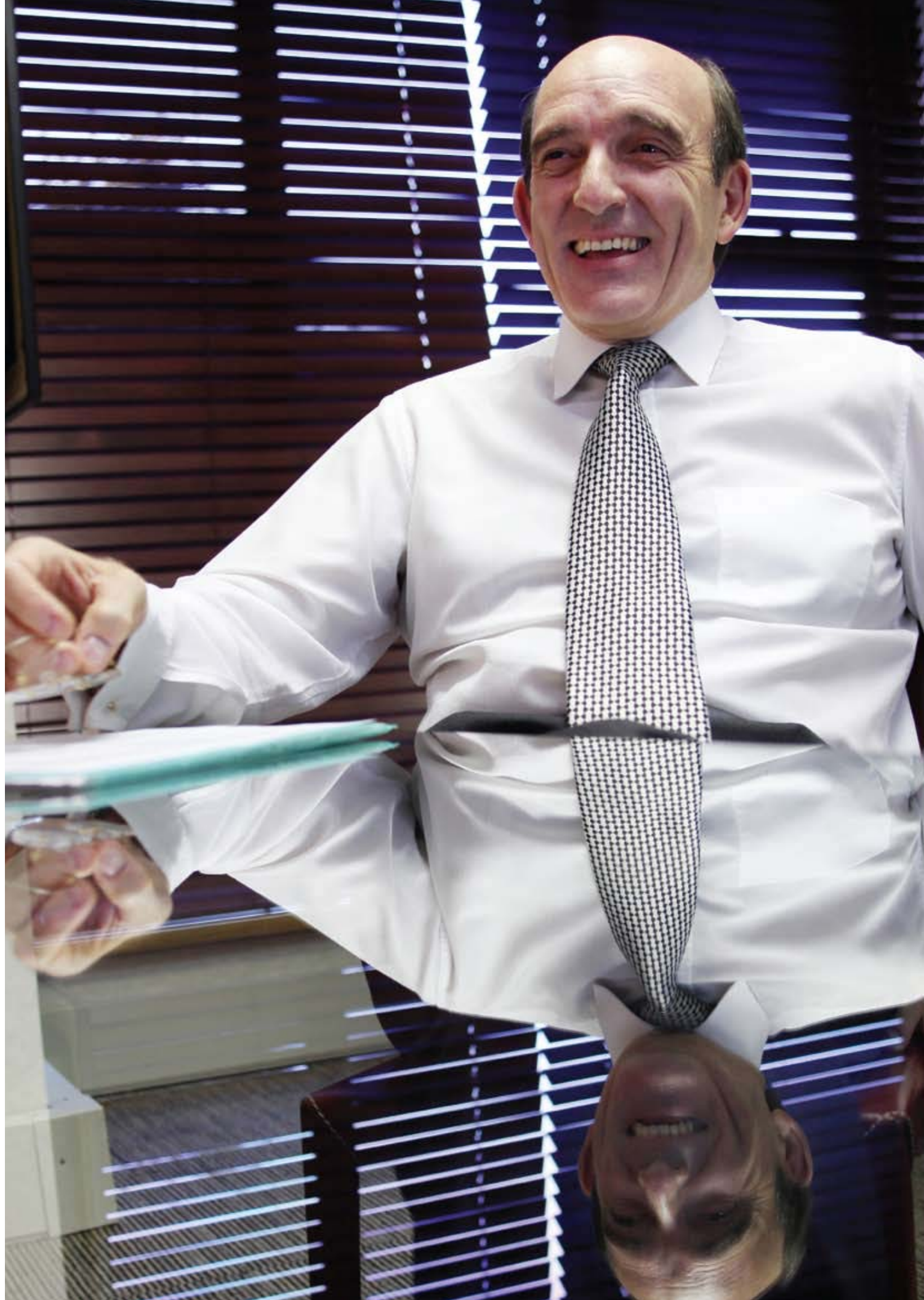




Game Boksburg



Reports to Shareholders



Chairman's review

This is the first time since 1996 that Massmart's earnings per share have declined on the previous comparable period. This metric belies the market penetration of the portfolio, the quality of the underlying assets and the competence and calibre of executive management, each of which improved significantly during a year of challenging trading.

Among the more notable developments coincident with Massmart's reporting period was the nadir of the most serious global financial crisis since the Great Depression, South Africa's first recession in seventeen years, and the transition from the second to the fourth President of our Republic.

The first resulted in the weakening of the Dollar and most African currencies against the Rand, and ultimately a material negative foreign exchange movement on Massmart's reported earnings of 2008. The second resulted in a steep decline in consumer expenditure on durables, which constitute almost half of Massmart's merchandise mix and a greater proportion of profit. The third increased the stridency of populist rhetoric and the vigour of socio-economic demands, both indicative of a more open democracy. Service delivery rioters, striking workers, obstructive taxi owners, and officious youth leaders all contributed to an environment conducive to the first ever protracted dispute between certain Massmart divisions and organised labour.

These and many other issues seized the attention of your Board during a year in which its custodial focus was unwavering. In late 2008, as some of the largest financial institutions in the world collapsed and the market capitalisation of General Motors approached that of Massmart, responsible directors everywhere were reminded that return of capital is more important than return on capital.

While the survival of Massmart was never in question, it is pleasing to report that in the most economically disordered year of my experience, we were able to both enhance the future earnings potential of your company, and render a 41.7% return on average shareholders' equity and a 62.2% return on capital employed.

This was accomplished by balancing the reasonable demands of all stakeholders in a sustainable manner, through continued refinement of our approach to strategy, leadership, and governance.

Balancing stakeholder demands sustainably

A telling legacy of the global financial crisis is the deplorable image of business in the eyes of civil society. The last vestiges of trust have been eroded by appalling, oftentimes criminal behaviour by some business leaders, and blatant short-term self-interest by too many others. The proponents of shareholder supremacy no longer have a voice and society is demanding greater accountability from business in its relationship with all stakeholders.

As a responsible corporate citizen, Massmart's response is to apply the highest standards of ethical conduct in its dealings with all stakeholders. The Group's vision statement defines the perceptions we strive for from specific stakeholders, and the management and Board of Massmart regularly assess our progress in this regard.

Guided by our Code of Ethics, on which we are ready to be called to account at all times, our organisation-wide commitment is to integrity, ethical behaviour and transparency that engenders and maintains trust with all who are touched by our Group. Insofar as shareholders are concerned, this set of annual financial statements is crafted accordingly.

Ethics is at the core of our approach to sustainability, which seeks to ensure that Massmart plays its part in the preservation of our planet for future generations by integrating sustainability practices with business objectives and managing risks arising from economic, environmental and social developments.

Further reading	
More detail on the Group's vision can be found on page	4
MASSMART AT A GLANCE	

Over the past year we were pleased to be recognised for our initiatives and reporting on climate change and environment, human capital, broad-based black economic empowerment, and corporate social investment. Additionally, this year we report for the first time on our sustainability performance in our African operations where our goal is to set sustainability policies that establish minimum standards for social and environmental accountability in the 13 sub-Saharan countries in which we trade north of our borders.

For many years, the leadership of Massmart has been clear that the survival and progress of our corporation can be curtailed by a failure to adequately respond to the reasonable needs of any stakeholder. We are strongly of the view that in an environment of widespread exaggeration, misrepresentation, obfuscation, spin-doctoring and lies by leaders in every field of endeavour, the necessity for business to be seen to be responsive and accountable to all stakeholders in a sustainable manner has never been more necessary.

Strategy

For the leadership of Massmart, strategic thinking is simply the precursor to establishing a defensible competitive position. This occurs at every Massmart Board meeting, where the strategic choices confronting the Group are always discussed. In addition, the annual three-year strategic review provides an opportunity for the Board to work with the Chief Executive and the Executive Committee, to understand debate and shape the strategic agenda and options over the medium term.

As is always the case, this year's strategic review sought to enhance the competitive stance of the existing subsidiaries, enable entry into new categories, formats and territories, and facilitate skills transfer or shared activities that add value to the subsidiaries in excess of their tangible or intangible costs.

The essence of the Massmart value proposition to customers is unchanged. Adherence to a high-volume, low-gross margin, low-cost, business model has enabled the Group to deeply penetrate the general merchandise, home improvement, liquor and wholesale food segments, with extensive ranges at exceptionally low prices. Sales of over R159m per store, gross margins that declined to 18% of sales and expenses that rose only slightly to 13.8% of sales, are indicative of a commitment to this approach over the past year.

A noteworthy example of skills transfer during 2009 was the improvement of the supply chain in all divisions, removing complexity from the ordering, management, storage, movement and display of merchandise, and reducing inventories while improving service levels to customers in a climate of declining sales growth – a remarkable achievement as any shopkeeper will attest.

The Chief Executive's report which follows features a section entitled "Progress on Vision 2012". This provides a comprehensive review of the past year's strategic achievements and an outline of future strategies arising from this year's annual review.

Leadership

Everyone employed by Massmart contributes to its success and progress, and we acknowledge and reward this contribution accordingly. However there are some who are given the responsibility to lead others and to take significant decisions about customers, assets and our people. Their tasks require specific expertise, skills and experience and they are held to a much higher standard of accountability.

Monitoring the attraction, development, motivation and retention of the best available people to fill these positions, is among the Board's greatest responsibilities; one that is carried out through the Chief Executive and the Remuneration and Nominations Committee.

In the quest for an appropriate balance between formal education, commercial acumen, retail and wholesale experience, and succession requirements, changes were made during the year to strengthen the core leadership group comprising the Executive Committee and their direct reports. An increased investment in leadership development, particularly through the Massmart University, has ensured an impressive pipeline of young graduates who will enhance the capacity and diversity of our senior management cadre in time.

Compensation to attract and retain scarce talent remains a challenge to be dealt with sensitively in a country where many are unskilled, unemployed and poor. Massmart's performance correlated compensation policies are evident in the 2009 earnings of directors. The executive directors' total compensation declined by 6.2%, and by 31.1% excluding share benefits. Non-executive directors' compensation was unchanged other than where additional duties were assumed.

Sustainability	
Environment and climate change	
Human capital	
BBBEE	
Corporate social investment	
African operations	
SUSTAINABILITY REPORT	

Further reading	
More detail on the Chief Executive Officer's review can be found on page	29
REPORT TO SHAREHOLDERS	

Governance

A significant portion of this report is devoted to corporate governance. Massmart has approached this discipline from various perspectives apart from our obvious commitment to mitigate risk and comply with the letter and spirit of all laws, regulations and codes of good practice.

Firstly, we see governance as yet another element of our enduring quest for excellence in everything we do. Secondly, we have imbibed and institutionalised corporate governance in a manner that prevents the associated bureaucracy from being intrusive to the day-to-day task of serving stakeholders. Thirdly, we are motivated by the rising standards of corporate governance practice and determined to remain at its forefront. Finally and philosophically, we see discipline and control as a precondition for creativity in any field of endeavour.

We welcome King III and the new Companies Act, our compliance with which will be reported on in the June 2010 annual financial statements.

We welcome too the decision by the Competitions Commission to investigate the large retailers and wholesalers of food and hope that their political expediency in announcing the investigation is matched by their efficiency in concluding it. South Africans need clarity on the reasons for food inflation, most of which reside in a careful analysis of its current decline and the too soon forgotten food deflation of 2004. Our Chief Executive has met with the Commission and will cooperate fully and proactively to that end.

Appreciation

The past year was one in which it would have been easy to falter. The day-to-day pressures of business are heightened in recessionary times and stress can impair judgement and undermine the quality of decisions. This is particularly so in large complex multinational organisations, where devolution of decision-making is necessary to respond rapidly to changes in markets and customers.

The fact that this never happened in Massmart is a tribute to the counsel of a diverse diligent Board, clear calm leadership from the Chief Executive and his colleagues, highly responsive divisional management and 24,518 Massmart employees who cared for our customers and assets with passion and commitment.

Today Massmart is a better company than it was a year ago and I thank them all.

Looking forward

At this time last year my views on the economic cycle underestimated the severity of what transpired. My views on Massmart were more accurate. The manner in which we have weathered the recession confirms the Board's conviction that the assets, resources, capabilities, controls and leadership of Massmart are able to withstand less than favourable circumstances.

While there are tentative signs of a slowing in the deterioration of the real economy, many important metrics and confidence indices continue to reflect the poor state of the highly geared South African consumer. This is unlikely to reverse substantially in 2009 but developments around the World Cup will be stimulatory as will the return to growth of the world economy in 2010. The approach of Massmart's leadership is to closely monitor and rapidly respond to any improvements in consumer spending rather than to predict it.

Finally, our contact with the President and his new administration has revealed clarity and determination both to resolve some of the major maladies of our society such as crime, education, healthcare and poverty, and to do so in consultation and collaboration with the private sector.

We welcome and are supportive of this in the firm belief that many of the capabilities required to capture the full potential of our country exist in business. Our sense moreover is that many companies, like Massmart, will be ready to answer the call.



Mark J Lamberti
Chairman of the Board

5 October 2009

Further reading

More detail on Corporate Governance can be found on page

95

CORPORATE GOVERNANCE



Chief Executive Officer's review

It is a pleasure to present my report to stakeholders in conclusion to a year which will be recorded as one of the most turbulent in recent economic history. Despite the global economic challenges, the Group is healthy, delivering a competitive performance, and well positioned to benefit from the next expansionary cycle.

Management's focus shifted during the year in response to declining sales growth. Without taking our eyes off the long-term growth imperative, the preservation of the income statement and balance sheet became paramount, with the threat to the availability of bank financing uppermost in our minds.

At the same time, resources became more limited, leading to pressure from all stakeholders for a greater share of the economic pie. Management had to balance demands from various stakeholders in the interest of the long-term sustainability of the Group.

In short, it was a challenging year, but one for which we had been preparing for many years. Time will judge how well we stood up to the challenge.

Core Group philosophies

The year has been a useful one to revisit and recommit to some of our basic business philosophies. We feel more certain now that:

- Strategic discipline is the key to focused leadership and management.
- Decisions should be made as close to the customer as possible, driven more by values and principles and less by rules, enabling a faster more entrepreneurial response.
- Cash is the only real source of value.
- Decisions to invest for growth must be made in the context of looking 'through-the-cycle', not investing for the peaks or troughs.
- Leadership makes the difference, and talented people can only outperform in an environment where they are challenged, energised and enabled.

Definitions	?
Through-the-cycle	
This refers to a benign to positive economic environment, ie one representing the 'average' growth rate of an economic cycle.	

Environment

The South African economy entered a recession in the first quarter of the calendar year. The economy was already in the contraction phase of a normal interest-rate cycle and that became synchronised with a global recession. While there was a period in which it appeared that South Africa would remain somewhat insulated, as it was not directly exposed to the financial crisis, the interconnectedness of the global economy became apparent as South Africa followed the developed world into recession.

The 500 basis point reduction in interest rates that began in December 2008, has been most welcome. Consumers have to date been responsibly reducing their levels of indebtedness. We are closely monitoring our comparable sales figures for signs of the effect of these reductions on consumer expenditure. The earliest we believe consumer spending will rebound is Christmas 2009.

The greatest management challenges, other than economic, have been in crime prevention and labour relations. The recession seems to have emboldened criminals and we are seeing upturns in fraud, store robberies and shrinkage. In terms of labour relations, we have been fortunate so far, through careful management of costs, to avoid resorting to cost-saving retrenchments. Within the current political and economic environment, it is perhaps understandable that the incidence of industrial action has increased as different stakeholders exert pressure to achieve their demands.

The Competition Commission investigation into the large food retailers and wholesalers has commenced. We welcome the investigation and look forward to any practical suggestions the Commission has to increase the sustainable competitiveness of the industry in the interests of consumers. Without prejudging the potential outcome of the investigations, we believe that the industry is already one of the more competitive in South Africa and that the social problem being faced is one of food price instability.

Financial performance

A number of factors have complicated the interpretation of Massmart's underlying operating performance. The first is the inclusion of an extra week of trading in our 2008 accounts. The second has been the volatility of African currencies.

Excluding the effects of currency volatility and the 53rd week in the prior year, sales increased by 10.7% (8.2% comparable), trading profit increased by 5.5%, and headline earnings increased by 3.8%.

Including the effects of the currency volatility but excluding the 53rd week in the prior year, sales increased 10.7%, operating profit declined by 2.1%, and headline earnings declined by 4.3%.

Without these adjustments, sales increased 8.4%, operating profit declined by 6.5%, and headline earnings declined by 8.5%.

Importantly, despite comparable sales growth declining from 11.9% in the first half to 8.5% in the second half, the business managed to maintain operating profit growth in both halves.

This disciplined income statement management was supported by equally disciplined management of the balance sheet, particularly inventories which ended the year up only 2.8% on last year.

The business produced strong cash flows with cash generated from operations up by 6.0%.

In this period, trading space increased 3.8%, by opening a net two new stores and acquiring 12 new stores.

Operating performance

Masswarehouse and Masscash produced strong profit growth while Massdiscounters and Massbuild did well to grow profits at or near their rate of sales growth. The divisional figures below represent the growth for the comparable 52-week period.

Massdiscounters' (comparable sales grew 8.9%, trading profit before taxation up 8.9%) financial performance was better than the underlying trading performance. Game Africa performed very well, Dion Wired, although small, also performed well. But Game SA's performance reflected the strain felt by middle-income consumers with sales up 2% and profit before taxation down 8%. It remains a very well run company, a fact confirmed by all operating metrics. The level of investment activity in supply chain, product innovation, store look and feel, financial services and process re-engineering is unsustainably high, but necessary to re-engineer for future growth.

Masswarehouse (comparable sales grew 10.0%, trading profit before taxation up 14.0%) also had a good year, although general merchandise struggled and food sales slowed towards the end of the period. Overall it is in very good shape although there is room to improve stock levels which should start to respond this year to the investment in replenishment systems. Good progress has been made on new site acquisition with five sites (four new and one relocation) in various stages of progress.

Massbuild (comparable sales down 3.7%, trading profit before taxation down 34.1%) performed satisfactorily and with the benefit of hindsight, is more cyclical than previously envisaged. Sales growth was under pressure throughout the year, but the fact we had any sales growth at all is positive, with the South African residential market statistics at recent lows. This business is well controlled and the quality of the stock is high, while stock levels are lower than last year. Therefore, under new leadership, and with most of the hard decisions behind us, the division is well positioned to take advantage of market share growth.

Masscash (comparable sales grew 11.6%, trading profit before taxation up 23.9%) was the star performer this year, but slowed towards the end of the year as deflation hit oil and wheat. The division invested in Powersave (low-end retail cash and carry) and Saverite (franchise retail) during the period. The leadership team was stretched with the challenge of completing and integrating the acquisitions. Three Massmart executives have now joined the divisional retail team: Jay Currie as Retail Director, Gerhard Dempers as Property and Corporate Finance Executive, and Bill Davies as Supply Chain Executive.

Progress on Vision 2012

As we do every year, the Executive Committee and Board met to review the three-year rolling strategic plan. Other than further clarification on some of the divisional strategies, no significant changes were identified, other than to focus limited cash resources on high-return growth initiatives. The headlines of the strategic plan remain:

Leadership development and transformation. At the Group level our key responsibility is to attract, retain and develop a world-class management team. We continue to refine our investments in terms of recruitment through advanced search and assessment; talent retention through competitive remuneration, wealth creation and personal career planning; leadership development through executive experientially-based education, talent management and performance management; and transformation through giving development opportunities to high quality candidates from under-represented groups.

This year we enrolled 62 individuals in our business in leadership and management development programmes in the Massmart University, 42 graduates are in training in our development programme, and fully complied with all administration requirements of the Employment Equity Act. We also began a process of expanding our talent management programme exposing another level of management to professional assessment and feedback.

Further reading

More detail on the financial performance can be found on page 33

CHIEF FINANCIAL OFFICER'S REVIEW

Further reading

More detail on the operational performance can be found in

Massdiscounters divisional review	69
Masswarehouse divisional review	75
Massbuild divisional review	81
Masscash divisional review	87

OPERATIONAL REVIEW

Definitions

Comparable sales

Comparable sales are sales figures quoted for stores that have traded, and will trade, for all 12 months of the current and prior year. These stores' sales would therefore exclude new store openings or store closings in the current and prior years.

Growth of the core business. To earn the right to open new stores and make acquisitions, we believe you first have to be able to grow your core business. In this respect the most important measures are sales and margin growth from comparable space. To achieve this consistently, we need programmes which give us a sustainable competitive advantage. Our competitive advantage relies on our ability to keep our costs lower (through higher productivity) than our competitors'. The specific programmes, over and above our continual development of the quality of our retail offering, are supply chain, private label and financial services. Investments in supply chain are to remove the constraints in the utilisation of our space; in private label these are to balance our relationships with the very powerful brand owners and give us product differentiation; in financial services these are to increase the service offering to our customers to enable sales in partnership with companies whose core competencies lie in this specialised field.

This year we made significant progress in all divisions with supply chain. Massdiscounter's new regional distribution centre met and exceeded expectations on re-engineering how we receive stock and will significantly transform that business division as we extend this strategy into other geographic areas. Massbuild successfully implemented automated replenishment and planning, dropped its stock by R200m and shut a number of warehouses. Masswarehouse implemented the most advanced forecasting and replenishment in the Group and will be the first to do so in wholesale food. Masscash converted 30% of its stores onto a new single in-store system, which will completely transform the business's ability to learn about itself.

Organic growth. Our organic growth has continued to ensure we have an up-to-date, optimally structured portfolio. The latest review of our store opening opportunities shows potential for space growth of 7.0%, 5.0% and 5.4% in 2010, 2011 and 2012 respectively. That suggests a net 62 new stores across the Group, 171,620m² of new space and R7.7 billion in annualised turnover. That scenario includes retail cash and carry and other store acquisitions. We also continue to look for more growth in Africa. We are working on a number of opportunities in Africa including 11 Game sites and have begun the process of looking for sites for Builders Warehouse in southern Africa.

Greenfields and acquisitive growth. Dion Wired has now established six stores and is busy rolling out five new stores into regional shopping malls. The New Formats division has generated a clearer picture of which formats are viable in South Africa and we have at least one new opportunity we have developed that will be deployed at the appropriate time. This team will expand its scope of operations to generate ideas for new categories within our current formats.

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

Sustainability. We are among the best in South Africa when it comes to our management and communication of sustainability issues and will maintain that focus. We have made good progress in improving our BEE scores and increased our status to a level five contributor this year. We received a number of plaudits for our sustainability report. We are also contributing to society in various forms, particularly in the education of the neediest segments of our society.

Sustainability	∞
BBBEE	
SUSTAINABILITY REPORT	

Prospects

For the 14 weeks to 4 October 2009, total sales increased by 5.0% and comparable sales increased by 0.7%.

As is evident in the first 14 weeks' sales, the consumer remains under pressure. Until there are clear signs of recovery in consumer expenditure, management remains focused on protecting the income statement and balance sheet, while continuing to invest for growth where returns are clear.

The first-half of the 2010 financial year will undoubtedly be very difficult compared to the reasonably resilient first-half of last year, which could see profits decline. Profit growth for the full year will depend on the recession coming to an end by the middle of the financial year.

Appreciation

In difficult conditions this year, each and every part of the Group is in better shape than a year ago and for this I am grateful to my fellow executives, management and every one of our 24,518 employees who has contributed to the Group's performance.

I am also grateful for the support of all of our suppliers, and service providers. I hope we have behaved as valued partners. And, of course, I am grateful for the support of our customers.

Thank you.



Grant Pattison
Chief Executive Officer



Chief Financial Officer's review

We continually strive to improve the quality and relevance of Massmart's external financial reporting. At the same time it is also necessary to ensure that our technical disclosure is of the highest standard, while keeping the details and explanations clear and simple even as the accounting standards become increasingly complex and technical. These efforts have been recognised in the Ernst & Young Excellence in Corporate Reporting Awards at which Massmart has received an Excellent rating for the past three years.

Key issues

- Sales growth slowed throughout the year
- Great cost control
- Effective inventory and working capital management
- Dramatic African currency volatility in 4th quarter
- Conservative gearing levels

To make for meaningful comparison between the 2008 and 2009 financial years, all comparative figures shown in this report are comparing 2009 to the 52-week 2008 period, unless noted otherwise.

Acquisitions

There were no major acquisitions concluded during the financial year, although the purchase of 51% of the Durban-based business, Cambridge Food, represented an important step in the development at the Group's Retail Cash and Carry strategy. This six-store business, together with the one-store Top Spot business based in Gauteng, contributed R525 million in sales in the 2009 financial year. Massbuild, specifically Builders Trade Depot, acquired the three-store Buildrite business based in the Eastern Cape. The combined cash purchase price for these acquisitions was R241.1 million which was financed using short-term debt facilities and gave rise to goodwill of 205.3 million.

Disposals

With effect from the day immediately following the close of the 2008 financial year, the Massdiscounters' consumer credit business and associated debtors book was sold for cash of R174 million. In 2008 this business's net asset position was reflected as 'Assets held for sale.' In 2009 this disposal had a negligible effect on the Group's financial performance but is expected to contribute positively to Massdiscounters' profit growth as the economic cycle improves.

Accounting policies

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

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

Further reading

More detail on the 53rd week adjustment can be found on page 62

TEN-YEAR REVIEW

Further reading

More detail on the accounting policies can be found in note 1 on page 137

GROUP FINANCIAL STATEMENTS

Financial targets

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

These target ratios are shown below:

Medium-term target ratios	Definition
ROS > 5.5%	Return on sales (ROS) is the ratio of profit before tax to sales
ROE > 35%	Return on equity (ROE) is the ratio of headline earnings to average ordinary shareholders' equity
Gearing < 30%	Gearing is the ratio of average long-term interest-bearing debt to average ordinary shareholders' equity
Dividend cover of x 1.7	Dividend cover represents the ratio of headline earnings to dividends paid to ordinary shareholders

Return on sales (ROS)

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

Medium-term trading targets (%)	Actual 2009	Medium-term target	International benchmark
Massdiscounters	6.7	8.0	7.4
Masswarehouse	7.2	7.0	5.0
Massbuild	4.8	6.0 – 9.0	10.0
Masscash	3.5	3.0	3.0
Corporate	(1.0)	(0.5)	–
Massmart Group	4.4	5.5	–

As a Division reaches new levels of trading or operating efficiency that we believe are permanent, then that Division's target ROS is increased. The Group's target ROS is derived by applying each Division's target ROS to its actual sales.

- Although Masswarehouse is operating above its medium-term target, the aggressive store opening programme of at least one new store per year for the next four years makes it possible that profitability may not improve in this Division during this time.
- Massbuild's higher relative cyclical nature compared to the rest of the Group requires the introduction of a target range, where the lower-end applies in a cyclical downturn while the upper-end applies in a positive environment.
- Masscash exceeded its target through a combination of the positive effects of higher Food inflation during the year, the inclusion of higher net margin Retail Cash and Carry stores, and the effect of losing approximately R550 million in low-margin cigarette sales. Masscash is vulnerable to a very low Food inflation environment and so with Food inflation trending lower and some categories are already in deflation, there remains the possibility that trading margins may contract in this Division in the 2010 financial year, despite the positives noted earlier.
- The Corporate portion refers to the net interest charge that would accompany a targeted debt gearing level for the Group, the BEE IFRS 2 charge, asset impairments and any net foreign exchange gains or losses

Progress to date – Massmart's current ROS is 4.4% (2008: 5.0%). With the exception of this financial year, Massmart has grown its ROS every year since 2000 and we believe that the target of 5.5% remains achievable in the medium term.

Return on equity

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

Progress to date – Massmart's current return on average shareholders' equity is 41.7% (2008: 50.7%).

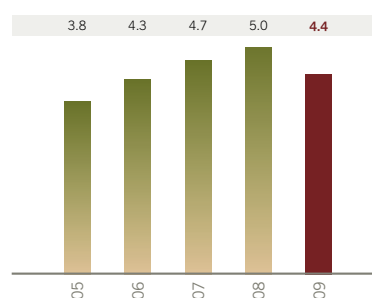
Definitions

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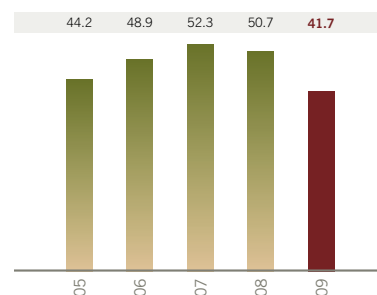
Through-the-cycle

The financial targets are intended to apply in a benign to positive economic environment, ie one representing the 'average' growth rate of an economic cycle.

Return on sales (%)



Return on equity (%)



The Divisions are responsible for delivering operational returns, being the returns to net working capital and non-current assets excluding goodwill and trademarks. In addition to these operational returns, Massmart, through the Board and Executive Committee, is responsible for delivering investment returns that will also include the book value of intangibles (specifically goodwill arising from acquisitions), as well as setting the Group's gearing levels that will influence returns to shareholders and the overall risk profile. Depending upon the purchase price, retail and wholesale acquisitions tend to generate significant accounting goodwill owing to the relatively low net asset values of these business models.

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

Gearing

Massmart prefers some level of gearing, up to a maximum of 30%, in order to leverage the return on shareholders' equity but without introducing excessive financial risk to the Group. Given the Group's high cash generation and our historical preference for leasing rather than owning our stores, it is difficult to permanently or meaningfully gear (ie maintain a net interest-bearing debt position) the Group over the long term. It should be noted here however, that our stores' lease obligations represent a significant form of permanent gearing (these lease obligations currently represent a discounted present value of approximately R5.4 billion (2008: R3.4 billion)).

Recently the Group has become comfortable to own rather than lease certain of its larger stand-alone store formats, specifically Makro and Builders Warehouse, and this shift will add incrementally to the Group's gearing. As regards financing any acquisitions, depending on that target company's cash profile and cash generation ability, this gearing ratio may be increased, but probably to no higher than 50%.

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

Progress to date – the Group's gearing was 12.4% (2008: 20.2%) for the financial year.

Dividend cover

Massmart's current dividend policy is to pay total annual cash distributions representing a x 1.7 dividend cover ratio, unless circumstances dictate otherwise. The reference point for the calculation is headline earnings, which includes the effect of the Thuthukani IFRS 2 charge and associated dividend. No adjustment will be made to the dividend calculation for the unrealised or non-cash portion of any foreign exchange translation gain or loss, unless the figures become very material.

This ratio is not a target – because it is already being achieved – but is disclosed to give shareholders clarity on future dividend levels. The Board believes that this dividend cover ratio is appropriate given the Group's current and forecast cash generation, planned capital expenditure and gearing levels.

This financial year however, the Board resolved to maintain the dividend at the same level as 2008, despite this dividend policy and marginally lower headline earnings. It is certain that the dividend cover for the 2010 financial year will revert to the original policy of x 1.7 dividend cover.

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

Historical dividend cover ratios:

	2009	2008	2007	2006	2005	2004	2003
Dividend cover	x 1.55	x 1.70	x 1.70	x 2.00	x 2.00	x 2.00	x 2.50

	2009	2008
Gearing	12.4%	20.2%

Average interest-bearing debt for the year	360.1	501.7
Average capital and reserves	2,895.3	2,487.4

Average interest-bearing debt is calculated by grossing up the net interest paid of R48.6 million (2008: R59.7 million) by the average interest rate of 13.5% (2008: 11.9%).

Black Economic Empowerment staff equity issue

Massmart's Black Economic Empowerment (BEE) staff equity issue became effective from October 2006. Full details on this BEE staff equity issue were published in the June 2006 shareholders' circular but the main financial points are repeated below:

- Equity representing 10% of the Massmart ordinary issued shares, pre-dilution, or 9.1% post-dilution, was issued.
- There were two categories of participant, being general staff and scarce skills, and separate trusts were formed for both.
- Although the underlying instrument is effectively an option with a strike price of R49.98, the actual legal instruments are two classes of preference shares. The reason preference shares were used was to give the participants voting rights and, in one case, a right to dividends as explained below.
- The first category, 'A' preference shares, was a once-off issue to the Thuthukani Empowerment Trust, for the benefit of all 14,500 permanent employees in the Group at that time. These shares have voting rights equal to those of ordinary shares and have a right to dividends on the following basis: 25% of the ordinary dividend in year one (being 2007), 50% of the ordinary dividend in year two (2008), 75% of the ordinary dividend in year three (2009), and 100% of the ordinary dividend in year four (2010). These 'A' preference shares are converted into Massmart ordinary shares, for the direct use or benefit of each beneficiary, in three equal annual tranches commencing on 1 October 2010.
- The second category, 'B' preference shares, was issued to the Black Scarce Skills Trust for the benefit of current and future black managers in the Group – and so there will be ongoing issues from this trust. These shares have voting rights but do not attract dividends. These shares can convert into Massmart ordinary shares, for the direct use or benefit of each beneficiary, in four equal annual tranches commencing from the end of the second year of the issue date.

At October 2006, the total IFRS 2 Share-based Payment charge arising from this BEE staff issue was R373 million. In terms of IFRS 2, this amount must be amortised over the life of the scheme, being six years, commencing from 1 October 2006. The current year's charge was R67 million (2008: R67 million) and the charge for 2010 is anticipated to be R73 million. Current South African tax legislation does not allow any tax deduction associated with this non-cash charge.

Using the total IFRS 2 charge of R373 million relative to the Group's market capitalisation at the same date suggests that the total likely dilution to ordinary shareholders of this transaction will only be 3.3%. This total, however, does not take into account forfeitures by employees which will reduce the dilution effect.

Income statement

	2009 Rm	2008 Rm	% change
Sales	43,128.7	38,958.3	10.7%
Gross profit	7,777.7	7,176.6	8.4%
<i>Gross margin</i>	18.0%	18.4%	
Other income	103.1	159.2	(35.2%)
Expenses	(5,851.8)	(5,405.2)	(8.3%)
<i>Operating expenses % of sales</i>	13.6%	13.9%	
Trading profit	2,097.5	2,002.4	4.7%
<i>Trading profit as % of sales</i>	4.9%	5.1%	
Foreign exchange (loss)/gain	(78.4)	62.5	
Operating profit	1,950.6	1,993.1	(2.1%)
<i>Operating profit as % of sales</i>	4.5%	5.1%	
Finance costs	(112.8)	(109.4)	(3.1%)
Finance income	64.2	49.7	29.2%
Net finance costs	(48.6)	(59.7)	18.6%
Profit before taxation	1,902.0	1,933.4	(1.6%)
<i>Profit before taxation as % of sales</i>	4.4%	5.0%	
Taxation	(620.4)	(632.8)	2.0%
Profit for the year	1,281.6	1,300.6	(1.5%)
Headline earnings:			
Including foreign exchange	1,207.1	1,261.9	(4.3%)
Excluding foreign exchange	1,263.5	1,216.9	3.8%
Headline earnings per share (cents):			
Including foreign exchange	605.0	634.1	(4.6%)
Excluding foreign exchange	633.3	611.5	3.6%

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

Group inflation	11.4%
Food and liquor	15.0%
Home Improvement	8.1%
General Merchandise	6.4%

Further reading	
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OPERATIONAL REVIEW	

Impact of the 53rd week in prior year

Like most major international retailers, Massmart runs its internal accounting and administrative timetable using the retail calendar which treats each financial year as an exact 52-week period. This has the effect of a day per year being 'lost' which is then caught up every seventh year by including a 53rd week in the financial calendar. This occurred in the previous financial year, 2008.

The prior year's reported Group's earnings and cash are higher as a result of trading during this week which includes seven days of sales, the associated gross margin and a limited amount of variable expenses. A detailed reconciliation of the estimated impact of the 53rd week is shown on page 62.

Sales

The Group's average product inflation rate, using the Group's sales mix, for the 2009 financial year was 11.4%. Inflation for each of the Group's major product categories is shown in the table alongside.

As noted in previous years, dramatic changes in product inflation from a range of approximately 5.0%–8.0% are inevitably linked to significant changes in the Rand exchange rate. This certainly has affected inflation in Food and General Merchandise. As seen globally, Food inflation remained stubbornly high for the 2008 calendar year but began declining in the 2009 calendar year and as the Rand strengthened, the Group reported price deflation in certain Food commodity categories. General Merchandise which has been in deflation since 2005, saw inflation on the back of Rand weakness.

Looking ahead, due to the stronger Rand in 2009 there appears to be general downward pressure on product prices. South African core cost inflation however, remains at 5.0%–8.0% and inevitably these cost pressures will feed into product prices.

Total sales of R43.1 billion increased by 10.7% over 2008. Comparable stores' sales growth was 8.2% and non-comparable stores including acquisitions added 2.5%.

During the 2009 financial year the Group opened seven new stores, closed or sold five stores, and acquired 12 stores thereby increasing its trading area by an unweighted 3.8% to 1,087,459m². During the year, Builders Warehouse accurately measured all its stores, including those acquired in 2005, and restated its opening trading space by 34,744m². This same adjustment was therefore made to the Group's opening figure for trading space.

Gross profit

Gross margin of 18.0% is below the prior year's 18.4% due to lower gross margins in Massdiscounters and Massbuild, and steady gross margins in Masscash and Makro. Lower gross margins in Massdiscounters were due to sales mix as customers purchased predominantly lower-margin promotional product. The significant inventory clearance activity in Massbuild, specifically Builders Warehouse, reduced margins in that Division.

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

Other income

Other income of R103.1 million (2008: R159.2 million) comprises royalties and franchise fees from in-store third parties, property rentals, investment income excluding interest, and sundry third party management and administration fees. The reason for the 35% decline is because the 2008 figure also included finance charges from Massdiscounters' consumer credit book which are nil this year owing to the sale of this business unit.

Definitions

?

Comparable sales

Comparable sales are sales figures quoted for stores that have traded, and will trade, for all 12 months of the current and prior year. These stores' sales would therefore exclude new store openings or store closings in the current and prior years.

Unweighted

New space has not been proportionately adjusted if the store was only open for part of the financial year.

Store progress

Opening balance	242
Game stores opened	+3
Jeffreys Bay (Eastern Cape)	
Kenilworth (Western Cape)	
Vredenburg (Western Cape)	
Game store closed	-1
George (Western Cape)	
Dion Wired store opened	+1
Bedfordview (Gauteng)	
Builders Warehouse store opened	+1
Northriding (Gauteng)	
Builders Express store opened	+1
Modderfontein (Gauteng)	
Builders Express stores closed	-2
Greenfields (Eastern Cape)	
Queenstown (Eastern Cape)	
Builders Trade Depot store opened	+1
Soweto (Gauteng)	
Builders Trade Depot stores acquired	+3
King Williams Town (Eastern Cape)	
Gonubie (Eastern Cape)	
Queenstown (Eastern Cape)	
Builders Trade Depot store closed	-1
Kempton Park (Gauteng)	
CBW stores acquired	+9
Berea (KwaZulu-Natal)	
Durban (KwaZulu-Natal)	
Durban (KwaZulu-Natal)	
Durban (KwaZulu-Natal)	
Pinetown (KwaZulu-Natal)	
Umgeni (KwaZulu-Natal)	
Ramotswa (Botswana)	
Ghanzi (Botswana)	
Groblersdal (Gauteng)	
CBW store closed	-1
Soweto (Gauteng)	
Total stores in 2009	256

Expenses

	2009 Rm	2008 Rm	% change
Depreciation and amortisation	(343.1)	(297.8)	(15.2%)
Impairment of assets	(1.6)	(4.7)	66.0%
Employment costs	(2,965.8)	(2,723.1)	(8.9%)
Occupancy costs	(1,135.5)	(952.3)	(19.2%)
Other operating costs	(1,405.8)	(1,427.3)	1.5%
Total expenses	(5,851.8)	(5,405.2)	(8.3%)

Total expenses represent 13.6% of sales, an improvement on the prior year's 13.9% of sales. The major expense categories and significant expenses included in total expenses are discussed in more detail below.

Depreciation and amortisation is the Group's third largest cost category at 5.9% of total expenses. Owing to ongoing store refurbishments and new stores, the depreciation and amortisation charge increased by 15.2% which is ahead of sales growth, and will continue to increase ahead of sales growth due to the Group's capital expansion programme. Makro, Game and Builders Warehouse refurbish their stores on a regular basis, resulting in steadily higher depreciation charges.

Employment costs, the Group's single largest cost category at 50.7% of total expenses, are 8.9% higher than the prior year. Included in these figures are IFRS 2 Share-based Payments charges totalling R133.5 million (2008: R109.1 million) which arise from the Massmart Employee Share Trust, the Thuthukani BEE Staff Scheme and Black Scarce Skills Trust. Excluding this IFRS 2 charge, total employment costs are 8.4% higher than the prior year and, at 6.6% of sales, an improvement on last year's equivalent figure of 6.7%. The Group employed 0.9% more employees (on a full-time equivalent basis or FTE) compared to 2008, despite several new stores and acquisitions, as IT-driven in-store labour scheduling improved the use and rotation of our employees during their working days. Most of the possible improvement in this area has now been achieved and future increases in FTEs will be slightly higher.

For the forthcoming financial year the Group's salary increases are between 6% and 8% and the wage increases, which have all been finalised, are in a range of 7% and 9%.

Occupancy costs, the Group's second biggest operating cost at 19.4% of total expenses, increased by 19.2%. As a percentage of sales, this figure, at 2.6%, is higher than the prior year equivalent of 2.4%. Property lease costs comprise only 76% of this total cost, the balance comprises associated property costs including municipal rates and services. Property lease costs increased by 14.3% while the balance of the expenses in this category increased by 38% due largely to significantly increased municipal rates and service fees. The lease-smoothing accounting policy applicable to operating leases (thereby affecting store leases) has the effect of keeping comparable-store lease charges broadly equal from one year to the next, and so any increase between the years would be from new stores. Another effect of this accounting policy is that annual lease escalations no longer increase the Group's lease charge. Adjusting for the non-cash lease-smoothing adjustment in both years shows that annual cash occupancy costs increased by 12.2%. As previously discussed, total net trading space increased by 3.8%.

The three major cost categories described above represent 76% of the Group's total expenses.

Other operating costs represent every other item of expense in the Group, including for example: insurance, bad debts, travel, professional fees, advertising and marketing, stationery and consumables. In total this category represents the most manageable, or variable, costs and so total costs in this category reduced by 1.5% from intense management focus. It is unlikely that this level of improvement will be sustained for more than another six months, thereafter this category will increase at a level approximating national inflation rates.

Other significant items

As noted in the summarised income statement above, included in operating profit is a net unrealised loss on foreign currency transactions and translations of R78.4 million (2008: net gain of R62.5 million). In the current year the realised and unrealised exchange differences from African stores totalled a loss of R116.9 million (2008: R58.7 million gain). A translation gain of R14.9 million (2008: R27.3 million gain) arose during the year from an investment in an offshore trading structure. Massmart's hedging policy resulted in a foreign exchange gain of R4.2 million (2008: R10.7 million loss) coupled with an associated adjustment to foreign creditors resulting in a gain of R19.4 million (2008: R12.8 million loss).

More detail is provided in note 7 on page 150 and note 40 on page 184 on the nature of the Group's foreign currency exposure, particularly with regard to Massdiscounters' African stores.

When a new store is opened, large once-off or exceptional operating costs can be incurred in preparing the store (including temporary staff, marketing initiatives, special promotions, signage, amongst others). These costs are referred to as store pre-opening costs and in 2009 amounted to R33.8 million (2008: R51.5 million, of which R12 million related to the opening of the new Makro store in that year).

Insight

Expenses

Employment and occupancy costs together represent 70.0% of the Group's total expenses.



R2,965.8m
Employment costs

R2,723.1 million in 2008



R1,135.5m
Occupancy costs

R952.3 million in 2008

Trading and Operating profit

Group trading profit, which is before accounting for the foreign currency translation movements, grew by 4.7% which is a great performance relative to the tough, and deteriorating, trading environment experienced for most of the 2009 financial year. Group operating profit, which includes the foreign currency translation movements, was 2.1% below the prior year and deteriorated from 5.1% to 4.5% of sales.

The Group's financial performance has been covered in detail above, but can broadly be summarised as:

- Steady gross margins in Makro and Masscash, and lower gross margins in Massdiscounters and Massbuild;
- Great cost control across the entire Group; and
- Therefore two Divisions, being Makro and Masscash, holding their operating profit margins at or above the prior year.

Given the anticipated cost increases described above and the expected lower level of sales volumes for some part of the 2010 financial year, cost control and efficiency remain key imperatives for the Group.

Net finance costs

Net interest paid was below the prior year due to lower commercial interest rates and working capital improvements. The net cash outflow from investing activities of R697.4 million, which is lower than the prior year's R898.2 million, was also a contributing factor.

Taking into account anticipated capital expenditure and excluding any unforeseen developments or new initiatives, the Group will remain net geared for the next three to four years. Using net interest paid as a proxy, the Group's average net gearing for the 2009 financial year was 12.4% (2008: 20.2%).

Taxation

The total tax charge represents an overall tax rate of 32.6% (2008: 32.7%). For several years two factors have caused the Group's tax rate to be higher than the standard South African corporate rate, the first is the charge from the Secondary Tax on Companies (STC) payable on net dividends paid, and the second is the effect of significant non-deductible expenses, specifically the IFRS 2 charge. In the current year, STC added 3.8% (2008: 3.5%) to the tax rate while the non-deductible IFRS 2 charge had a further adverse effect of 2.0% (2008: 1.6%).

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

Massmart is unconcerned at any specific element of historical tax risk in the Group, but there remains the uncertainty that material adjustments arising from potentially unfavourable tax assessments from the previous tax returns, some of which have not yet been assessed by SARS, could impact future tax charges. Extending this uncertainty is that SARS can reopen any tax assessment within three years of issuing such assessment.

Headline earnings

Headline earnings of R1,207.1 million (2008: R1,261.9 million) are 4.3% lower than the prior year. Adjusting for the after-tax effect of the foreign currency translation movement, increases revised headline earnings to R1,263.5 million (2008: R1,216.9 million) representing growth of 3.8%.

Headline earnings per share (HEPS) of 605.0 cents is 4.6% lower than the 2008 HEPS of 634.1 cents. Adjusting for the after-tax effect of the foreign currency translation movement, increases revised HEPS to 633.3 cents (2008: 611.5 cents) representing growth of 3.6%.

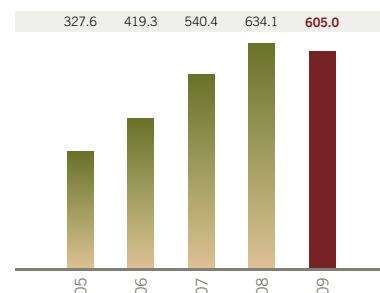
After adjusting for the potential future conversion of 4.52 million shares (2008: 4.87 million), the diluted HEPS is 591.6 cents (2008: 647.2 cents).



Taxation calculation

South African corporate taxation 28% in 2008	28.0%
Secondary Tax on Companies +3.5% in 2008	+3.8%
IFRS 2 +1.6% in 2008	+2.0%
Other (0.4%) in 2008	(1.2%)
Overall tax rate 32.7% in 2008	32.6%
TOTAL TAX CHARGE R632.8m in 2008	R620.4m

Headline earnings (cents)



Balance sheet

	2009 Rm	2008 Rm
Assets		
Non-current assets	4,397.5	3,840.5
Current assets	8,129.4	7,892.8
Assets classified as held for sale	–	167.6
Total assets	12,526.9	11,900.9
Equity and liabilities		
Capital and reserves	3,054.7	2,735.8
Minority interest	42.0	30.7
Total equity	3,096.7	2,766.5
Non-current liabilities	858.3	1,015.9
Current liabilities	8,571.9	8,118.5
Total equity and liabilities	12,526.9	11,900.9

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

Non-current assets

	2009 Rm	2008 Rm
Non-current assets	4,397.5	3,840.5
Property, plant and equipment	1,696.6	1,393.0
Goodwill	1,588.2	1,362.3
Other intangibles	159.2	132.0
Investments	277.6	311.3
Other financial assets	256.7	226.7
Deferred taxation	419.2	415.2

Property, plant and equipment and goodwill together represent almost 75% of the Group's total non-current assets.

Massmart continually refurbishes older stores and is building new stores, and so during this year expenditure of R598.9 million (2008: R508.0 million) was spent on property, plant and equipment. Of this, R295.4 million (2008: R243.4 million) was replacement capital expenditure, while the balance of R303.5 million (2008: R264.6 million) was invested in new capital assets, including new stores. Acquisitions added a further R33.0 million to Group property, plant and equipment.

Goodwill increased by R255.9 million, primarily reflecting the goodwill arising from this year's acquisitions (R205.3 million) and from the acquisition of certain of the CBW store managers' minority interests. Under IFRS all goodwill must be tested annually against the value of the business units with which it is associated and, if overstated, that goodwill must be impaired. There was no goodwill impairment necessary this year.

Other intangibles primarily represent computer software that IFRS requires to be disclosed in this category. In terms of IFRS the depreciation charge arising from this asset category is classified as an amortisation charge.

Capital expenditure for 2010 is budgeted to be R763 million and includes R85 million for the Massdiscounters Johannesburg-based Regional Distribution Centre (RDC) and the investment in 21 new stores to be opened during the 2010 financial year, representing new space growth of 7.0%.

Investments and other financial assets

Investments comprise mainly a R196.7 million (2008: R243.2 million) investment in an international treasury, shipping and trading business unit, revalued to reflect the foreign-denominated net assets within that business unit. The R52.4 million shown as a bare dominium revaluation represents the Group's proportionate share of the market value of the right to acquire bare dominiums in certain Makro stores.

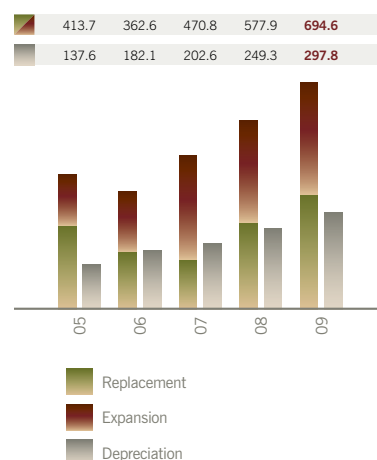
Further reading

More detail on the consolidated balance sheet and related notes can be found in

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Capital expenditure and depreciation



Other financial assets of R256.7 million (2008: R226.7 million) include executive and employee loans of R201.6 million (2008: R178.8 million) owed by participants in the Massmart employee share purchase trust that attract zero percent interest. This loan amount reduces as employees sell their shares and repay the associated loans, and increases where executives elect to own Massmart shares, funded with these loans, rather than options issued by the trust. The finance lease deposit of R51.8 million is related to the financing of the Makro Strubens Valley store.

Deferred tax

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

Current assets

	2009 Rm	2008 Rm
Current assets	8,129.4	7,892.8
Inventories	4,893.2	4,758.6
Trade and other receivables and prepayments	1,851.1	1,764.2
Taxation	329.3	310.4
Cash and bank balances	1,055.8	1,059.6

Net inventories represent approximately 51 days' sales (using the historic basis), an improvement on the prior year's figure of 55 days. Given the deteriorating trading outlook, during the financial year all Divisions reduced inventory levels in order to avoid being overstocked in a soft sales environment. As a consequence, inventory levels were lower than the prior year in Builders Warehouse and Masscash, and were only slightly higher in Makro and Massdiscounters.

In general, Massdiscounters, being a retail discounter with 93 stores, has the highest inventory levels and its sales days in inventory are almost double those for Massmart's wholesale businesses (Makro and Masscash). Builders Warehouse also has higher inventory days than the Group average given the broader and deeper merchandise range in its stores.

General Merchandise net inventory of R2,362.8 million (2008: R2,183.7 million) represents almost half of total Group inventory. Food net inventory at R1,429.0 million (2008: R1,469.6 million) is the second largest Group inventory category but has the fastest stock-turns.

Total trade and other receivables and prepayments, net of provisions, is 4.9% higher than the prior year's figure. Included here are net trade accounts receivable of R1,077.6 million (2008: R1,074.7 million), which barely increased and is well below the rate of sales growth. This is the result of improved debtors collection at Shield (in Masscash) but is also from stricter credit-granting and monitoring across the Group in response to the difficult business conditions. Although trade credit is offered to certain customers in Massbuild and in Masscash, it is well controlled, insured with a credit risk insurer, and kept within the Group's parameters, and does not affect the Group's working capital. The improved situation is also reflected in lower allowances for doubtful debts at year-end, which reduced from 5.3% of total trade receivables to 4.7% at year-end.

For more detail, refer also to the commentary on credit risk in the Financial risks section on page 184.

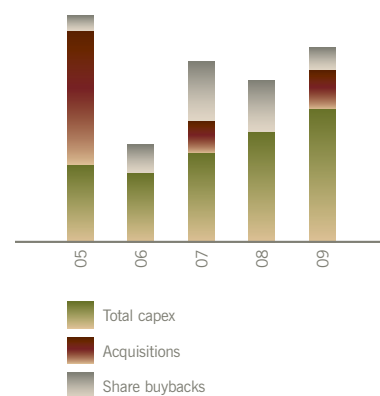
Non-current liabilities

	2009 Rm	2008 Rm
Non-current liabilities	858.3	1,015.9
Non-current liabilities:		
– Interest-bearing	149.7	267.7
– Interest-free	504.4	557.2
Non-current provisions	55.7	49.1
Deferred taxation	148.5	141.9

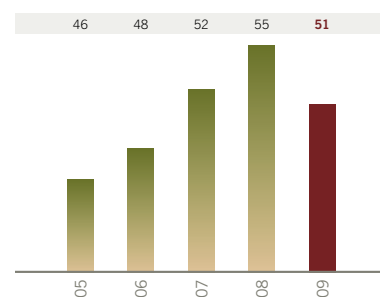
Major items included in the total of R858.3 million are medium-term bank loans, capitalised finance leases, the operating lease liability arising from the lease-smoothing adjustment, non-current provisions and deferred tax.

Capital expenditure, acquisitions and buybacks

	413.7	362.6	470.8	577.9	694.6
	685.0	–	160.0	–	198.5
	88.1	148.3	313.2	271.8	126.0



Inventory days



Non-current interest-bearing liabilities are medium-term bank loans and this balance reduced during the financial year owing to the amortising payment profile on the two five-year loans. These loans of R250 million each were originally raised during the 2006 financial year to finance the Massbuild acquisitions and interest on both loans is fixed at 8.8% and 8.7% respectively.

Capitalised finance lease balances are R86.3 million (2008: R82.0 million).

The largest balance in non-current non-interest-bearing liabilities is the operating lease liability of R456.6 million (2008: R462.0 million) arising from the lease-smoothing accounting policy and which will be released over the remaining period of the Group's operating leases.

Included in non-current provisions is the long-term provision of R55.1 million (2008: R47.7 million) arising from the actuarial valuation of the Group's potential liability arising from post-retirement medical aid contributions owed to current and future retirees. This liability is unfunded. With effect from 1999, post-retirement medical aid benefits were no longer offered to new employees joining the Group.

The deferred tax liability arises primarily from prepayments and property, plant and equipment.

Current liabilities

	2009 Rm	2008 Rm
Current liabilities	8,571.9	8,118.5
Trade and other payables	7,670.3	7,380.0
Provisions	22.2	11.5
Taxation	490.4	543.1
Other current liabilities	358.3	146.2
Bank overdrafts	30.7	37.7

Included in the total trade and other payables figure are trade payables of R6,128.2 million (2008: R5,928.1 million) representing approximately 56 days of cost of sales (using the historic basis), which is lower than the prior year's figure of 60 days. As noted earlier, owing to payments to creditors being made shortly after each month-end, the Group trade payables balances at year-end are not representative of the average during the remaining financial period. The amount by which the year-end trade payables is overstated in comparison to the average cannot be accurately calculated but is approximately R1 billion.

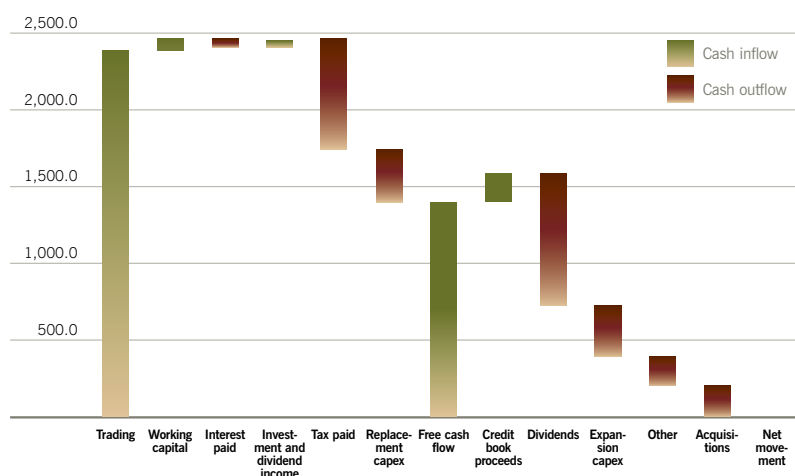
The current taxation liability reflects the Group's liability for provisional corporate tax payments that are generally payable within a few days of the financial year-end.

Major items in Other current liabilities include R129.3 million being the short-term portion of the medium-term loans noted above. Also included is a R120.0 million financial liability that arises due to the 49% minority shareholder of Cambridge Food having a right to Put this shareholding to Massmart during the latter part of calendar 2010 at a pre-agreed multiple of that business's earnings.

Cash flow statement

The "waterfall" graph below illustrates the cash generated by the Group and then how the cash was applied. Free cash flow is commonly used in business to describe the cash with which the Board can decide to either invest in further growth and/or return the cash to shareholders as dividends or share buybacks, and in 2009 the Group's free cash flow was R1.4 billion.

Massmart's cash flow waterfall (Rm)



Insight

Cash flow analysis
 Working capital movements can be volatile. Depending upon creditor payment cycles the extent of the movement tends to be overstated at month- and year-end and so is generally not indicative of the intra-year average.

'Trading' represents 'Operating cash before working capital movements.'

'Free cash flow' represents cash inflow from ordinary trading, before cash outflow relating to the expansion or contraction of the business.

	2009 Rm	2008 Rm
Cash flow from operating activities		
Operating cash before working capital movements	2,398.2	2,394.9
Working capital movements	63.8	(73.2)
Cash generated from operations	2,462.0	2,321.7
Interest received	64.2	46.5
Interest paid	(112.8)	(110.6)
Investment income	29.5	47.7
Taxation paid	(700.3)	(668.1)
Dividends received	13.4	2.2
Dividends paid	(867.4)	(709.9)
Net cash inflow from operating activities	888.6	929.5

Operating cash before working capital movements is very similar to the prior year figure and closely approximates this year's operating profit before depreciation, amortisation and impairment of R2,373.7 million, demonstrating the fundamental cash underpin to Massmart's earnings.

Cash taxation paid increased owing to the growth in taxable income.

The 22.2% increase in the total cash dividend paid is significantly higher than the Group's growth in headline earnings. Due to the cash dividend payment in any financial year being the total of the prior year's final dividend and the current year's interim dividend, the growth in headline earnings will not necessarily be similar to the growth in the cash dividend. The positive 53rd week effect on the prior year's final dividend is approximately 17 cents per share or R68 million.

	2009 Rm	2008 Rm
Cash flow from investing activities		
Investment to maintain operations	(354.5)	(268.3)
Investment to expand operations	(340.1)	(309.6)
Proceeds on disposal of property, plant and equipment	9.0	5.2
Proceeds on disposal of assets classified as held for sale	174.3	-
Investment in subsidiaries	(198.5)	-
Disposal of subsidiary	4.3	-
Other investing activities	8.1	(325.5)
Net cash outflow from investing activities	(697.4)	(898.2)
Cash flow from financing activities		
Net cash outflow from financing activities	(160.7)	(222.7)
Net decrease in cash and cash equivalents	30.5	(191.4)
Foreign exchange movements taken to statement of changes in equity	(27.3)	4.6
Cash and cash equivalents at the beginning of the year	1,021.9	1,208.7
Cash and cash equivalents at the end of the year	1,025.1	1,021.9

Total capital expenditure (replacement and expansion) was R694.6 million, an increase on the prior year's total of R577.9 million.

The R174.3 million proceeds on disposal of assets classified as held for sale are from the sale of the Massdiscounters consumer credit book and business, effective on the first day of the 2009 financial year.

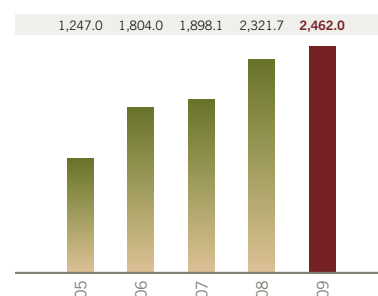
The Investment in subsidiaries has been described in more detail in the Acquisitions paragraph on page 33.

Further reading

More detail on the consolidated cash flow can be found in note 39 on page 182

GROUP FINANCIAL STATEMENTS

Cash generated from operations



Financial risks

Liquidity risk

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

The Group has total banking facilities, incorporating overnight, short- and medium-term borrowings, letters of credit, forward exchange contracts and electronic fund transfers, of R2,548 million (2008: R2,951 million). As at June 2009, total interest-bearing debt amounted to R388.0 million (2008: R413.9 million).

As the Group begins to build inventory levels for the festive season, net interest-bearing debt will increase up to a maximum of approximately R2.0 billion in October/November, but will reduce rapidly as Christmas and year-end trading accelerates with commensurately higher cash proceeds.

Interest risk

Interest rate exposure is actively monitored owing to the Group's significant intra-month cash movements and the seasonal changes in its net funding profile during the financial year. As noted above, interest rates on the two medium-term bank loans are fixed at 8.8% and 8.7% respectively.

Of the Group's total financial liabilities of R8.2 billion, 93% or R7.6 billion of this is represented by non-interest-bearing trade and other payables funding.

Credit risk

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

Currency risk

Where possible and practical, currency risk in the Group is actively managed. All foreign-denominated trading liabilities are covered by matching forward-exchange contracts. At financial year-end, there were open forward exchange contracts totalling R377.3 million (2008: R461.6 million) of which 98% were US Dollar liabilities.

The sensitivity of the Group to this exposure is shown in note 40 on page 184. In brief, if the Rand strengthened by 5% from the year-end rate of R7,94/US Dollar, there would be a R1.3 million charge, while a 5% weakening would give rise to a R1.3 million gain.

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

The Group's exposure to the African currencies has been explained in note 7 on page 150 and further detail on the sensitivity analysis can be found in note 40 on page 184.

Technical review

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

The Group's accounting policies are governed by IFRS and the AC 500 series as issued by the Accounting Practices Board. Guidance has been obtained from IFRICs and circulars effective on 5 October 2009. Owing to the nature and volume of Exposure Drafts (EDs), no review has been provided.

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

Further reading

More detail on financial risks and sensitivity analyses can be found in note 40

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Further reading

The detailed technical review can be found in note 2

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XBRL

XBRL is becoming a standard means of communicating information between businesses and on the internet. It provides major benefits in the preparation, analysis and communication of business information. It offers cost savings, greater efficiency and improved accuracy and reliability to all those involved in supplying or using financial data.

In South Africa, the development and drive for adoption is done by XBRL SA, a not-for-profit organisation, which currently has about 25 members and is growing. These members include large corporate organisations, audit firms, regulators and accounting software vendors. The main purpose of this organisation is to create awareness within the South African market, while the members contribute to the development of taxonomies relevant specifically to South African reporting requirements (JSE listings requirements, Companies Act Fourth Schedule disclosure requirements, etc).

A few reasons for the slow acceptance in South Africa is that too few people have XBRL experience, software companies are not promoting XBRL and regulators cannot receive information in XBRL format. Given the worldwide growth of XBRL over the past decade, the growing acceptance of IFRS and increased globalisation of business, it is inevitable that South Africa will follow. It is expected that the road to adoption of XBRL in South Africa will be started with a voluntary filing program and later, companies will be mandated to use XBRL as a format for filing purposes.

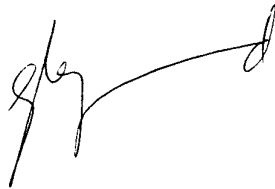
Massmart has not yet adopted XBRL, but intends to do so in time. This project will require resources and time to implement successfully and we are currently in the research phase.

Going-concern assertion

The Board has formally considered the going-concern assertion for Massmart and its subsidiaries and believes that it is appropriate for the forthcoming financial year. See page 132 for more detail.

Appreciation

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



Guy Hayward
Chief Financial Officer

5 October 2009

Definitions



XBRL

eXtensible Business Reporting Language
XBRL is a language for the electronic communication of business and financial data which may revolutionise business reporting around the world.

Insight



Taxonomies

Dictionaries used by XBRL. They define the specific tags for individual items of data (such as "profit"). Different taxonomies will be required for different financial reporting purposes. XBRL SA requires their own financial reporting taxonomies to reflect the South African local accounting regulations.